

The SKF Board's proposal for principles of remuneration for Group Management

Introduction

The Board of Directors of AB SKF has decided to submit the following principles of remuneration for SKF's Group Management to the Annual General Meeting. Group Management is defined as the President 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 the SKF Group can attract and retain the best people in order to support the SKF Group's mission and business strategy. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests.

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

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. This will be based on competence, responsibility and performance. The SKF Group 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 Group Management members is continuously monitored and used as a basis for annual reviews of fixed salaries.

Variable salary

The variable salary of a Group Management member runs 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 primarily based on the short-term 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 SKF Group correlates well with the trend of the share price over a longer period of time.

The maximum variable salary 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 between 40% and 70% for Group Management members.

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 70% of the accumulated annual fixed salary of Group Management members.

Performance Shares

At SKF's Annual General Meeting in 2008 and 2009, respectively, it was resolved to introduce a performance share programme for senior managers and key employees (SKF's Performance Share Programme 2008 and 2009, respectively). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2010. The terms and conditions of the proposed SKF's Performance Share Programme 2010 are in essence the same as the terms and conditions of SKF's Performance Share Programme 2008 and 2009, respectively, included in the principles of remuneration for Group Management decided at the Annual General Meeting 2008 and 2009, respectively.

It is proposed that the programme covers a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares.

The number of shares that may be allotted must be related to the degree of achievement of financial targets defined by the Board of Directors in accordance with the SKF Group's TVA management model and must pertain to the period commencing 2010 up to and including 2012. Under the programme, no more than 1,000,000 B shares may be allotted.

The participants in the programme may receive no 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 participants shall not provide any consideration for their rights under the programme.

Assuming maximum allocation under SKF's Performance Share Programme 2010 and a share price of SEK 125, the cost, including social security costs, is estimated at around SEK 150 million. On the basis of a share price of SEK 175, the cost, including social security costs, is estimated at around SEK 210 million. In addition, administrative costs are estimated at around SEK 3 million.

Other benefits

The SKF Group 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

The SKF Group strives to establish pension plans based on defined contribution models, which means that a premium is paid amounting to a certain percentage of the employee's annual salary. The commitment in these cases is 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 basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic 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 the company, employment shall cease immediately. The Group Management member shall however receive a severance payment related to the number of years' service, provided that it shall always be maximized to two years' fixed salary.

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

In certain cases, the Board of Directors may deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration for Group Management

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

The principles of remuneration for Group Management are presented to the Board of Directors that submits a proposal for such principles to the Annual General Meeting for approval. The Board of Directors must approve the employment conditions of the President.

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. However, in relation hereto the following should be noted:

- In 2005, the SKF Group introduced a performance-based variable salary programme with both a short-term and a long-term element. At AB SKF's Annual General Meeting in 2008, it was resolved that the long-term element of the performance-based variable salary programme be replaced by SKF's Performance Share Programme 2008. The Annual General Meeting 2009 resolved on SKF's Performance Share Programme 2009, with in essence the same terms and conditions as of SKF's Performance Share Programme 2008.

The pay outs relating to the long-term element of the performance-based variable salary programmes 2005 and 2006, respectively, were made in 2008 and 2009, respectively. Any pay out relating to the long-term elements of the variable salary programme 2007 will be made in 2010. The maximum variable salary including both the short-term and the long-term part 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%.

Any allotment of shares under SKF's Performance Share Programmes 2008 and 2009, respectively, will be made during 2011 and 2012, respectively. As stated above the terms and conditions of SKF's Performance Share Programmes 2008 and 2009 are in essence the same as the terms and conditions of the proposed SKF's Performance Share Programme 2010.

- The pension conditions of the President are described on page 82 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.