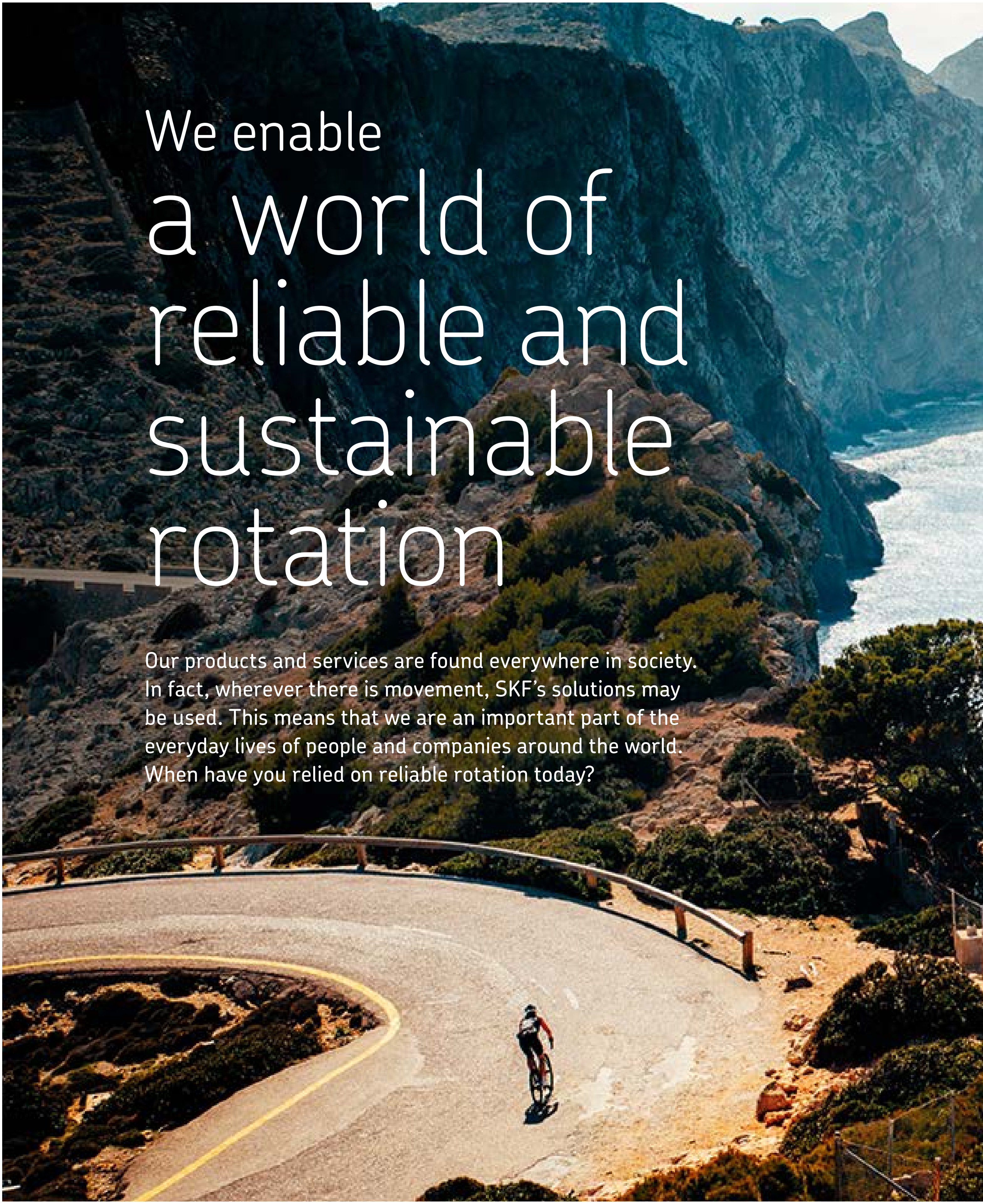
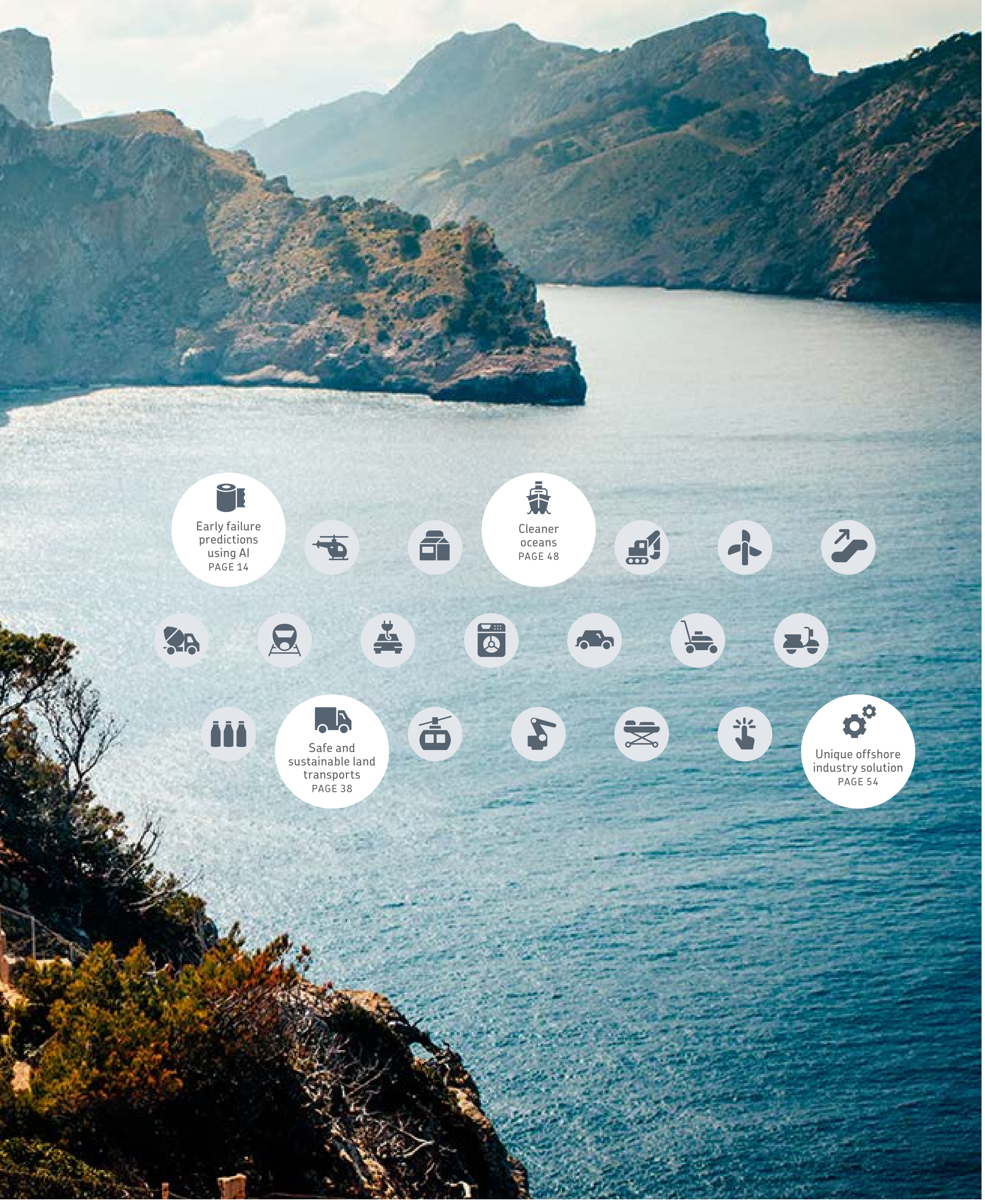
Annual Report
2020



We enable a world of reliable and sustainable rotation

Our products and services are found everywhere in society. In fact, wherever there is movement, SKF's solutions may be used. This means that we are an important part of the everyday lives of people and companies around the world. When have you relied on reliable rotation today?


Early failure predictions using AI
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Cleaner oceans
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Safe and sustainable land transports
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Unique offshore industry solution
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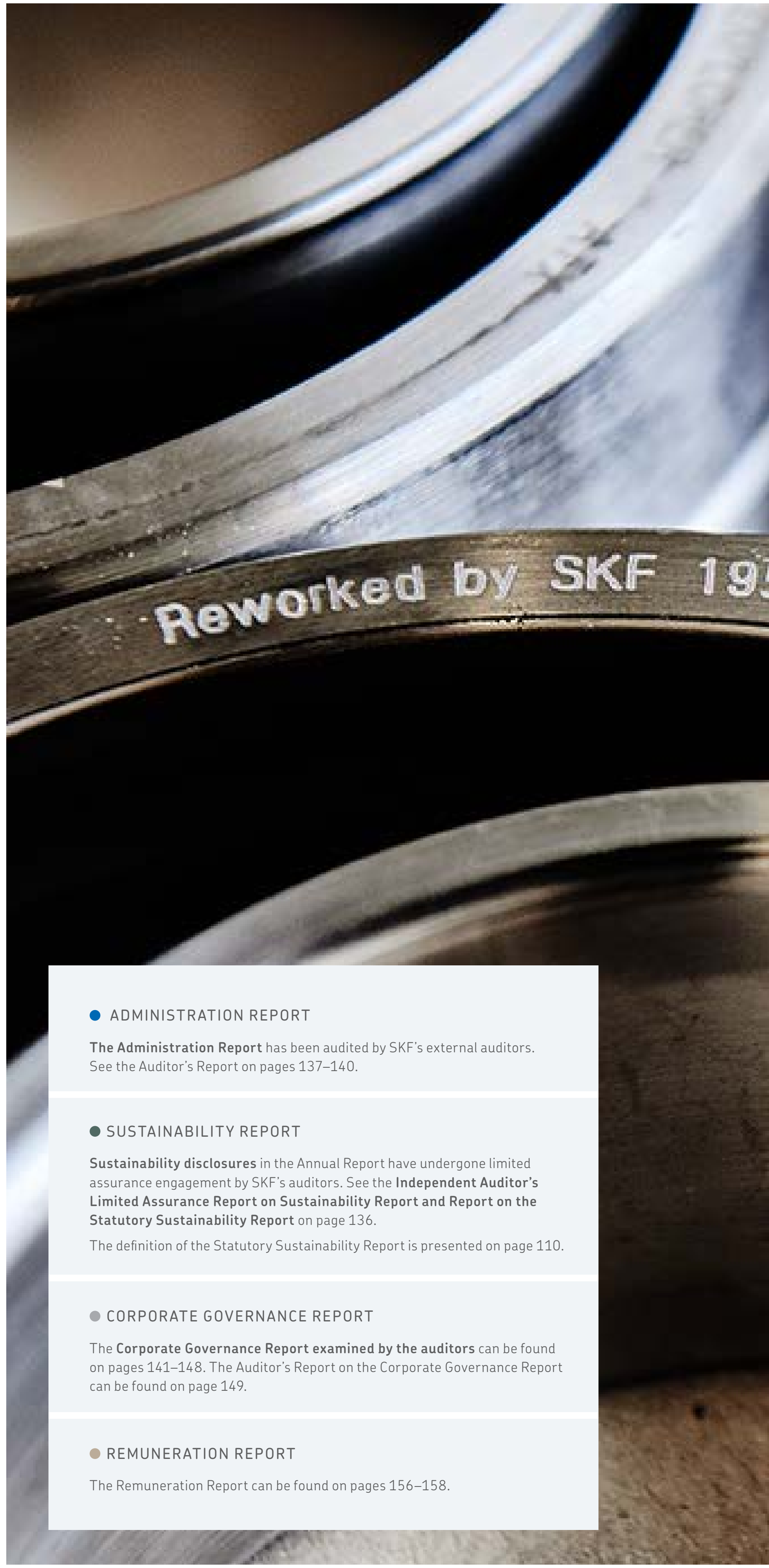


ADMINISTRATION REPORT

The Administration Report has been audited by SKF's external auditors. See the Auditor's Report on pages 137–140.

SUSTAINABILITY REPORT

Sustainability disclosures in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **Independent Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report** on page 136.

The definition of the Statutory Sustainability Report is presented on page 110.

CORPORATE GOVERNANCE REPORT

The **Corporate Governance Report examined by the auditors** can be found on pages 141–148. The Auditor's Report on the Corporate Governance Report can be found on page 149.

REMUNERATION REPORT

The Remuneration Report can be found on pages 156–158.

A leading global supplier of reliable rotation

Our customers want assets that run faster, longer, cleaner and more safely. Solving this in the most effective and sustainable way by reducing friction contributes to our vision of a world of reliable rotation. Our mission is to become the undisputed leader in the bearing business, and we are today one of the world's largest supplier of bearings.

2020 in brief

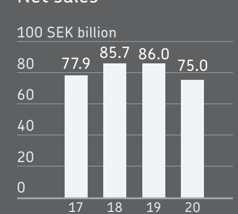
- Significant negative impact on demand from end of March as a result of the COVID-19 pandemic. Focus on ensuring the safety and wellbeing of employees and on implementing measures to reduce costs and increase flexibility.
- Continued transformation of manufacturing with investments in Property, Plant and Equipment of around SEK 3.3 billion.
- Updated long-term targets introduced at SKF's Capital Markets Day in November.
- Already operating two carbon neutral factories, SKF announced the aim to achieve a fully carbon neutral manufacturing footprint by 2030.

SKF's long-term targets

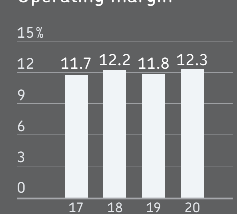
The long-term targets were updated on 4 November 2020 and shall be achieved over a business cycle.

