

## Summary of proposed SKF's Performance Share Programme 2019

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 2019

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 2019 on SKF's Performance Share Programme 2019.

- 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 2019–2021 compared to the financial year 2018.
- 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 2021 a comparison is made between the average TVA for the financial years 2019–2021 and TVA for the financial year 2018. 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 programme 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 29 January 2019. In order to comply with the obligations of SKF's Performance Share Programme 2019, 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 2019 and a share price of SEK 153, the cost, including social security cost, is estimated at approximately MSEK 184. On the basis of a share price of SEK 180, the cost, including social security cost, is estimated at approximately MSEK 216. 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 2022.

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## **The Board of Directors' proposal for a resolution on SKF's Performance Share Programme 2019**

### 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. The terms and conditions for SKF's Performance Share Programme 2019 are the same as for SKF's Performance Share Programme 2018 that was resolved at the Annual General Meeting 2018.

### 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 2019 on SKF's Performance Share Programme 2019.

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 2019–2021 compared to the financial year 2018. 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 2021 a comparison is made between the average TVA for the financial years 2019–2021 and TVA for the financial year 2018. 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 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 2019 are met, allotment of shares shall be made free of charge following the expiry of the three year calculation period, i.e. during 2022.

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 2019, 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 2019 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 2019 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 2019 is not appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as SKF's Performance Share Programme 2019.

#### Preparation of the matter

The proposal for SKF's Performance Share Programme 2019 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 2019

The company has 455,351,068 shares in issue as per 29 January 2019. In order to comply with the obligations of SKF's Performance Share Programme 2019, 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 2019 and a share price of SEK 153, the cost, including social security cost, is estimated at approximately MSEK 184. On the basis of a share price of SEK 180, the cost, including social security cost, is estimated at approximately MSEK 216. 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 2022.

Other long-term incentive programmes

SKF's Performance Share Programmes 2008 - 2015 have expired. For a description of SKF's Performance Share Programmes 2016-2018 reference is made to Note 23 in AB SKF's annual report for the financial year 2018, 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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