

## **The Board of Directors' of AB SKF proposed decision on introduction of a performance share programme for senior managers and key employees**

### **Background information**

Since 2005, SKF has had a performance based variable salary programme with a short-term and a long-term element. The programme's long-term element makes it possible for senior managers and key employees to receive remuneration in cash after a three year performance period and is linked to continued employment during the performance period and achievement of targets determined by the Board in accordance with SKF's financial management model, Total Value Added ("TVA").

In order to further link the interests of the participants and the shareholders it is proposed that the long-term performance related variable salary programme be replaced by a performance share programme for senior managers and key employees (SKF's Performance Share Programme 2008).

### **The Board's proposed decision**

The Board proposes that a decision be taken at the Annual General Meeting on the introduction of SKF's Performance Share Programme 2008. 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 class B shares in accordance with the following principal terms and guidelines.

Under the programme, not more than 1,000,000 SKF class 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 financial targets defined by the Board in accordance with the Group's TVA management model and must pertain to the period commencing 2008 up to and including 2010.

The participants in the programme may receive not more than the following number of shares within the various key groups:

CEO and President – 20,000 shares

Division 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 offer for participation must be made by SKF not later than 30 May 2008.

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

Participants shall receive compensation for cash dividend 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 2008 are met, allotment of shares shall be made free of charge following the expiry of the three year calculation period, i.e. during 2011.

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 2008, 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 2008 are no longer appropriate.

Participation in SKF's Performance Share Programme 2008 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 2008 is not appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as SKF's Performance Share Programme 2008.

### **Preparation of the matter**

The proposal for SKF's Performance Share Programme 2008 has been prepared by SKF's Remuneration Committee and the Board with the support of independent expertise and in consultation with major shareholders. The Board resolved, at the meeting held on 31 January 2008, to propose that the shareholders resolve to introduce SKF's Performance Share Programme 2008 at the Annual General Meeting in 2008.

**Costs of SKF's Performance Share Programme 2008**

The company has 455,351,068 shares as per 31 January 2008. In order to comply with the obligations of SKF's Performance Share Programme 2008, a maximum number of 1,000,000 class B shares are required corresponding to approximately 0.2 per cent of the total number of outstanding shares.

Administrative costs have been estimated at MSEK 3.

**Hedging actions**

The Board does not propose for the time being to take any action to hedge SKF's obligations under the programme. Delivery of shares under the programme shall not take place until 2011.

**Previous incentive programmes**

SKF's personnel option programme was introduced in 2000 and allocations were made from 2001 up to and including 2003. The allocation of options under the personnel option programme was based on the financial results in accordance with the Group's TVA management model. The options are not transferable and are linked to continued employment. The term of the options is six years. As of 31 January 2008, there are 1,027,204 options outstanding from the allocation in 2003 with a price of SEK 50.04 per class B share. The SKF Group has entered into a service agreement with a financial institution in order to meet its obligations under the personnel option programmes.

**Majority requirement**

A valid resolution in respect of the Board's proposal at a 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.