	TARGET	2020 OUTCOME
Operating margin[1]	14%	12.3%
Revenue growth[2]	5%	–10%
Net debt[3]/equity	<40%	9%
ROCE[1]	16%	12.7%
Dividend pay-out ratio	50%	66%
Carbon neutral by 2030	zero	–35%[4]

Net sales



Operating margin[1]



Cash flow[5]

1) Adjusted for items affecting comparability
2) Including acquisitions, adjusted for divestments
3) Excluding pension liabilities
4) Absolute reduction in scope 1 and 2 emissions since 2015 base year
5) Net cash flow after investments before financing

This is the SKF Group




We are experts around the rotating shaft

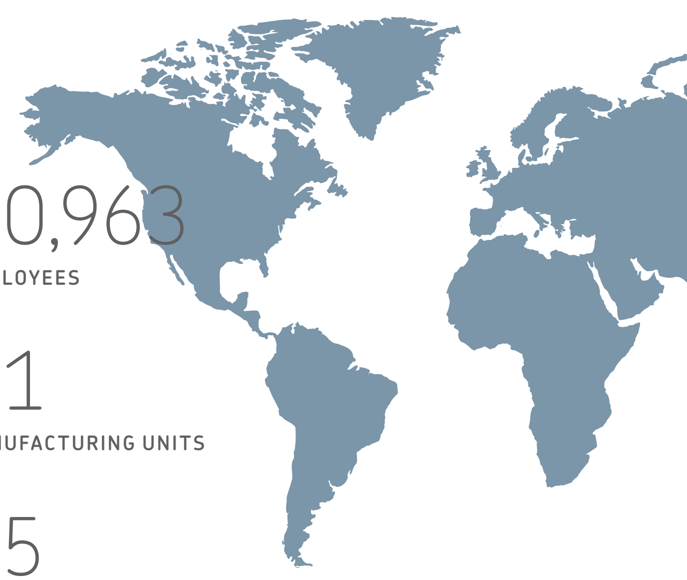
The rotating shaft, with all its associated technologies, is probably the most common application in the world. SKF is a leading global supplier of solutions around the rotating shaft including bearings, seals, lubrication management, condition monitoring and maintenance services.

SKF provides reliable rotation by combining hands-on industry experience with a vast product portfolio and in-depth knowledge across the SKF technology areas.

One of our strengths is the ability to keep developing new technologies that are used to create value-adding solutions. This gives competitive advantages to customers, and at the same time, contributes to a sustainable global society.

We are everywhere

SKF's products and services may be used wherever there is movement. This means that they are used all over the world and in a large variety of applications, ranging from heavy industries, such as mining and metal working and pulp and paper, to renewable energy such as wind, as well as cars and commercial vehicles.



40,963
EMPLOYEES

91
MANUFACTURING UNITS

15
TECHNOLOGY CENTERS

Our future is digital, electric and clean

The SKF strategy is the foundation from which we work towards our vision and mission. Sustainability is at the core of our strategy and is embedded in the business. Everyone working at SKF has a role to play in tackling the environmental challenges – and that is what "Striving for green" symbolizes.

The COVID-19 pandemic has changed the world and created a new normal. Our strategic direction remains but has been accelerated in many areas. The megatrends of digitalization, climate crisis and the movement towards a regionalized world are strongly influencing SKF.

Six strategic focus areas help us to prioritize and focus on the right topics to realize the vision. At the same time, they will also help us to reduce our own and our customers' environmental impact and energy consumption, and to take a greater part in the circular economy.

Read more on pages 26–37.

VISION AND MISSION

A world of reliable rotation

The undisputed leader in the bearing business

VALUE PROPOSITIONS

- Products
- Rotating Equipment Performance (REP)

STRIVING FOR GREEN

STRATEGIC FOCUS AREAS

Digital sales | New business models | Innovation | World-class manufacturing | Future workforce | Cleantech

40
CUSTOMER INDUSTRIES

130
COUNTRIES

>17,000
DISTRIBUTORS

We care about the world around us

SKF Care is our sustainability framework covering the business, environment, employee and community dimensions. It provides rules, principles and guidance on how we shall act as a global corporation. At SKF, we care about our customers, investors, colleagues, society and the environment over the short, medium and long terms. For decades, this has been at the foundation of who we are, and it is reflected in the SKF Care framework. SKF Care has four interdependent dimensions:

Business Care Assuring customer focus, financial performance and shareholder returns – with the highest standards of ethical behavior.

Employee Care Ensuring a safe working environment and promoting health, personal development and well-being of employees at SKF, as well as people in the supply chain.

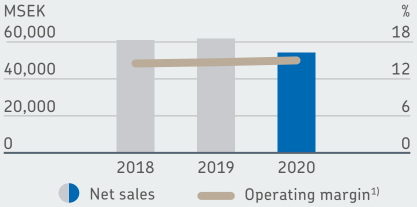
Environmental Care Continually reducing the environmental impact from SKF's operations, and those of suppliers and customers.

Community Care Making positive contributions to the communities in which SKF operates.

Industrial

SHARE OF NET SALES **73%**

SHARE OF OPERATING PROFIT[1] **89%**



SKF'S OFFERING

- Supplying more than 40 industries globally with products and services, both directly and indirectly through a network of more than 7,000 distributors.
- Broad product range of bearings, seals and lubrication systems.
- Rotating shaft services and solutions for machine health assessment, reliability engineering and remanufacturing.

SKF'S POSITION

- A leading position in industries such as railway, heavy industries and industrial distribution market, and a prominent position in other industries.

MARKET DRIVERS

- Reliable rotation is crucial for many industries.
- Climate change and the actions to address it influence most of SKF's customer industries.
- Other drivers vary from application to application, e.g. low friction, low energy use, maintenance-free solutions and total cost of ownership.
- Digitalization enables monitoring and predictive maintenance throughout the product life cycle.

MARKET CHARACTERISTICS

- Fragmented global industrial OEM (Original Equipment Manufacturer) market, but in some industries, e.g. renewable energy and railway, a relatively small number of OEMs account for a large part of the market.
- The distributor channel is also globally fragmented and varies from country to country.

MAIN COMPETITORS

Schaeffler Group, Timken, NSK, NTN, JTEKT, Rothe Erde, Wafangdian Bearing Group, Minebea Mitsumi and C&U.

MARKET VALUE[2] SEK BILLION **240–260**

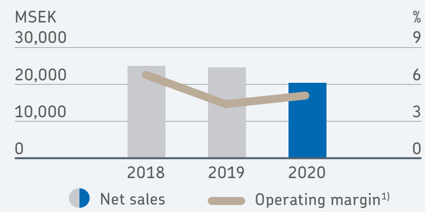
BEARINGS MARKET DEVELOPMENT 2020 **–8% to –11%**

1) Adjusted for items affecting comparability 2) Total value of accessible bearings market

Automotive

SHARE OF NET SALES **27%**

SHARE OF OPERATING PROFIT[1] **11%**



SKF'S OFFERING

- Customized bearings, seals and related products for wheel-end, driveline, engine, e-powertrain, suspension and steering applications to manufacturers of cars, light and heavy trucks, trailers, buses and two-wheelers.
- Supplying the vehicle aftermarket with spare parts, both directly and indirectly through a network of more than 10,000 distributors.

SKF'S POSITION

- One of the leaders in, e.g. wheel-end solutions and the development of components for automotive electrification.
- Strong position in application-driven powertrain solutions.
- Strong global position in the aftermarket with an extensive distribution network.

MARKET DRIVERS

- The light vehicle market: energy efficiency, reduction of emissions and electrification.
- The truck market: total cost of ownership, connectivity and integrated systems.
- The aftermarket: changing buying patterns, new channels, product performance and cost optimization.

MARKET CHARACTERISTICS

- Consolidated automotive OEM market with a small number of large companies.
- Fragmented vehicle aftermarket.
- OEM manufacturers account for about 80% of the total bearings market, while the independent vehicle aftermarket accounts for the remainder.

MAIN COMPETITORS

Schaeffler Group, Timken, NSK, NTN, JTEKT, Iljin, C&U and Wanxiang Qianchao.

MARKET VALUE[2] SEK BILLION **120–140**

BEARINGS MARKET DEVELOPMENT 2020 **–13% to –16%**

1) Adjusted for items affecting comparability 2) Total value of accessible bearings market

RAILWAY

Partnership to improve train performance

SKF and the German rail operator Nordbahn are partnering to reduce train downtime and to improve train maintenance intervals and operations.

This is achieved amongst other things through SKF Insight Rail asset condition monitoring and remote analysis, bearing refurbishment, and intelligent stock planning as part of a fee-based agreement that takes performance KPIs into consideration.

Photo: Patrick Pichon

AUTOMOTIVE

Victorious two-wheeler sealings

Within the two-wheeler segment, sales of SKF's seals has been booming during the worldwide crises in 2020, beating the record numbers of 2019 despite lockdowns around the world. As an example, the dual compound fork seal for the motorcycle aftermarket exceeded sales expectations by a factor of two.

SKF is present in the premium segment and is a preferred partner to many OEMs and in racing thanks to the aftermarket offer. In the 2020 mountain bike World Championships, SKF's fork seals was featured on all podium positions in every discipline with front suspension. Within the motorcycle segment, SKF scored in all podium positions in various disciplines, such as Dakar Race, MotoGP and Supercross series.

ENERGY

Increased efficiency

Bearings within wind turbine generators are exposed to punishing environmental conditions and high frequency electrical currents. Using insulated bearings from SKF's INSOCOAT range gives an added protection that helps to extend bearing lifetime and prevent machine downtime – boosting the economy and efficiency of wind turbine energy generation.

LUBRICATION MANAGEMENT

Increased productivity in tough applications

Lubrication performance is an important key to machine performance. The new SKF Lincoln SL-6 injector, the latest addition to SKF's lubricant injector range, contributes to increased productivity in tough applications, including in dump trucks, excavators, and other mining and construction equipment.

We are SKF

Vanja Winblad

Chief Marketing Officer, SKF RecondOil, Sweden

"SKF will continue to stay at the forefront of innovation by listening to our customers, but also by acquiring start -ups with solutions the customers don't yet know that they need. RecondOil, and our value proposition of circular use of oil, is an example of that mindset."

Chaiya Cheybumrung

General Manager, Industrial Distribution Business, Thailand

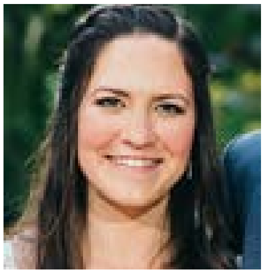
"SKF is the clear market leader in Thailand, delivering disruptive services beyond customer expectation. We are able to deliver what we have committed to, to the economic system and society, and being part of that is truly motivating."

Carlos Lahura

Director Industrial Business Development, Latin America

"During 2020 we implemented more than 15,000 wireless vibration and lubrication devices in Latin America. By successfully implementing, and not only developing, technology we take SKF to the next level. To work together, across continents, cultures and roles, facing challenges, is what drives me."

Olga Rossinsky



Lead Data Scientist, SKF Center of AI Excellence, Israel

"I joined SKF through the purchase of a small start-up, developing a predictive maintenance auto-machine learning solution. Our goal is to have 40 million connected bearings by 2025 and we're working to make our solution automated, scalable and generic. I really enjoy exploring the data itself."

Jerry Stiles

Channel Lead, Sumter North America

"As channel lead, I ensure the flow of production and push the factory to be world class. I enjoy seeing my team come together and solve problems or achieve a set goal. And I think that the way everyone works together, is what will ensure SKF's continuous growth, in business and technology."

Yoshita Negi

Assistant Manager Marketing Communications, India

The people strategy was a major part of Yoshita's decision to join SKF. "There's space and opportunity to grow. We have a very open culture, leaders and colleagues worldwide are curious to listen and support each other. And even more important – as a parent, I experience real work-life balance."

CEO Alrik Danielson

"Together, we are realizing the circular economy"

In a fast-changing world, everyone needs to innovate, adapt, anticipate and transform to stay ahead. This is also true for SKF; increasingly so during recent years.

We are far from done, yet the progress has been significant. It can be seen in many ways; in our customer-centricity, in our innovations, in our simplified management structure and in our manufacturing. You can see it in our uncomplicated and speedy decision processes, in our financial strength and in our results. SKF is now in pole position to take the next steps on the transformation journey and become the natural partner to most industries, making their environmental ambitions come true. Together, realizing the circular economy.

Transforming how we bring value to customers

SKF is providing reliable rotation to industries all over the world. Their common objective is to maximize existing resources, with undisrupted use of machines and processes, running faster and more efficiently. For a business to be productive, competitive and profitable, efficient and unbroken, supply chains are crucial. This puts higher demands on the bearings. They are used more and more, and need to last longer without downtime. Downtime is fatal for businesses today.

With a fee-based business model, customers buy productivity (uptime) and peace of mind. Through digital processes and monitoring the bearings, we can help customers keep their production going. More and more customers see the benefits of this model, with our Rotating Equipment Performance (REP) contracts today representing one billion SEK per annum.

Our investments in world-class manufacturing are another important success factor for delivering increased customer value at a lower cost. The truth is that we can produce perfect, round bearings at nano-level. This means that a bearing becomes a super-precision bearing. At our world-class manufacturing sites, the entire manufacturing flow is fully automated, driven by robots, offering precise adjustments.

Increased productivity with less environmental impact is a logical consequence of minimizing waste in the value chain; requiring fewer resources to keep processes going. The bearings do not need to go to waste at the end of life but instead go back to the factory to be remanufactured and given a new life. Remanufactured bearings reduce energy consumption by 80% in the production phase and also reduce material consumption.

Naturally, it reduces costs for customers too. With the help of artificial intelligence (AI), we have been able to make it tremendously more efficient. Today, our algorithms can drive these processes without human involvement.

"

By 2030 we will be carbon neutral. It is not a goal; it is a commitment.

