

## **Proposal for principles for remuneration of Group Management**

### **Introduction**

The Board of Directors of AB SKF has decided to submit to the General Meeting the following principles for remuneration of SKF Group Management. Group Management is defined as the Chief Executive Officer and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The objective of the principles is to ensure that SKF can attract and retain the best people in order to support the SKF mission and business strategy. The remuneration of Group Management members shall be based on conditions that are market competitive and at the same time support the shareholders' best interest.

The total remuneration package for a Group Management member consists primarily of the following components: fixed salary, variable salary, pension benefits, conditions for notice of termination and severance pay, and other benefits such as for example a company car. The components shall create a well balanced remuneration reflecting individual performance and responsibility as well as SKF's overall performance.

### **Fixed salary**

The fixed salary of a Group Management member shall be at a market competitive level. It is based on competence, responsibility and performance. SKF uses an internationally well-recognized evaluation system, International Position Evaluation (IPE), in order to evaluate the scope and responsibility of the position. Market benchmarks are conducted on a regular basis. The performance of the Group Management members is continuously monitored and used as a base for the annual review of the fixed salary.

### **Variable salary**

The variable salary for a Group Management member is according to a performance-based programme. The purpose of the programme is to motivate and compensate value creating achievements in order to support operational and financial targets.

The performance-based programme is divided into two parts, a short term and a long term part, both primarily based on the financial performance of the SKF Group established according to the SKF management model Total Value Added (TVA). TVA is a simplified economic value added model. This model promotes improved margins, capital reduction and profitable growth. TVA is the operating result, 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.

The maximum variable salary, including both the short term and the long term part according to the programme, is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies for Group Management members between 60 and 90%.

If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary will not exceed 90% of the accumulated annual fixed salary of the members of Group Management.

#### **Other benefits**

SKF provides other benefits to Group Management members in accordance with local practice. The accumulated value of other benefits shall in relation to the value of the total remuneration be limited and shall as a principle correspond to what is customary on the relevant market.

Other benefits can for instance be a company car, medical insurance and home service.

#### **Pension**

SKF strives for establishing pension plans based on defined contribution models, which means that SKF pays a premium amounting to a certain percentage of the employee's annual salary. SKF's commitment is in these cases limited to the payment of an agreed premium to an insurance company offering pension insurance.

A Group Management member is normally covered by, in addition to the base pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. SKF ensures by offering this supplementary defined contribution plan that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the base pension. The normal retirement age for Group Management members is 62 years.

#### **Notice of termination and severance pay**

A Group Management member may terminate his/her employment by giving six months' notice. In the event of termination of employment at the request of SKF, the employment shall cease immediately. The Group Management member shall however receive a severance payment related to the years of service, provided that it shall always be maximized to two years' salary.

#### **The Board of Directors' right to deviate from the principles of remuneration**

The Board of Directors may in case of particular grounds deviate from the principles of remuneration decided by the Annual General Meeting.

**Preparation of matters relating to remuneration of Group Management**

The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of maximum four Board members. The Remuneration Committee prepares all matters relating to the principles for remuneration of Group Management as well as the employment conditions for the Chief Executive Officer.

The principles for remuneration of Group Management are presented to the Board of Directors that submits a proposal for such principles to the General Meeting for approval. The Board of Directors shall approve the employment conditions for the Chief Executive Officer.

**Information about remuneration decided upon but not due for payment**

The structure of Group Management remuneration decided upon prior to the approval of these principles for remuneration but not due for payment is substantially in line with these principles with the following exceptions:

In 2002 and 2003 Group Management members were allocated stock options in accordance with the SKF Stock Option Programme further described on page 65-66 in the Annual Report. The exercise periods for the stock options allocated in 2002 and 2003 respectively expire in 2008 and 2009 respectively. The total holding of stock options by Group Management is set out on page 65 in the Annual Report.

The pension conditions of the Chief Executive Officer are described on page 64 in the Annual Report.

Certain members of Group Management are covered by the SKF Group's Swedish defined benefit pension plan which is further described on page 65 in the Annual Report.

Certain members of Group Management are in the event of termination of employment at the request of AB SKF, entitled to receive a severance payment which is not related to the years of service amounting to a maximum of two years' salary.