

## The Board of Directors' proposal for a resolution on SKF's Performance Share Programme 2023

### 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 Board's proposed decision

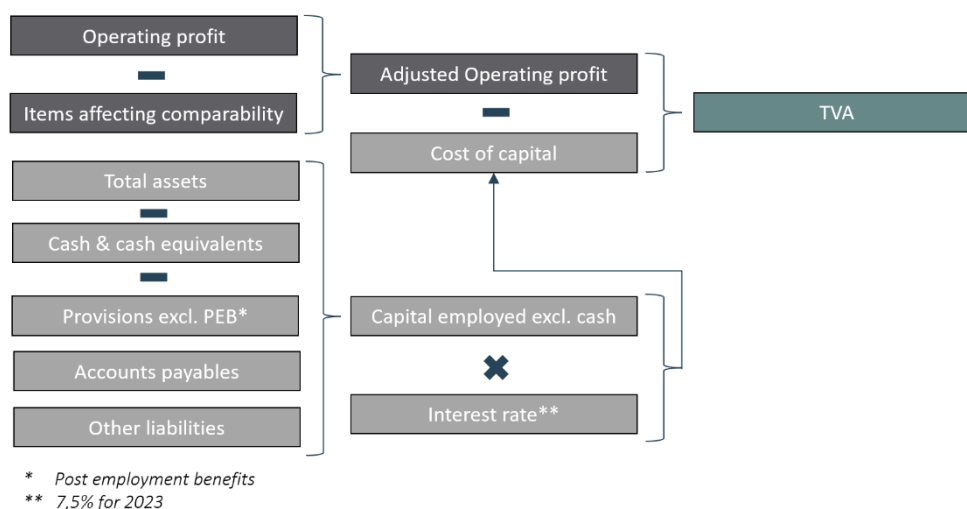
The Board proposes, in order to continue to link the long-term interests of the participants and the shareholders, strengthening the SKF Group's ability to attract and retain the best people and to contribute to the SKF Group's business strategy, its long-term interests and sustainability, that a decision be taken at the Annual General Meeting 2023 on SKF's Performance Share Programme 2023.

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.

The allotment of shares shall be related to the level of achievement of the Total Value Added (TVA) target, as defined by the Board, and the SKF Group's CDP Climate Change score<sup>1</sup>. The TVA performance measure is weighted 80% and the CDP Climate Change score performance measure is weighted 20%.

### TVA performance measure

TVA is a simplified economic value-added model promoting greater operating profit, capital efficiency and profitable growth. TVA is the adjusted operating profit, less the pre-tax cost of capital.



Over the three-year programme period (2023-2025), the TVA performance target range is set annually by the Board against the baseline of the actual TVA achieved in the previous year.

<sup>1</sup> Adjusted from the SKF Group net zero 2030 target, as stated in the SKF Year-end report 2022.

The overall performance achievement for the TVA performance measure of the programme is the average of achievements of the annual TVA targets. In order for allocation of shares to take place, the average TVA development 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. By way of example, if the TVA achievement year 1 is 80%, year 2 is 100% and year 3 is 0%, the overall performance achievement of the programme would then be 60%  $(80\%+100\%+0\% / 3)$ .

#### CDP Climate Change score performance measure

CDP is a global non-profit organization known for its assessments and scoring methodology to evaluate companies' disclosure and performance relating to climate change and environmental impact.

Performance categories
Business strategy, financial planning & scenario analysis
Emissions reduction initiatives
Energy
Governance
Opportunity disclosure
Risk disclosure
Risk management processes
Scope 1 & 2 emissions
Scope 3 emissions
Targets
Value chain engagement

The CDP Climate Change score is based on an extensive questionnaire requiring disclosure and performance in the 11 different categories shown in the picture.

This comprehensive assessment and the resulting score are known across the investor and customer communities as a credible third-party view on companies' approaches to climate change.

The score ranges from A (leadership level) to D- (disclosure level). SKF received an A- in 2022 which is in the leadership band. This is higher than the Europe regional average of B, and higher than the metal product manufacturing sector average of C.

The overall performance achievement for the CDP Climate Change score is the weighted average of the annual performance achievement, based on the criteria in the table.

For example, if SKF's CDP score is B year 1, A- year 2 and A year 3, the overall performance achievement for the full programme period is 75%  $(50\%+75\%+100\% / 3)$ .

CDP Climate Change score	Performance achievement
A	100%
A-	75%
B	50%
<B	0%

This CDP Climate Change score performance measure has a number of advantages:

- It covers all aspects of SKF's climate change approach.
- All functions in SKF have the potential to contribute to the achievement.
- The score is set by an external party and the bar is raised every year, reflecting increasing stakeholder expectations. Performance achievement will require continuous improvements.
- A well-recognized way of scoring how successful SKF is in the climate improvement work and is easy to compare with other companies using CDP-scoring.

Provided that the performance measures of the programme are fully met, the participants may be allotted shares up to the following maximum per person within the various key groups:

CEO and President – shares corresponding to a value of 75% of the fixed base salary<sup>2</sup>

Other members of Group Management – shares corresponding to 55% of the fixed base salary<sup>3</sup> or 13,000 shares, whichever is higher<sup>4</sup>

Managers of large business units and similar – 4,500 shares

Other senior managers – 3,000 shares

Other key persons – 1,250 shares

If the total outcome of the programme 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 employment of a person covered by the programme is not terminated before the end of the programme period. If all the conditions included in SKF's Performance Share Programme 2023 are met, allotment of shares shall be made free of charge following the expiry of the three-year performance period, i.e. during 2026.

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 2023, 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 the conditions for allocation in accordance with SKF's Performance Share Programme 2023 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 2023 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 2023 is not

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<sup>2</sup> Fixed base salary means each participant's yearly fixed base salary on 1 January 2023. The share value to be used for the calculation shall amount to the average closing price of the five trading days before and the five days after the 2023 annual result is published.

<sup>3</sup> See note 2 above.

<sup>4</sup> For Group Management members employed after 2023, only 55% of the fixed base salary will be applied.

appropriate. Such alternative incentive solution shall, as far as practicable, be formulated employing the same conditions as SKF's Performance Share Programme 2023.

#### Preparation of the matter

The proposal for SKF's Performance Share Programme 2023 has been prepared by AB SKF's Remuneration Committee and the Board with the support of independent expertise.

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 – shares corresponding to a value of the net fixed annual salary  
 Other members of Group Management – shares corresponding to a value of 50 % of the net fixed annual salary

#### Costs of SKF's Performance Share Programme 2023

The company has 455,351,068 shares in issue as per 14 February 2023. In order to comply with the obligations of SKF's Performance Share Programme 2023, 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 2023 and a share price of SEK 199, the cost, including social security cost, is estimated at approximately MSEK 239. On the basis of a share price of SEK 275, the cost, including social security cost, is estimated at approximately MSEK 330. In addition, the administrative costs are estimated at approximately MSEK 2.

#### Hedging actions and dilution

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 2026. The programme does not entail any dilution of the company's shares.

#### Other long-term incentive programmes

SKF's Performance Share Programmes 2008-2020 have expired. Below is the result for the following programmes:

Programme	Performance period	Allotment
PSP2016	2016-2018	100%
PSP2017	2017-2019	100%
PSP2018	2018-2020	64%
PSP2019	2019-2021	34%
PSP2020	2020-2022	43%

SKF's Performance Share Programmes 2021-2022 are on-going. Said programmes are not possible to measure due to the calculation model, which apply to the full on-going performance periods.

#### 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.