Investing in future technologies for a circular economy
We're at the dawn of the fourth industrial revolution, with AI already being a key competence area. In SKF we are currently working on connecting our processes – we're developing a simulation tool able to analyze every step of a process and every need that emerges, to address them in real time. Signals from bearings at our customers' sites connect with our manufacturing units that produce bespoke components for each customer setting. Production starts just-in-time to be ready to deliver the part to the customer, ensuring a smooth replacement without disruption to their processes. In short, the bearing itself signals that it needs replacing in X days, so now is the time to start production or remanufacturing.

In a circular economy, there is no conflict between economic growth, social prosperity and environmental protection. With our solutions, we have a huge potential to reduce environmental impact at customer level. Thanks to digitalization and AI, we can be flexible and offer highly customized solutions without adding cost. The integrated, connected process that we are building allows us to extend our cleantech offer to all our customers, regardless of industry.

Rotation-as-a-service, remanufacturing and reconditioned oil are all part of our cleantech offer that is generating increased productivity and improved environmental performance. As a practical example, take SKF RecondOil, why do machines break down? Well, usually it is simply because of dirt. With clean, recycled SKF RecondOil, we provide the conditions for the machine to operate flawlessly. No downtime, as well as a cleaner production environment.

> "Knowing our customers and gathering data on how they use (and abuse!) our products is increasingly important. It informs how we can improve services and offerings back to them.

The transformation within the bearings business
Digitalization, together with cost-effective and accessible equipment monitoring, based on sensor technology, has accelerated the transformation within the bearing business. However, going from a linear model of take, make and waste, to a circular economy where we take responsibility for our products throughout their entire lifetime, puts new and challenging demands on our capabilities. Not only on our mindset and our technologies, but also on our financials since the circular economy demands a different revenue model.

SKF's relentless customer focus gave us a head start in this transformation. Knowing our customers and gathering data on how they use (and abuse!) our products is increasingly important. It informs how we can improve services and offerings back to them. It is a virtuous circle.

COVID-19 – a catalyst for change
Besides the deeply saddening suffering that so many people and businesses have had to endure, the pandemic has also proven to be a catalyst for change and the use of digitalization. What would typically take five years, is now happening in less than a year. In our R&D-department, we asked our engineers to put themselves in our customers' shoes and solve problems for them now. Not in five years, but now! That unleashed a burst of creativity that spawned several new products and tools. Among them, an app that makes anyone a specialist. These tools solved real customer problems during an exceptionally difficult time.

Across the industry, we saw that in organizations where decisions were made further from the customers, the ability to adapt to the changed circumstances has been much slower.

> I am incredibly proud to see people within SKF stepping up and taking responsibility with a kind of "founders' mentality" to safeguard their creation.

I am incredibly proud to see people within SKF stepping up and taking responsibility with a kind of "founders' mentality" to safeguard their creation. There are so many examples across the organization of colleagues taking responsibility and initiating action not only to protect from the virus, but also to accelerate the development of the company and our colleagues.

Circular economy with an agile organization

SKF has a lean organization today with approximately 41,000 employees; a significant reduction during the last six years. The circular economy eliminates waste and makes certain types of work superfluous, as well as freeing up time for people to focus on other tasks and develop their work and skills. With our passionate and talented people, we are well-positioned to assist businesses, as well as society, to develop in a positive and more sustainable direction.

As I write this, I'm on the 5th floor of Götaholm, our new global headquarters in Gothenburg. Götaholm is a building, that years ago, used to be our central warehouse. It has since been "remanufactured" and given a new life as a state-of-the-art, sustainable office building focusing on the circular economy. It was also the very first building in Sweden to be awarded the Leed Platinum environmental certification according to the new standard. A signal that we practice what we preach. By 2030, we will be carbon neutral. It is not a goal. It is a commitment. We have already reduced CO_2 emissions by more than 35% since 2015; proof that our transformation into a circular economy, where economic growth is decoupled from emissions, is successfully on track.

The preferred partner in the circular economy

SKF is well positioned for future developments in the rotation business. Changes will happen fast and will require the right decisions for SKF to stay ahead. We have laid the foundations to leverage on a resilient, high margin cleantech business, and we have an organization full of talent, ambition and passion. We recently updated our long-term targets to reflect our increased ambitions and I am confident that SKF's role at the heart of rotation will bring substantial and sustainable value for every stakeholder for a long time to come.

I have spent over 25 years with SKF, the last six of which I had the privilege of serving as CEO. These have been some of the best and most formative years of my life. It goes without saying that it's the interactions with all our fantastic people, customers and suppliers that will remain my fondest memories. In Rickard Gustafson, the Board could not have selected a better person to take over as CEO. Rickard is a great business leader and, more importantly, a great leader of people. I know he is the right person to continue to lead the work of all our colleagues; making SKF stronger, helping our customers improve their machine performance and, most importantly, realizing the circular economy.

Alrik Danielson
President and Chief Executive Officer

Read more about SKF's new President and CEO Rickard Gustafson on page 150.

Early failure predictions at a pulp and paper mill

AI saving hundreds of thousands of US-dollars

Suzano, a major Brazilian pulp and paper company, experienced recurring unexpected failures on motor pumps which are crucial for the production process. The pumps were becoming a production bottleneck, and the mill urgently needed to reduce unscheduled downtime and its associated costs.

Artificial Intelligence (AI) provides the opportunity to apply pretrained machine learning algorithms to real-time sensor data to identify evolving asset failure. Suzano wanted to pilot the SKF Enlight AI solution to receive early failure predictions and attain greater visibility into asset process data. In this case, Suzano wanted to evaluate the solution's effectiveness by testing it out on process data from existing failures.

Two pump failures were used to assess SKF Enlight AI capabilities. The failure on the first pump was detected during a visual inspection on 26 December. It was determined non-critical with an operational cost for a planned shutdown of USD 150,000. The second pump failed unexpectedly on 31 December, two days after vibration analysis had first detected an evolving fault. The operational cost of this unscheduled downtime was estimated at USD 250,000.

These failures increased maintenance costs and disrupted routine work orders over the course of several weeks. However, SKF Enlight AI detected anomalous asset behavior in the historical data of both pumps from mid-December. This means that there would have been enough time to schedule the necessary resources and spare parts and execute a planned shutdown and maintenance at the end of December to fix problems in both pumps, before the unexpected failure of the second pump.

By avoiding unscheduled shutdowns, operator safety risks are reduced. In addition, the wasted energy, resources and associated CO_2 emissions typical with an unplanned breakdown are also avoided.

Why invest in SKF

An investment in SKF should not just be financially rewarding. It should also support transition to a climate resilient growth and a circular economy.

The changes made since 2015 …

- Optimization of the business portfolio
- Divestments of non-core assets
- Prioritizing customer focus

DIVESTED CAPITAL SINCE 2015, SEK

6.5 billion

… have transformed the company …

- From cyclical to non-cyclical, focusing on 40 global customer segments, and delivering stable margins regardless of the business climate.
- From industrial heavyweight to agile cleantech.
- To offer our customers new products and services and new ways of working.

More about new customer offerings on page 28.

… successfully put to the test in extraordinary times.

"The new reality" with COVID-19 has brought many challenges for SKF's customers, making the Group's connected monitoring and lubrication offers even more relevant. With remote analysis and AI-based maintenance, SKF has been able to continue to help customers' machines rotate, without the need for on-site support. And the profitability stayed strong in 2020, the year of the pandemic, despite a large drop in sales.

ADJUSTED OPERATING MARGIN 2020

12.3%

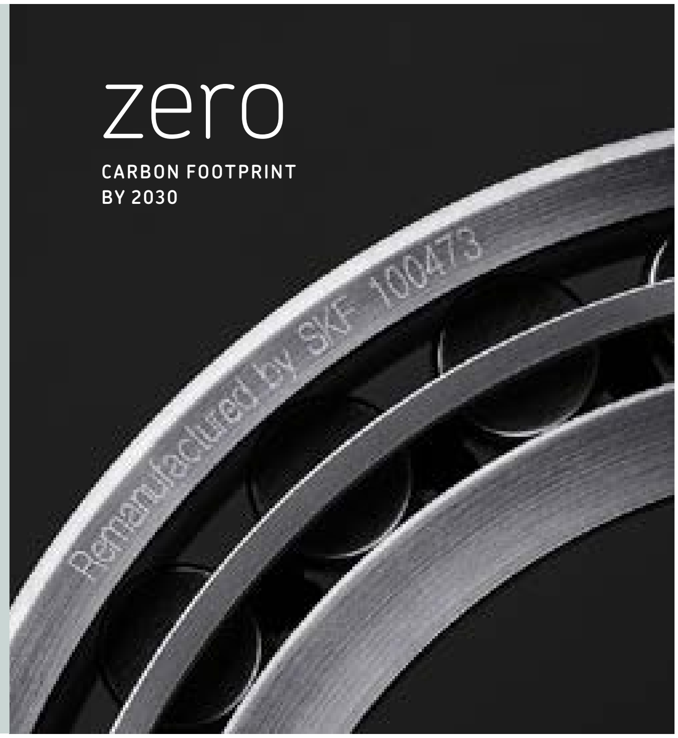
SALES 2020, SEK

75 billion

We will keep making rotation more reliable and sustainable ...

SKF's products and services are applied to machinery everywhere. SKF keeps the wheels of the world spinning – with less friction, cleaner and for longer. Striving for green is striving for prosperity. SKF will:

- Drive development around the rotating shaft through digitalization,
- Bring solutions and products that are part of a circular economy,
- Continue to invest in innovation and automation, increasing productivity and reducing CO_2 emissions,
- Act with speed and purpose to reduce the climate impact across the entire value chain, from the raw material we buy, achieving carbon neutral SKF operations by 2030, to the customer's use, and beyond.



... bringing higher shared value – to SKF, customers and the environment.

- Delivering both environmental and economic value is key to SKF's strategy. SKF will grow and gain market shares by offering superior value and making smart acquisitions.
- SKF leads the way for circular business models, underlining the Group's strong commitment to a sustainable economy.
- By creating and capturing customer value through the productivity of reliable rotation, SKF and customers strive towards the same goals – reducing costs, waste, risks, and environmental impacts.
- Remanufacturing and fee-based business models allow SKF to capitalize on its leading know-how, superior quality, and longer-lasting components.
- Altogether, this will make SKF even stronger, a resilient high margin cleantech business.

How SKF creates value

Resources

Financial
- Assets SEK 90.6 billion
- New investments SEK 3.3 billion
- R&D investments SEK 2.5 billion

Social
- Customers in 40 industries
- More than 17,000 distributors
- 40,963 employees
- 730 application engineers
- 2,800 service engineers

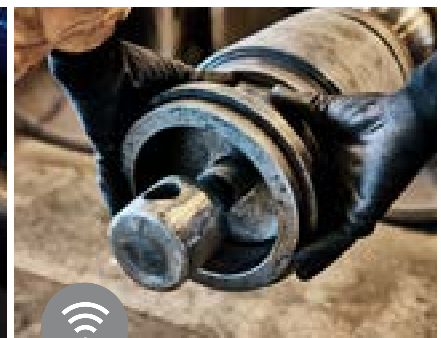
Environmental
- 1,561 GWh energy
- 459,000 tonnes metal

Physical
- 91 manufacturing units
- 15 technology centres
- 30 Industrial Service Centres
- 14 REP Centres

Vision
A world of reliable rotation

Mission
The undisputed leader in the bearing business

A strong and complete offering …



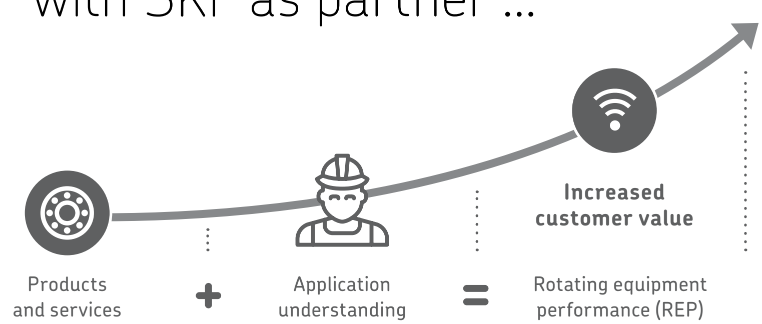
Products

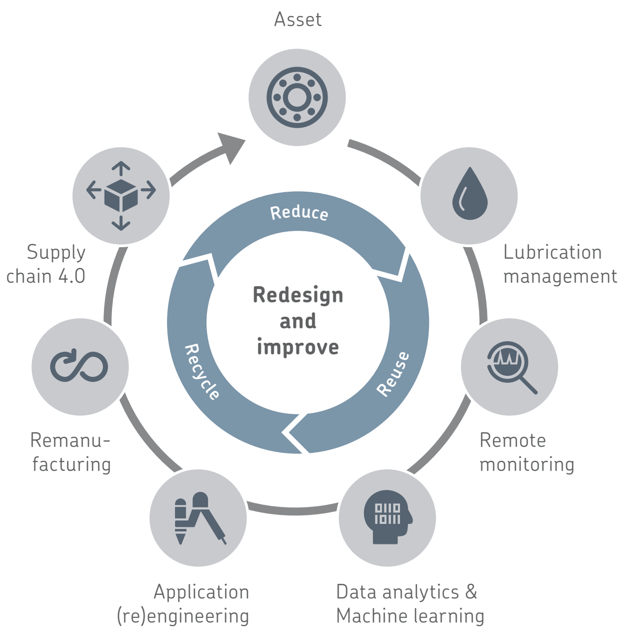
The product value proposition meets customers' product application needs and performance requirements of specific parameters such as speed, load, noise or physical environment.

Rotating Equipment Performance

The Rotating Equipment Performance (REP) value proposition meets the needs of customers who operate critical machinery by maximizing performance.

… for increased customer value with SKF as partner …





… contributing to the circular economy

The REP value proposition is a commercial relationship where SKF provides the customer with functionality at a fixed recurring fee, leveraging the full SKF portfolio: bearings, seals, lubrication systems, condition monitoring, machine health analysis, remanufacturing, oil regeneration and many other engineering services. In this business model, the needs and ambitions of the customers and SKF are aligned where both benefit by improving productivity and eliminating waste in the production process.

More about SKF's strategy and strategic focus areas on pages 26–37.

Value created

Financial
- Operating profit SEK 7 billion
- Cash flow SEK 5.3 billion[1)]
- Corporate income taxes SEK 1.8 billion
- Dividends SEK 1.8 billion
- Yield 3%
- Reinvested in SKF SEK 1.5 billion[2)]

Social
- Employee benefit expenses 23 billion[3)]

Environmental
- Emission reduction 39,000 tonnes (2020 v. 2019)
- Revenues from key areas SEK 6.4 billion

Physical
- 219 Registered invention disclosures
- 200 First filings of patents
- 20 New products and solutions

Customer value

Lower environmental impact
More on page 49

Safer operations
More on page 54

Higher productivity
More on page 39

Improved financial performance
More on page 15

1) After investments before financing. 2) Net profit less proposed dividends. 3) Including social charges.

Trends and drivers

Population growth, urbanization and increased wealth

A growing global population, more people living in cities and becoming wealthier, puts pressure on scarce or finite resources, such as materials, minerals, food, land, energy and water. Rapid urbanization also places huge demands on infrastructure, services, job creation, climate and the environment. This generates a strong demand for efficiency and productivity.

Globalization with a shift from west to east

The global trade of goods and services is under pressure while connectivity and information flows are increasing rapidly. Economic power continues to shift, particularly towards Asia. This calls for a region-for-region approach with manufacturing, sales and technical knowledge close to customers.

Low Touch Economy being the new normal

The economy following COVID-19 will be shaped by new habits and regulations based on reduced close-contact interaction, as well as tighter travel and hygiene restrictions. The current disruption will change how people live, both at and away from work – at an unprecedented rate of change.

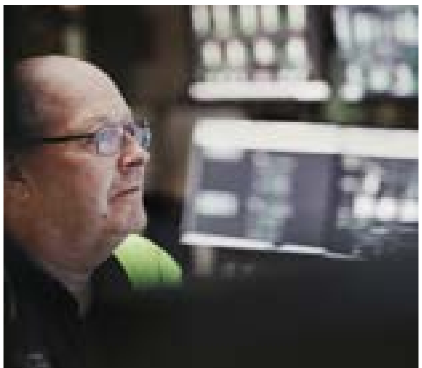
SKF'S RESPONSE

SKF's products and solutions help to reduce friction and enable reliable rotation. This contributes to environmental benefits through, for example, decreased energy and water consumption.

SKF continues the process of regionalizing its manufacturing footprint and product development, to stay competitive and relevant for customers.

SKF develops products and solutions that help customers deal with the new normal by facilitating new ways of working, for example, remote monitoring of critical machinery.

SKF's business and strategy is based on a deep understanding of the trends and drivers that impact, or have the potential to impact, all markets, regions and industries in which the Group operates.



Digitalization for the real, industrial world

Digital transformation affects all parts of the value chain. It also changes the way companies go to market. This means shorter lead times, faster development cycles, smaller inventories and significant opportunities for resource efficiency. It also highlights the need for continuous individual skill development.

Electrification and electrical vehicles

Electrification is a strong trend in many industries, especially in the automotive industry. This is driven by battery technology development and by the multiple benefits that electric vehicles can bring to societies, for example, energy security, urban air quality, greenhouse gas reductions and noise mitigation.

Environmental challenges

The current climate change and environmental degradation crises calls for action to reduce or avoid these impacts, through legal or other means. For example, the EU and China have set carbon neutral targets during 2020 which fundamentally will change the need for cleaner business. This calls for industries to adopt new and efficient business models, which are less dependent on physical resources.

SKF'S RESPONSE

The collection of digital insights, together with digital scalability, enables a transition from product sales to fee-based business models, aligning SKF's interests with the customers'.

Electrification and the growing market of electric and connected vehicles is positive for SKF, as the bearings play an important role in these applications. Today, SKF has a portfolio of innovative solutions that enable robust and efficient E-powertrain drive.

SKF helps customers move towards a circular economy by providing products and solutions, condition monitoring, the REP offering and remanufacturing services. Reducing CO_2 emissions from SKF's factories and supply chain is also an important contributing factor.

SKF and climate changes

There is an urgent need to transform from a carbon-based economy to one which is clean, carbon neutral and fully circular. This transformation needs to happen with a speed and on a scale not seen before, and SKF is determined to be at the heart of it. Striving for Green symbolizes this determination.

SKF products and services are already helping to enable the transformation, and SKF's strategic focus on cleantech will accelerate this – helping more customers and industries to make the transition across the world.

SKF works across the full value chain to understand CO_2 impacts and find pragmatic and effective ways to reduce and eventually eliminate those impacts.

Considering SKF's direct operations (factories, warehouses, research centres), the company has been able to decouple the economic growth of the business from the CO_2 impact. Comparing 2020 to 2015, absolute CO_2 emissions have reduced by more than 35%, while revenues are about the same.

In June 2020, SKF announced the target to achieve carbon neutrality for all its manufacturing, warehouses and research centres by 2030. This will happen through a combination of efforts focused on energy and material efficiency, generating and sourcing renewable energy, and as a last resort to cover any remaining emissions, purchasing carbon offsets.

SKF has, during 2020, accelerated the collection of energy and CO_2-data from its major steel and forging suppliers representing most of the value, weight and environmental impact in the upstream supply chain. SKF has developed digital tools to support the assessment of each supplier's CO_2 impact in the supplier evaluation process.

SKF's focus and performance in this area is becoming an increasingly important differentiator for the increasing number of customers who seek to achieve carbon neutrality in their full value chain.

External frameworks and initiatives

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD provides a standardized framework which SKF uses to explain how SKF acts upon the financial risks and opportunities related to climate change. A full description is provided in the TCFD report, which can be found in topics related on skf.com/ar2020.

CDP

The **CDP** survey is increasingly relevant for many stakeholders and provides a useful benchmarking tool – helping SKF to better communicate the Group's sustainability work. CDP evaluates company responses from A to E. Based on the 2020 submission SKF has been rated A– which signifies leadership and application of best practice.

RE100 CLIMATE GROUP | CDP

In 2020, SKF joined the Renewable Energy 100 (**RE 100**) initiative. This global initiative brings together some of the world's most influential businesses committed to using 100% renewable electricity.

ecovadis

The **EcoVadis** rating covers a broad range of non-financial management systems including Environmental, Labour & Human Rights, Ethics and Sustainable Procurement impacts. In 2020, SKF received a Platinum rating.

THE GLOBAL GOALS For Sustainable Development

The UN Global Goals and Agenda 2030 energizes SKF to do more and deliver more value for business partners, employees and surrounding communities. All 17 Goals include elements related to SKF Care and are relevant for the Group, including themes such as health, safety, climate, equality, education, development, environmental management, clean air, anti-corruption and compliance.

Detailed information on SKF's performance can be found in the Sustainability Statements on pages 110–135 and in the topics related to the Annual Report at skf.com/ar2020.

Leadership through action around the full value cycle

Manufacturing

- All major SKF manufacturing units are certified to ISO 50001 energy management standard and have defined energy efficiency targets based on their individual energy characteristics.
- SKF is committed to sourcing 100% renewable electricity by 2030.
- Actively replacing fossil fuel combustion with renewable energy sources – biogas, biomass.
- Carbon neutral operations for all production activities by 2030.
- EUR 300 million Green Bond issued in 2019 funding related investments.

Read more about SKF's climate objectives on page 25.

Logistics

- SKF's footprint activities resulting in production closer to customers which reduces transports.
- Reduced CO_2 emissions from goods transportation per tonne of shipped products, by 40% in 2025 compared to 2015.
- Promotion of low carbon transport modes and vehicle types via contracts and specific routes.

Customers

- Supporting customers aiming to eliminate up-stream CO_2 emissions.
- Enabling cleantech industries: wind, tidal, electric vehicles, rail.
- Helping process industries reduce environmental impact and waste via new business models such as REP.
- Providing lower weight and lower friction solutions that reduce energy and CO_2 in customers' applications.

Recycling

- SKF products are designed to be easily recyclable.
- Recycled materials are the major material input to our production.

Remanufacturing

- Extending the useful life of our products by remanufacturing them and putting them back into service.[1)]
- RecondOil – making it possible to reuse industrial oils many times over.[1)]

Suppliers

- Key suppliers are required to work on energy efficiency through the ISO 50001 energy management standard.
- Major steel and forging suppliers to report CO_2 emissions.
- CO_2 becoming a parameter in the supplier selection and development process for key materials.

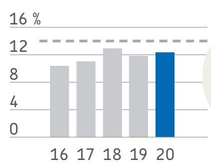
1) Thereby avoiding the emissions which would have been generated if replacing with new products.

Objectives and results

SKF's long-term targets were updated on 4 November 2020 and shall be achieved over a business cycle.

Long-term targets

Operating margin[1)]



TARGET 14%

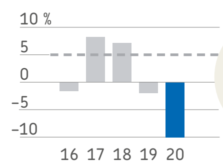
2016–2020 AVERAGE 11.7%

2020 OUTCOME 12.3%

WHY
Improved flexibility, automation, and fixed cost leverage.

HOW
- Increasing investments in world-class manufacturing.
- Acceleration of footprint optimizations and rightsizing activities supported by new ways of working.

Revenue growth[2)]



TARGET 5%

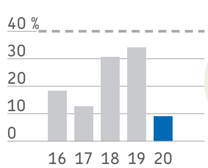
2016–2020 AVERAGE 0.34%

2020 OUTCOME –10%

WHY
Faster than market growth.

HOW
- Increasing value for customer, cost competitiveness.
- New businesses: REP, RecondOil, electrification.
- Select acquisitions.

Net debt[3)]/equity



TARGET <40%

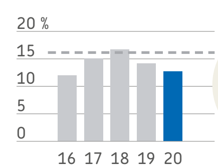
2016–2020 AVERAGE 20.9%

2020 OUTCOME 9%

WHY
- Manage operations through economic cycles.
- Flexibility to act.

HOW
- Continued strong cash generation.

ROCE[1)]



TARGET 16%

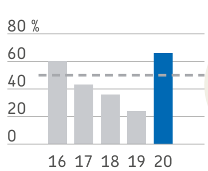
2016–2020 AVERAGE 14.1%

2020 OUTCOME 12.7%

WHY
Focus on capital efficiency as investments in competitiveness are accelerated.

HOW
- Automation and increasing regionalization.
- Working capital management.

Dividend pay-out ratio



TARGET 50%

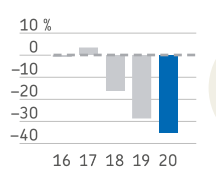
2016–2020 AVERAGE 46%

2020 OUTCOME 66%

WHY
The dividend should reflect the earnings and cash flow trends, while considering the Group's development potential and financial position.

HOW
The ordinary dividend should amount to around one half of SKF's average net profit calculated.

Carbon neutral by 2030[4)]



TARGET zero

2020 OUTCOME –34.8%[4)]

WHY
- Need to act on climate change.
- Reduces risk and increases resilience in operations.

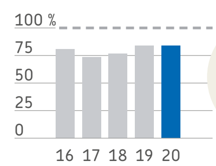
HOW
Process improvements, energy efficient machinery, usage of renewable energy.

1) Adjusted for items affecting comparability. 2) Including acquisitions, adjusted for divestments. 3) Excluding pension liabilities. 4) Versus 2015 base year.

Climate targets

SKF's climate targets for 2025 were set in 2017 and are based on lifecycle thinking – to reduce impact over the entire value chain.

Raw material



TARGET
100%

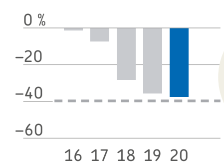
2020 OUTCOME
83%

% of major energy intensive suppliers certified according to ISO 50001. 42 global suppliers in scope.

WHY Raw materials have a significant impact from a lifecycle perspective.

HOW Systematic energy management to reduce scope 3 emissions from the supply chain.

Bearing manufacturing



TARGET
–40%

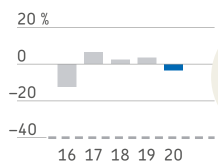
2020 OUTCOME
–37%

% CO_2 emissions reduction per tonne of sold bearings compared to 2015.

WHY Energy use and related emissions are among the most significant ways that SKF can reduce its environmental impact.

HOW Increased energy efficiency, increased share of renewable energy, consolidation of manufacturing footprint.

Goods transportation



TARGET
–40%

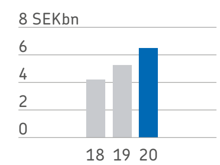
2020 OUTCOME
–3%

% CO_2 emissions reduction per tonne of shipped products compared to 2015.

WHY Reduce emissions and at the same time improving cost efficiency.

HOW Shorter transports, higher fill rates and more CO_2 effective transport modes.

Customer solutions



2020 OUTCOME
6.4 SEKbn

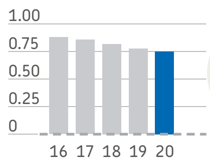
Revenues from key areas such as renewable energy, electric vehicles, the recycling industry and remanufacturing.

WHY Life cycle studies show that the greatest impact is within the use phase of SKF's solutions.

HOW Strategic focus on cleantech growth.

Social objectives

Safety



TARGET
zero

2020 OUTCOME
0.75

Accident rate per 200,000 worked hours.

WHY Safety always comes first and SKF is convinced that all work-related accidents can be prevented.

HOW Global management system and focus on risk elimination and right safety behaviors.

Strategic focus areas

Digital sales

With a strong focus on digitalizing the entire value chain, SKF is delivering better customer experiences at a significantly lower cost.

SKF 2025

- Improved customer and user experience by leveraging digital tools throughout the full value chain.
- Significantly reduced cost to serve customers.

Using data and technology, SKF is leveraging the power of its digital platform to fully connect the value chain for its customers. This creates efficiencies for customers and for SKF, as well as improving the customer experience. It also enables the backbone of SKF, its product and Rotating Equipment Performance (REP) sales, to be offered, delivered and consumed in new and more efficient ways.

Digitalizing the full value chain

SKF recognizes that the power of digitalization is not isolated in segments of the business, but across the entire value chain – from research and product development, to manufacturing and logistics, frontline sales and customer activities.

Over the past year, SKF has continued to execute this vision, digitally transforming the company's backbone through harnessing the power of technology, interconnecting processes, streamlining operations and delivering industry-leading digital products and services for customers. SKF's focus is on digitalizing all segments of the chain and interconnecting them to unlock the full potential of digital ways of working for the company's business and customers.

Sales

Customers are at the centre of everything that is done at SKF. SKF strives to improve the customers experience through each interaction and every touchpoint. To accomplish this, SKF is deploying technologies across the business to serve customers better.

SKF continues to broaden and enhance its e-commerce and digital customer service channels, extending the company's platform to include products from all brands within the Group. SKF has also developed new tools allowing customers to do

Research and product development ▸ Supply and demand chain ▸ Manufacturing ▸ Sales (presale, sale, post-sale) ▸ Product business with the Group digitally around the globe through web and mobile platforms. This enables them to more easily manage their business. These technologies were further accelerated by customer needs to manage their operations without human interaction in the wake of COVID-19. Examples include SKF Link, SKF4U and SKF's WeChat solutions, which facilitate mobile purchasing and customer support.

In addition, SKF is leveraging automation and predicative technology throughout sales operations; in quoting, invoice management, and the inventory management process. All of these optimize SKF's business, increase speed and accuracy, and deliver better service levels to our customers.

Supply/Demand Chain & Logistics

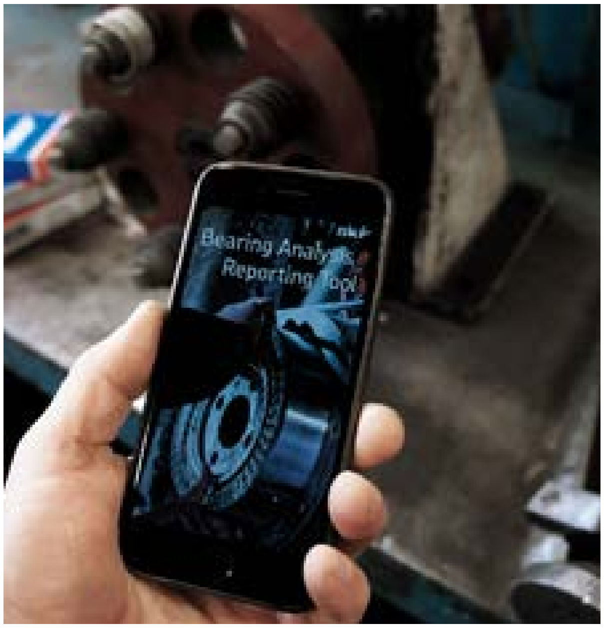
SKF is also leveraging data-driven technologies that deliver valuable insights and predictions across the business. These powerful tools have increased efficiency and improved the ability to deliver quickly to SKF's customers – at higher levels of quality.

SKF has deployed technology assisting the company through the demand chain. This includes advanced analytic technologies to optimize inventory, as well as machine learning models optimizing logistics and warehouse operations. These tools help ensure that SKF delivers the highest levels of customer service while maximizing efficiency.

Driving sustainability through digital tools

Within its operations and products, SKF continues to drive sustainability and support the circular economy. The use of digital tools throughout the value chain allows SKF to reduce waste, increase quality and provide the right solutions to its customers. Finding the right product for the right application can have a big impact and enable SKF to deliver improved uptime, higher performance, reduced pollution and improved operating conditions using less energy.

Operationally, SKF has added focus on connecting globally, in more efficient and effective ways. SKF deployed a global voice, video and data communications platform that seamlessly connects all employees and customers, across the company's sites around the world, further reducing the carbon footprint while enhancing the user experience.



Customer Engineering Services

SKF's focus on customer experience extends beyond sales and customer service. SKF pivoted quickly in face of the COVID-19 crisis to ensure continued delivery of the highest quality engineering support to its customers in a time of limited and restricted travel.

SKF deployed the Bearing Analysis Reporting Tool (BART), an application through which customers initiate inspection and diagnostic requests to SKF's Application Engineers. SKF can now deliver post-sales engineering support, including remote diagnostics and engineering services, via its cloud-based platform and also offer the full value of SKF's in-person engineering support remotely through the software.

BART was released in March 2020. During the first months in operation, more than 1,200 reports were initiated from customers around the globe. The next version is planned for release in 2021 and will, for example, include artificial intelligence (AI) to identify bearing failure modes.

New business models

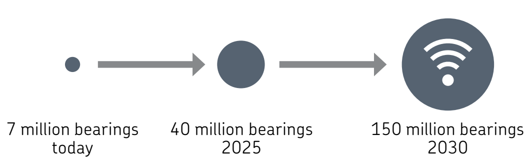
By creating and capturing customer value through fee-based business models with incentives based on Key Performance Indicators (KPI) such as uptime and productivity, the interests of SKF and its customers are aligned to reduce cost, waste, safety risk and environmental impacts.

SKF 2025

- Product sales are still the foundation, but performance-based contracts represent a growing portion of sales.
- Increased number of connected bearings.
- Several strategic OEM and aftermarket partnerships that speed up SKF's technology and business development.

A combination of environmental considerations, digitalization and the shift from transactional to fee-based business models is revolutionizing the way business is done and how SKF provides value to customers. Expanding the portfolio of fee-based Rotating Equipment Performance (REP) contracts – achieving reliable and sustainable rotation – will help reduce the impact of commoditization within the transactional, industrial component business.

Rapid increase of connected bearings



The number of SKF's connected bearings will increase as the REP business develops, which provides SKF with another benefit. The data that is collected from customers gives additional insights which can be leveraged in combination with SKF's application knowledge and expertise in bearing life models and lubrication.

Changing the way business is done

Industrial business is changing and SKF is aligning its way of working to deal with market needs. Through the REP offer, SKF provides a fee-based commercial relationship, with the rotating shaft as the common denominator.

SKF provides bearings, seals, lubrication management, condition monitoring and services based on a fee that is dependent on the customers' most relevant KPIs: tons of production, uptime or other KPIs that are relevant for their operations. This further aligns the interests of SKF with those of its customers.

By providing assessment and benchmarking tools, SKF identifies areas for improvement as well as the right condition monitoring technologies and services to prevent costly unplanned downtime and loss of production. Through application engineering, lubrication management, spare parts management and root cause analysis, SKF can also fix problems and stop them re-occurring.

In addition, companies acquired by SKF in 2019 are now integrated in the Group, i.e. SKF AI (Presenso at the time of the acquisition) and SKF RecondOil. Automated Machine Learning (AutoML), i.e. applying machine learning algorithms to real-time process data to identify anomalous patterns and warn technicians of evolving asset failure, and reconditioned oil are enabling the implementation of fee-based business models.

A sustainable business model

In the traditional linear model of "take, make and waste", there is an inherent conflict of interest. Suppliers' proceeds depend on the quantity of parts, consumables or services sold to the customer, whilst the customer truly benefits from longer component life, reduced consumption and improvements in machine performance.

A fee-based business model, such as SKF's REP value propositions, aligns the interests of the customer, SKF and the environment and is built on strong and evolving partnerships. It improves financial performance when waste is eliminated and the machinery's productivity, reliability and efficiency is optimized.

Investments in SKF's AI and RecondOil business support the fee-based customer offering as well as the transition to a sustainable model based on a circular economy. In addition, with condition monitoring and data analytics capabilities, a bearing can be removed from a strenuous application and be remanufactured before it fails. The bearing is given a new life and returned to perfect running conditions. Remanufacturing of bearings requires 80% less energy compared to producing new bearings, in addition to reducing material consumption.

Making predictive maintenance widely available

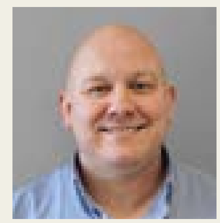
Machine reliability and availability have never been more critical. To avoid equipment failure, improve reliability and keep rotating equipment running, SKF has developed a cost-effective, easy to use entry point to predictive maintenance.

By combining sensor technology and an easy to use app, along with direct access to SKF expertise and analysis from the REP centers and application engineering specialists, customers in any size company can start condition-based maintenance to avoid costly unplanned downtime. Through a fixed fee-based contract, tailored to the customers' needs, machine health and expert diagnosis is made available at their fingertips to take them one step into Industry 4.0.

"The International Paper vision is linked to the SKF circular economy approach, and we also want to implement RecondOil, as soon as possible."

Fernando Matielo, Maintenance Manager, International Paper, Brazil

"Circular economy is also cultural, and therefore you need people to embrace change ... this is the most important support we got from SKF."

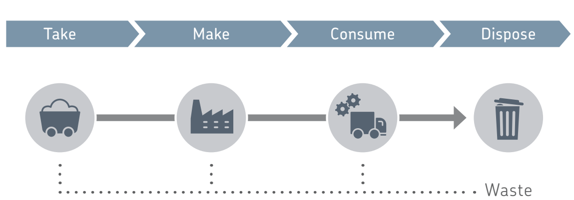


Mike Tinnion, Head of Engineering, Iggesund Paperboard, Sweden

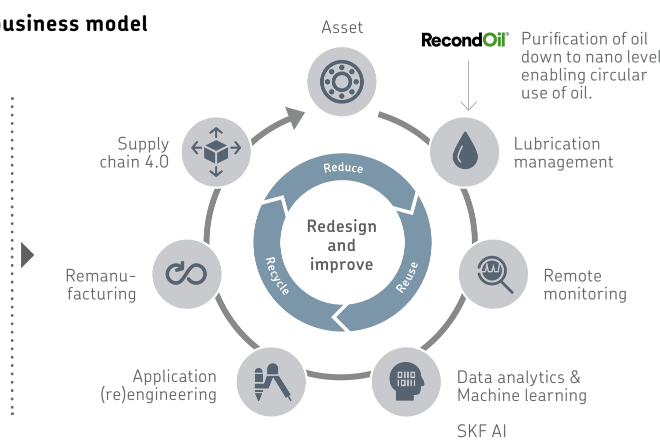
"SKF REP exceeds our expectation. We expect it to be promoted and replicated to other NISCO equipment, to improve quality, reliability and safeguard our productivity."

Mr. Yunzhang Tang, Director of Plate Business Equipment Division, NISCO, China

From a transactional to a fee- and performance-based business model



Moving from a transactional to a fee- and performance-based business model keeps environmental aspects integrated in how SKF does business.



Innovation

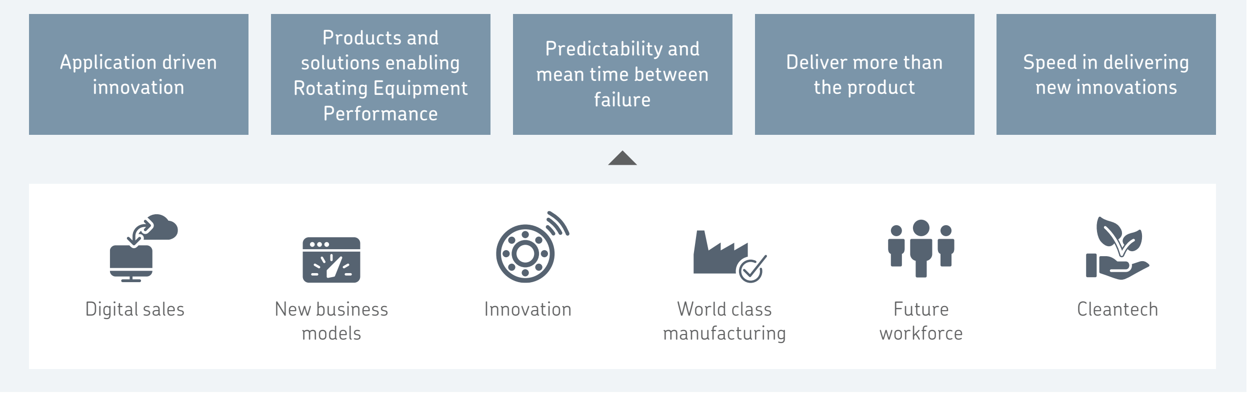
Through innovation, SKF strengthens its two value propositions and the company's position as a market leader. Innovation is key to enable cleantech industries and it reduces the environmental impact of SKF's own production and that of its customers.

SKF 2025

- An ability to turn bearing failure modes into new product and service offerings.
- Technology leadership and preferred development partner within electrification.
- Innovation and product development closer, both geographically and in focus, to the customer.

SKF is changing from a product-selling company to a function provider. SKF aims to provide customers with what they need: machines that run. Uptime, not merely spare parts. This shift reflects wider changes in society, with industries from music retail to mobility moving to models where customers pay for the services they consume. And when doing so, expect these services to keep flowing. To run.

SKF R&D strategy
SKF's strategy encourages every employee to rethink what they do, and why. This includes SKF's research and development (R&D). Being responsible for the performance of a customer's machine over its lifetime requires designing sustainable solutions for how the products are installed, used and serviced. Even for a material expert in SKF's research laboratories, this leads to new ways of defining steel performance parameters.



Agility – constant innovation

While SKF's R&D strategy was in place before the COVID-19 pandemic, the crisis drove further change. The R&D teams asked themselves "what can we do, using what we know now, to help the customers in these tough times?". The teams, tuned to full life cycle thinking adopted from the R&D strategy, realized that in the middle of lockdowns, customers needed to keep operations running smoothly despite personnel shortages and access restrictions. This led to solutions aiming to transfer knowledge into the hands of customers.

The rethinking during COVID-19 implied that agile planning – not only agile projects – had to be implemented in R&D. Admitting that the future cannot be predicted, roadmaps were scrutinized and refocused on delivering in the near future. In a time of fast change, development needs to take place together with customers, instead of far away in the R&D labs. These changes will also remain post COVID-19.

Accessibility – usability first

To keep machinery running the main causes of failure must be addressed. As always, the human factor is present: mistakes are made in mounting, lubricating and servicing – not because of ill will but because of lack of the right guidance.

The "how can we help?" mindset described above brought forward the launch of new solutions, such as the SKF Bearing Assist app. This tool puts SKF's expertise right in the hands of the customers' service technicians. It guides the user through maintenance and generates a receipt that it was done right. The cloud connection means that any updates in product information or service instructions are immediately available on customer shop floors. This app was developed in collaboration with service technicians and customer maintenance staff and at the end of 2020 it was the most downloaded app from SKF.

SKF is working on new products designed with usability in mind, such as bearing housings that line up. Even minor misalignment significantly reduces machine life. SKF wants to help customers to get those tasks right, also in inaccessible places or where skilled technicians are not at hand.

AI – learning from data

Predicting and prognosing a machine's future operation requires huge amounts of data. Also, the data needs to be process data, forward-looking signals, as well as warnings about issues that are about to happen (such as vibration). Drawing conclusions – gaining "insights" – from such vast amounts of data requires Artificial Intelligence (AI).

Training AI on industrial use could take a long time. However, if the AI is automated and enriched with machine and industry knowledge, progress will be fast. Therefore, SKF acquired Israeli start-up, Presenso (now SKF AI), in October 2019. Presenso already had a proven track record in industrial prognostics, but they lacked the expertise around machinery. The synergies were clear, and Presenso's technology could immediately fit into SKF's technology roadmap.

Now, SKF AI is deployed around the world in multiple industries. The AI is learning and being enriched with detailed engineering knowledge that is improving the ability to predict failures long before they happen. This is crucial in delivering Rotation as a Service – when uptime is in focus, foresight and preventive action is mandatory. The insights generated are also used to improve SKF products' performance, design upgrades and to reduce unnecessary features; thereby cutting product cost without losing performance.

Automotive – innovating for the future market

SKF's innovation within automotive is focused on the technology transformation towards a CO_2 neutral vehicle market. SKF is partnering with key OEM and Tier1 pioneers for the launch of full electric vehicles (EVs), for example, by providing a complete package offering of bearings and seals featuring high speed, thin sections and electric current insulation options.

Power density and friction reduction are some of the main drivers of current and new vehicles. SKF has become a leader by developing low friction hub bearing units (HBU) for the new energy vehicles, as well as low friction Tapered Roller Bearings (TRB) for Final Drive and Axles.

On vehicle prognosis as a potential enabler for autonomous driving and vehicle connectivity, SKF is developing wheel end bearings with data collection capabilities for passenger and commercial vehicles.

World-class manufacturing

SKF is working with technology step-up and footprint transformation to provide competitive products closer to the customer, significantly reducing the energy and CO_2 needed to produce and transport the products.

SKF 2025

- Fewer but automated factories, with higher flexibility, closer to the customers.
- Increased percentage of region-for-region manufacturing.
- Fewer, more skilled roles in the factories, requiring skills within automation, additive manufacturing and digitalization.

To become the undisputed leader in the bearing business requires the cleanest, smartest, safest, most efficient and flexible factories in the world. Furthermore, these factories need to be close to the customer, to ensure short lead times and shorter transportation requirements.

World-class operations strategy

Everything that SKF does, also including operations, starts with the customers and their specific needs. Since SKF serves many industries in all regions across the world, these needs can vary a lot. This means that SKF must be fully aligned across all functions (sales, engineering, manufacturing and purchasing) to make sure that the right things are done for the customers and that everything that is not value adding is eliminated.

This work continues to be driven through the four focus areas: SKF Production system, Technology step-up, Input cost reduction and Manufacturing footprint. The ambition is to have a fast, flexible, flawless, cost-efficient and fully connected delivery organization close to the customers (region-for- region).

Operational developments

In 2020, SKF has above all focused on keeping the employees safe during the COVID-19 pandemic. Furthermore, focus has been on continued fixed cost reduction, protecting cash flow and balancing low stock levels with customer promises. Safety is always a top priority, and SKF works to ensure safe and healthy workplaces by following the requirements set out in its management system.

0.75
ACCIDENT RATE[1)]

SKF has also accelerated the work with Application Specific Offers (ASO) in 2020. An ASO is a unique design solution that provides a clear fit to the specific requirements of an application. By meeting the needs of customers, not least in the highly competitive agriculture sector, SKF's ASO offer has resulted in new business wins and market share gains, as well as associated manufacturing investments to support this development.

Carbon neutral operations

SKF has, for many years, worked hard to reduce its energy consumption and CO_2-footprint. As a natural consequence of the need to manage the climate crisis, SKF announced in 2020 to have carbon neutral manufacturing by 2030. SKF will achieve this by continuing to drive down energy consumption, by sourcing renewable energy where energy is still needed, and, as a last resort, buying off-sets for any remaining portion where there are no feasible alternatives.

1) Per 200,000 hours worked 2020.

To build strong networks SKF joined RE100 (Renewable Energy 100) – a global initiative bringing together some of the world's most influential businesses committed to using 100% renewable electricity. SKF is rolling out a plan to source renewable energy by enabling the construction of new wind, solar, tidal or other renewable energy power plants. This brings extra renewable energy to the global energy market.

The strategic decision to forcefully pursue the sustainability targets are proving to be valuable in SKF's customer interactions, which show a significant growth in the demand for products and solutions that have a low carbon footprint.

The carbon neutral 2030 target is motivating and SKF sees many technical possibilities through all the supporting world-class projects. SKF RecondOil's Double Separation Technology (DST) system being installed in the factories is one example of a real game changer beyond saving oil changes. Remanufacturing technologies and digitalization are a couple of additional examples that will make a significant impact.

By automating the production systems and working in the full value chain, SKF can reduce its environmental impact and bring this knowledge to customers. The investments, including those financed by the Green bond pioneered by SKF in 2019, are reducing SKF's environmental footprint, at the same time as they enable more efficient and safer manufacturing.

Footprint agenda

Footprint is about getting closer to the customers and being ready and able to support their needs from a full value chain perspective. Getting closer to the customer means savings and improved customer relations, as well as simplifying structures.

Today, SKF has a good region-for-region coverage for Europe and the company is strengthening the regional supplies for Asia and the Americas. The ambition is to increase the localization rate from 50% to 60% in the Americas and from 60% to 70% in Asia by 2025. For Europe, the challenge is to develop a stronger regional supplier base and, in parallel, adjust the footprint to address the region-for-region, but also for general efficiency.

Because of the efficiency improvements, as well as the regional moves, SKF must also consolidate its footprint resulting in site closures of around five sites per year for the coming five years.

Investments that have an impact

Investments in property, plant and equipment (PPE)

- Total investments around SEK 3.3 billion in 2020.
- Typical annual benefit after two years: 30–50% of the initial investment.
- By 2025, the realized benefit run-rate will exceed SEK 5 billion.

Impact from world-class investments in Schweinfurt factory in 2017

- 80% resetting time and lead-time reduction, i.e. five times quicker delivery, with five times greater flexibility.
- 70% manning reduction, i.e. significant cost reductions.

Major footprint and world-class investments in 2020

- A further SEK 400 million investment in ball bearing manufacturing in the Xinchang factory in China, in addition to the SEK 370 million invested in 2019.
- Investment of around SEK 550 million in strengthening the manufacturing footprint and competitiveness in North America.
- "Low investment, high impact" project in the Massa factory for assembly of Bearing Units. Automated depalletizing, assembly and packing resulting in reductions in resetting and manufacturing lead-times, greater flexibility and improved quality.

Future workforce

The future workforce is of the highest strategic importance for SKF. To continue to be a successful company and employer, SKF needs to have a strong leadership, optimized resource base, competent workforce, efficient way of working and high employee engagement.

SKF 2025

- Investments to develop new skills.
- Continuous and proactive optimization of the workforce.
- A more agile way of working.
- Fun, positive and empowering work environment.
- Attract the most creative, astute and diverse students.

Being a global company with a presence in nearly every industry offers great possibilities, but also makes SKF sensitive to global trends. To ensure that the Group can respond to external change, SKF invests in developing the employees – the greatest competitive advantage. SKF has structured the work within this strategic focus area in the following areas: Leadership, Competence, Workforce dimensioning, Way of working, and Employee engagement.

Leadership

To meet the above-mentioned future ambitions, SKF needs strong leadership capabilities. Not just from the top, but at every level of the organization. Being a leader at SKF means leading yourself as much as leading others. With clarity, passion, empathy and fearlessness.

To ensure strong leadership, SKF is investing in developing its leaders. The leadership portfolio is transforming into a higher degree of virtual development offerings. During 2020, clearer leadership expectations have been defined and calibrated to support assessments of and development activities for SKF's current and future leaders.

Competence

SKF works proactively with strategic workforce planning to ensure the competences that are needed for the future. SKF invests in new skills and in developing the employees by enabling virtual, agile and continuous learning, with a high attention on the capabilities of the future.

To fast track the virtual learning, #SKFstronger was launched in 2020 giving SKF employees the opportunity to share and capture knowledge through open self-organizing webinars on a variety of knowledge areas. During the first three months, more than 370 sessions were delivered on 160 topics with more than 10,000 attendees.

Training programs to create a production organization with multiskilled operators, who can adjust, reset machines and train others, have created further career paths for workers. An example is SKF's factory in Cassino, Italy, where training sessions are held for upskilling with new digital competences as many operations have changed from manual to digital.

To ensure competence development supports the strategic business challenges, SKF has different academies in place that work closely with the business dimension, e.g. manufacturing, leadership, sales and application engineering. Local learning initiatives are also in place to meet the needs of specific units and locations.

Workforce dimensioning

SKF's ability to continuously secure the right competence mix for the future, a lean and efficient workforce and an optimal organizational footprint is crucial to deliver the strategy and key objectives. Digitalization, new technologies, regionalization and a volatile global environment have underlined the importance of making workforce dimensioning a relentless focus area over time.

During 2020, all SKF business areas have reviewed opportunities to become more effective and better suited to deliver upon the Group strategy. As an example, SKF's Finance Operations has, in 2020, started the transformation from a country structure to a regional based organization with finance operation centres established in the SKF regions and sub regions. When fully implemented, it is assumed that the total Finance Operation workforce will be reduced by 30% and the total cost will decrease even further.

Way of working

SKF needs to adapt its ways of working to ensure a workforce and leadership that is more agile and able to respond quickly to external change and new digital opportunities.

SKF has made major investments in digital tools in the past few years. During 2020, there were drastic changes in the way companies carried out business and conduct customer meetings. SKF and its customers have gone virtual. To meet the new customer demands, SKF has, for example, launched a new digital training program developing sales employees to run virtual sales meetings.

To facilitate virtual conferences, SKF has invested in a conference platform that was used for several events in 2020, including the SKF Capital Markets Day and a conference about RecondOil. The virtual format enables knowledge sharing within and outside the organization and can be used to support sales processes.

Employee engagement

SKF must be a company with the ability to attract, excite and retain the most creative, astute and diverse talents. SKF strives towards a more connected and engaging work environment, built on fearlessness, empowerment and pride for a greater cause with leadership as an enabler.

To have all employees contributing to a positive and engaging work environment, the SKF Team Pulse survey was further implemented during 2020. The Team Pulse is done quarterly and adds value by enabling SKF to listen to its employees and involving them in working proactively with improvements on a continuous basis.

To be an attractive employer, working towards a greater cause is increasingly important. SKF is well suited to ensure this becomes a competitive advantage through the Group's initiatives within sustainability, such as remanufacturing, RecondOil and cleantech.

SKF's new headquarters, Götaholm, was opened in 2020. An old warehouse has been transformed into a modern, dynamic and, not least, sustainable headquarters for SKF. It is the first office building in Sweden to be rewarded an LEED (Leadership in Energy and Environmental Design) Platinum certificate. The new office and environment encourage and support the desired way of working.

Cleantech

SKF provides solutions to reduce customers' environmental impact and energy consumption through the Group's value propositions and by taking a greater part in the circular economy.

SKF 2025

- SKF's brand and business are synonymous with technology development within the cleantech industry.
- Development of start-up technologies and companies to support the growth of the REP business.

Within the Cleantech strategic focus area, SKF is working to increase sales and activities in cleantech industries. This will be achieved by strengthening SKF's current cleantech offers and expanding the current offerings around the rotating shaft into cleantech fields. SKF will, in addition, continue to find new offerings outside the core business and new technologies which could have a big sustainability impact.

Cleantech - paramount for the climate

The environmental challenges the world faces will to a large extent need to be solved by industrial transformation on an unprecedented scale. Cleantech industries are the enablers of that transformation. They will be important in achieving economic and social value by replacing, eliminating or transforming dirty, polluting and wasteful products and processes with clean, super-efficient and sustainable ones.

There is a huge demand and need for technologies and solutions to tackle the environmental issues we all face. In a circular economy, there is no conflict between economic growth, social prosperity and environmental protection. When a circular economy is fully implemented in business, the business can grow, contribute to social development and at the same time safeguard the natural environment.

Striving for cleaner industries

SKF has an important part in this transformation and has made Cleantech a key part of its strategy. SKF's ambition is to make its brand and business synonymous with technology development within the cleantech industry, and to become the partner that customers turn to in order to improve the CO_2 and environmental footprint of their products and processes.

Cleantech covers all businesses in SKF which provide a sustainable output, for example, wind and tidal energy, remanufacturing, RecondOil, the REP value proposition and specific applications that provide a reduced environmental footprint. To build its position and capabilities within cleantech, SKF is accelerating the remanufacturing offer, scaling magnetic bearings and other low friction applications.

Expanding the cleantech offer

SKF is finding and developing new cleantech applications, solutions and technologies, for example, through partnerships, business development and acquisitions. This is an area where SKF is also looking at possibilities outside the core business around the rotating shaft if it can provide a high environmental or sustainability impact.

One example is SKF's new technology in cleaning ballast water with the help of UV-light. SKF's ballast water management system (BWMS) has completed shipboard and environmental approval testing and is now commercially available, helping ship owners and operators to meet stringent rules (read more on page 49).

Strengthened capabilities

In 2019, SKF acquired Presenso (now SKF AI) and RecondOil. These companies have strengthened SKF's cleantech offering and are a natural fit with the REP and remanufacturing offerings, while contributing to realize the circular economy.

With SKF RecondOil, customers are provided the possibility to almost indefinitely extend the life of process oil with a substantial increase in performance – with all the environmental and sustainability improvements that brings. During 2020, the industrialization of SKF RecondOil has taken important steps forward with the installation of the DST systems in three of SKF's manufacturing sites, as well as at customers', sites.

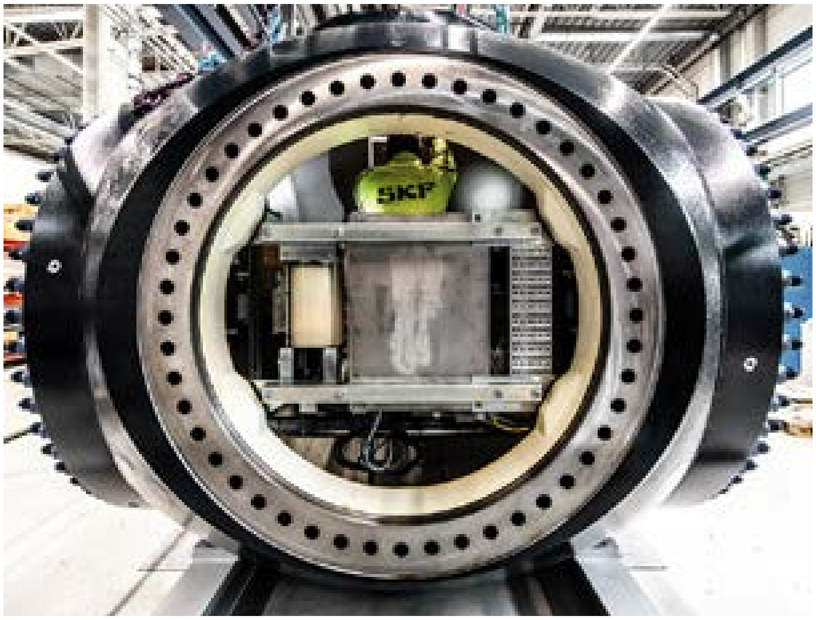
By combining SKF AI's data driven analytics with application driven analytics, SKF will be able to analyze sensor behavior and automatically detect abnormalities and patterns, predicting and alerting about upcoming failures. Since Presenso was acquired the number of data scientists has increased more than tenfold, illustrating a competence increase within the SKF AI offering.

Remanufacturing reduces lead times, costs and emissions

Remanufacturing is an important part of the circular economy as it reduces maintenance, energy and cost. It is also a clear enabler for winning new business and to increase the profitability of REP contracts. SKF has always been committed to developing and innovating, while taking major social and environmental challenges into account.

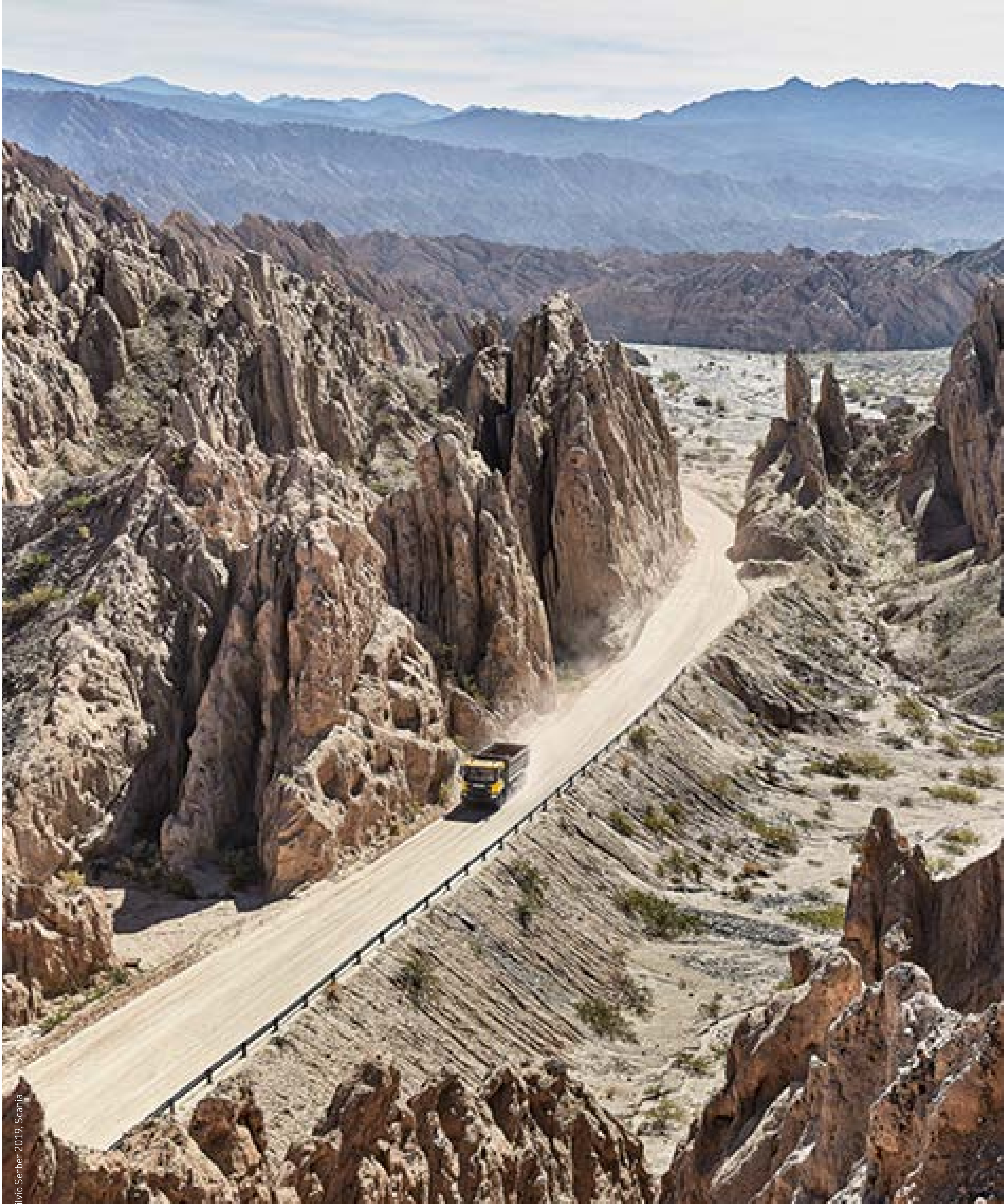
In all operations, SKF makes sure to reduce its environmental impact, while maintaining the performance of operations, competitiveness and safety. With the inauguration of the Service Centre for slewing bearings in France in 2020, SKF is confirming its engagement in this approach. The replacement and repair of these components significantly reduce procurement lead-times and energy consumption by up to 90% compared to the energy needed to produce a new bearing.

SKF has expanded its offering to the remanufacturing of bearing houses. Remanufacturing can provide shorter lead times, reduce cost and is effective for reducing CO_2. Depending on the energy used, remanufactured houses typically avoid CO_2 emissions equal to twice the weight of the house compared to producing a new housing. Since many of the houses SKF works with weigh more than four tonnes, this means a considerable effect.



Turning tidal energy into a reality

SKF is working with Scottish company Orbital Marine Power Ltd to use floating tidal turbine technology to reduce the cost of generating electricity. During 2020, this project has moved from the development phase using prototypes, to deployment and start of operations.



Silvio Serber 2019, Scania

Safer and more sustainable land transports

Developing the next generation Opticruise truck gearbox

In 2020, Scania introduced a new range of truck gearboxes that, among other benefits, reduce fuel consumption with lower noise. Having been involved at an early stage in the process, SKF provided a full range of bearing knowledge.

SKF's development team collaborated closely with the Scania research and development (R&D) team to progress a complete bearing solution that satisfies specific needs for this gearbox. SKF worked closely with Scania for over five years with customized solutions to support the design of the new gearbox, to make it smaller, more efficient and more cost-effective.

This long-term relationship has involved SKF's global footprint with six factories on three continents providing extensive engineering support and a full range of prototypes during Scania's development. The gearbox will use bearings from across SKF's extensive range, including needle roller bearings (NRB), tapered roller bearings (TRB), cylindrical roller bearings (CRB) and deep groove ball bearings (DGBB). SKF provides Scania with more than six million bearings per year in total.

As Scania is leading the development of gearboxes within Traton Group, the following gearbox will be rolled out across the entire Group. This contract has strengthened SKF's relationship with Scania, MAN, and other parts of the Traton Group.

7 AFFORDABLE AND CLEAN ENERGY

A leader on the world bearing market

The global bearing market has an estimated value of between SEK 370 and 390 billion. SKF has become a world market leader by providing first-class products and solutions for customers in 40 different industries across the globe.

SKF was founded in 1907 and rapidly grew to become a global company. As early as the 1920s, the company was well-established on all five continents.

SKF operates in a global industry. The trend is towards fewer, larger and more international manufacturers and distributors, meaning that global brands and products are ever more important. SKF is one of the most trusted and well-known global industrial brands, which is a strong advantage in the bearing industry.

To maintain competitiveness, SKF is focused on leveraging global and regional economies of scale. The strategic direction is a region-for-region approach.

The bearing market

The global bearing market is generally defined as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs. SKF estimates that the global bearing market declined by –10 to –13% in 2020.

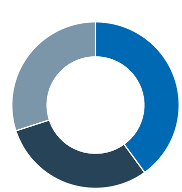
The decline was mainly seen in the automotive market, but also in industrial market. Strong growth was however mainly seen in the renewable sector.

Global competition

Like most global industries, SKF's industry is exposed to fierce competition. SKF is a leader on the world bearing market, together with other major international companies including the Schaeffler group, Timken, NSK, NTN, and JTEKT.

SKF estimates that the top six world bearing manufacturers represent about 60% of the global rolling bearing market. The group of Chinese bearing companies, including smaller and larger ones, represents around 20%, with the main part of their sales in Asia. The remaining 20% includes many smaller regional and niche bearing competitors.

Market value by customer industries[1)]



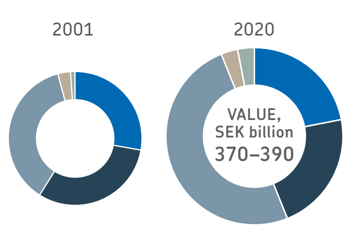
Industrial original equipment bearing markets ~40%
Including manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles.

Automotive OEM ~30%

Distribution business ~30%
Industrial distribution and vehicle independent aftermarket.

1) Total world demand of bearings 2020.

Market value by region and growth

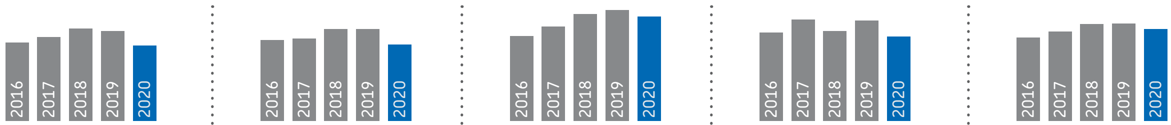


Asia's share of the world bearing market has continued to grow rapidly and now accounts for around 50%, compared with less than 40% almost 20 years ago.

Region	Approximate share of the total world bearing market	Market value, SEK billion	2020 market development
Europe	22% of which Germany accounts for ~33%	75–85	Large decline
North America	22%	75–85	Large decline
Asia and Pacific	50% where China has a share of ~30% of the total world market	190–210	Decline
Latin America	3% of which Brazil accounts for ~50%	7–11	Large decline
Middle East and Africa	3%	7–11	Decline

SKF's global presence 2020

Net sales



	EUROPE	NORTH AMERICA	ASIA AND PACIFIC	LATIN AMERICA	MIDDLE EAST AND AFRICA
Net sales	**2020** 28,157 MSEK Change –16.1%	**2020** 17,148 MSEK Change –16.9%	**2020** 23,486 MSEK Change –5.5%	**2020** 3,922 MSEK Change –15.9%	**2020** 2,139 MSEK Change –5.5%

Employees

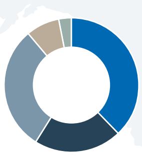
	EUROPE	NORTH AMERICA	ASIA AND PACIFIC	LATIN AMERICA	MIDDLE EAST AND AFRICA
Average	19,395	5,183	10,502	2,947	358
Share	51% of all employees	14% of all employees	27% of all employees	8% of all employees	1% of all employees
Men	79%	74%	77%	89%	76%
Women	21%	26%	23%	11%	24%

Manufacturing units

EUROPE	NORTH AMERICA	ASIA AND PACIFIC	LATIN AMERICA	MIDDLE EAST AND AFRICA
49	17	22	3	0

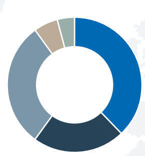
Net sales by geographic area

TOTAL



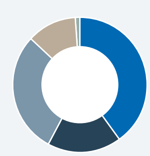
- Europe, 38%
- North America, 21%
- Asia and Pacific, 30%
- Latin America, 8%
- Middle East and Africa, 3%

INDUSTRIAL



- Europe, 38%
- North America, 22%
- Asia and Pacific, 30%
- Latin America, 6%
- Middle East and Africa, 4%

AUTOMOTIVE



- Europe, 40%
- North America, 18%
- Asia and Pacific, 29%
- Latin America, 12%
- Middle East and Africa, 1%

Enabling Europe's first approved battery train

Almost a quarter of the railway lines in Austria (around 1,300 km) are not yet electrified. Together with Siemens Mobility, ÖBB (Austria's largest mobility services provider) has developed a battery-powered train that can be used on non-electrified routes as an environmentally friendly alternative to diesel vehicles. SKF is contributing with bearings to the traction motor, gearbox and the wheelset.

The CO_2-neutral train covers the non-electrified sections in Austria with almost no noise or emissions. It is undergoing extensive testing in regular passenger operations with the potential to massively reduce the greenhouse gas emissions that still exist in Austrian rail traffic.

EUROPE

Population **749 million** | Urbanization **74%** | GDP growth **–7.4%** | GDP/capita **34,009 USD**[1)]

MARKET CHARACTERISTICS

Western Europe dominates the region by size and is still growing over time. Eastern Europe has showed the highest growth in the last years.

LARGEST MARKETS

Germany, France, Italy

SKF'S POSITION

Leading position with strong presence in all industry segments, especially in industrial distribution.

LARGEST CUSTOMER INDUSTRIES

Light vehicles, industrial distribution, vehicle aftermarket, industrial drives

IMPORTANT ACTIVITIES 2020

- Focus on performance-based contracts with key customers. The expansion of the Rotating Equipment Performance (REP) contract at Nordic Paper is one example.
- Launch of SKF's Oil as a Service concept with first customer contracts signed.
- Expanded distribution footprint in geographical and industry specific gaps to increase service to end customers.
- Expansion of the business around city tramways, for example, with Gothenburg city tramway, to support noise and wear reduction through smart lubrication and monitoring solutions.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2020

Copyright General Motors and Ventec Life Systems

Providing bearings and seals to save lives

SKF supported General Motors (GM) and Ventec Life Systems to produce critical ventilators needed in hospitals during the COVID-19 pandemic. SKF factories in the USA, France and Italy came together to ramp-up production in record time, despite the destruction from an earthquake in the U.S. facility and the other two facilities being shut down due to lockdowns.

Within less than two weeks, SKF supplied tens of thousands of products consisting of two types of bearings and one type of seal to GM. The speed of delivery for this lifesaving initiative was enabled thanks to SKF's global footprint and being a bearing manufacturer that also has seal manufacturing capabilities. GM was the first of four customers to whom SKF provided bearings and seals to build ventilators.

NORTH AMERICA

Population **369 million** | Urbanization **83%** | GDP growth **–3.7%** | GDP/capita **63,051 USD**[1)]

MARKET CHARACTERISTICS

The North American region is highly dependent on the U.S. market, which is the second largest bearing market in the world. The region relies on key industries, e.g. light vehicles, off-highway and industrial distribution.

LARGEST MARKET

USA

SKF'S POSITION

SKF has a strong position in most industry segments, e.g. industrial distribution, vehicle aftermarket, industrial drives, aerospace, renewable energy, and off-highway.

LARGEST CUSTOMER INDUSTRIES

Light vehicles, industrial distribution, vehicle aftermarket, off-highway.

IMPORTANT ACTIVITIES 2020

- REP expansions in metals, mining, cement and paper industries continue to grow performance-based customer partnerships.
- SKF North America is a market leader in electric vehicles, most recently earning a 100,000-unit order for delivery trucks and a design for a low-friction hub unit from major U.S. auto makers.
- SKF and PEER honored as Supplier of the Year, recognized by General Motors, American Axle & Manufacturing, John Deere and AGCO.
- SEK 550 million invested in factory expansions in South Carolina, USA, and Mexico to promote efficiency and growth in domestic markets.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2020

Improved plant efficiency with REP

Renowned Indian steel company, Steel Authority of India Limited (SAIL), experienced a low plant utilization rate. Therefore, SAIL wanted a reliability partner who could help them improve their utilization levels.

In the first "Pay per Ton" performance-based contract in India, SKF has created an integrated, performance-based solution to ensure an increase in plant utilization by 40% approximately. The five-year contract covers all bearings, seals, consumables, and spare parts to the customer roll shop, responsibility for various machines and operations in the roll shop, assembly and dismantling mill stand, as well as maintenance of mechanical, electrical equipment at the roll shop.

ASIA AND PACIFIC

Population **4,425 million** | Urbanization **51%** | GDP growth **–2.2%** | GDP/capita **6,848 USD**[1)]

MARKET CHARACTERISTICS

Asia is a high growth market, mainly driven by the development in China and India. Asia is the single most important regional market for electrical (China) and two-wheelers (India, Japan and Indonesia) segments, as well as for DGBB demand. Asia accounts for the highest global bearing demand of many other global industries such as light vehicles, trucks, railway, lift and escalators.

LARGEST MARKETS

China, Japan, India

SKF'S POSITION

A leading position with a strong presence in most industry segments, especially in industrial distribution, renewable energy, railway, heavy industries, trucks and two-wheelers. In India, SKF's six factories makes the company well-positioned to meet growing local demand. China and India are the two largest markets for SKF in Asia.

LARGEST CUSTOMER INDUSTRIES

Light vehicles, industrial distribution, industrial drives, electrical.

IMPORTANT ACTIVITIES 2020

- SKF China delivered first RecondOil performance-based solution in the copper industry for rolling oil application.
- With focus on safety and environmental legislation, SKF has become a critical partner in China's commercial vehicle industry.
- Thailand's leading cement producer extended SKF's integrated performance solutions to all critical machines in their plant, this time including SKF's AI capability.
- REP contracts continued to expand in Asia in industries such as steel, paper and marine.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2020

Maintenance of more than 35,000 industrial assets

As a strategic service provider to the hydrocarbon transportation company, CENIT, in Colombia, SKF is strengthening its position in the Oil & Gas segment. This is SKF's largest global REP contract, providing support with maintenance of more than 35,000 industrial assets, including products, spare parts and services.

The contract aims to improve the availability and efficiency of CENIT's operations. It also includes planning, scheduling and execution of preventive, predictive and corrective maintenance, as well as the implementation of improvements in all processes. A machine learning pilot is also being introduced through SKF AI.

LATIN AMERICA

Population **657 million** | Urbanization **81%** | GDP growth **–8.1%** | GDP/capita **8,869 USD**[1)]

MARKET CHARACTERISTICS

Growth rates differ strongly between the countries. Brazil is the major market and makes up more than 50% of regional demand. The dependency on the industrial and automotive aftermarket is large since there are relatively few large, global OEMs present in the region.

LARGEST MARKETS

Brazil, Argentina

SKF'S POSITION

A leading position in the larger industry segments, especially in industrial distribution, renewable energy, heavy industries, off-highway, light vehicles, vehicle aftermarket and trucks.

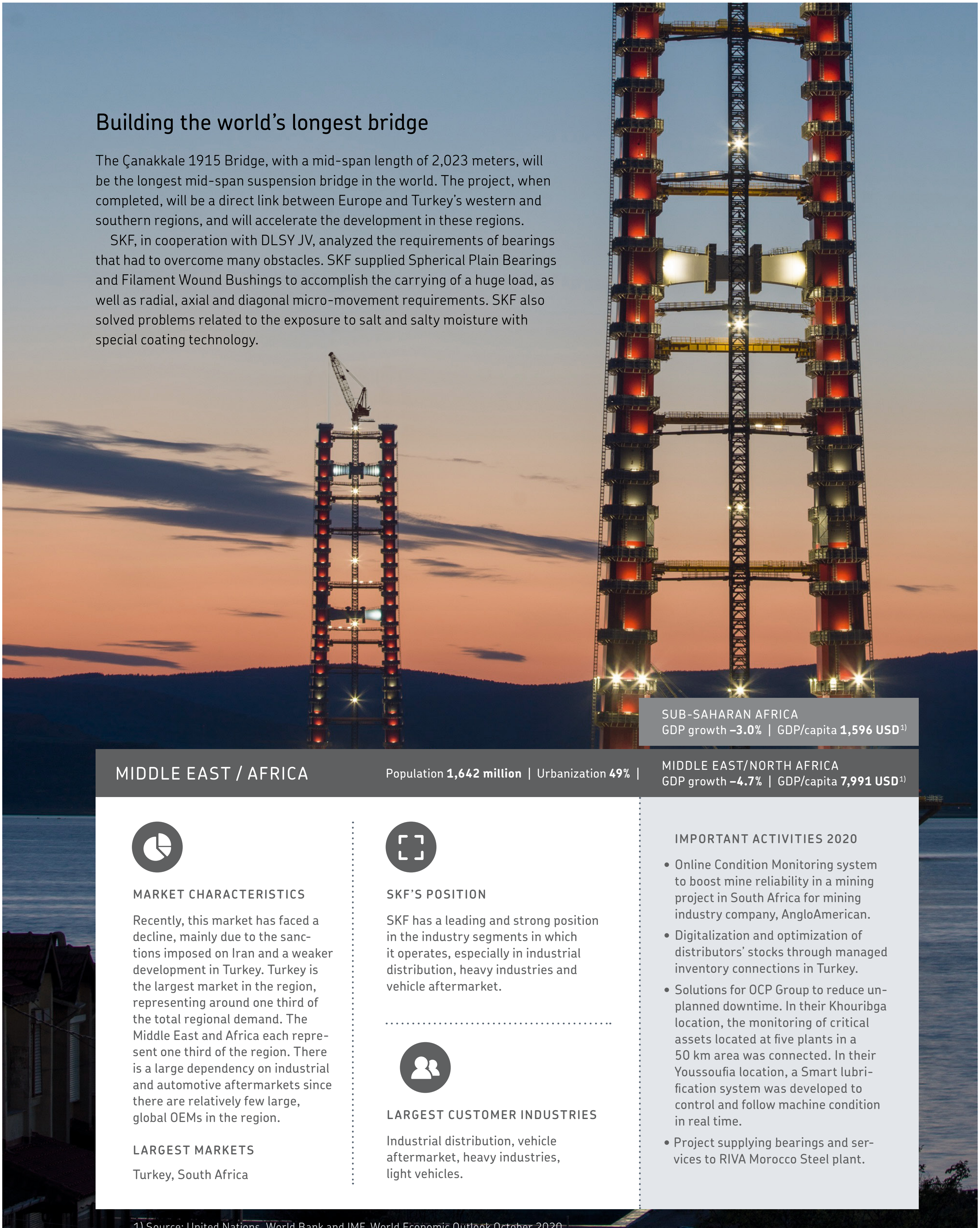
LARGEST CUSTOMER INDUSTRIES

Light vehicles, industrial distribution, vehicle aftermarket, heavy industries.

IMPORTANT ACTIVITIES 2020

- Increase of REP business with 14% compared to 2019, e.g. through the implementation of a new concept in predictive maintenance using QuickCollect sensor.
- Successful implementation of RecondOil's DST system in the Cajamar factory, treating honing oil as part of the carbon neutral manufacturing by 2030 target.
- Implementation of around 60 SKF Centers in Brazil, where accredited car and truck garages get direct contact with SKF on a monthly subscription basis.
- New footprint factory in Tortuguitas, Argentina, specialized in agriculture business.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2020



Building the world's longest bridge

The Çanakkale 1915 Bridge, with a mid-span length of 2,023 meters, will be the longest mid-span suspension bridge in the world. The project, when completed, will be a direct link between Europe and Turkey's western and southern regions, and will accelerate the development in these regions.

SKF, in cooperation with DLSY JV, analyzed the requirements of bearings that had to overcome many obstacles. SKF supplied Spherical Plain Bearings and Filament Wound Bushings to accomplish the carrying of a huge load, as well as radial, axial and diagonal micro-movement requirements. SKF also solved problems related to the exposure to salt and salty moisture with special coating technology.

MIDDLE EAST / AFRICA

Population **1,642 million** | Urbanization **49%** |

SUB-SAHARAN AFRICA
GDP growth **–3.0%** | GDP/capita **1,596 USD**[1)]

MIDDLE EAST/NORTH AFRICA
GDP growth **–4.7%** | GDP/capita **7,991 USD**[1)]

MARKET CHARACTERISTICS

Recently, this market has faced a decline, mainly due to the sanctions imposed on Iran and a weaker development in Turkey. Turkey is the largest market in the region, representing around one third of the total regional demand. The Middle East and Africa each represent one third of the region. There is a large dependency on industrial and automotive aftermarkets since there are relatively few large, global OEMs in the region.

LARGEST MARKETS

Turkey, South Africa

SKF'S POSITION

SKF has a leading and strong position in the industry segments in which it operates, especially in industrial distribution, heavy industries and vehicle aftermarket.

LARGEST CUSTOMER INDUSTRIES

Industrial distribution, vehicle aftermarket, heavy industries, light vehicles.

IMPORTANT ACTIVITIES 2020

- Online Condition Monitoring system to boost mine reliability in a mining project in South Africa for mining industry company, AngloAmerican.
- Digitalization and optimization of distributors' stocks through managed inventory connections in Turkey.
- Solutions for OCP Group to reduce unplanned downtime. In their Khouribga location, the monitoring of critical assets located at five plants in a 50 km area was connected. In their Youssoufia location, a Smart lubrification system was developed to control and follow machine condition in real time.
- Project supplying bearings and services to RIVA Morocco Steel plant.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2020

Marine industry solution for cleaner oceans

Enabling a more efficient ballast water treatment

Vessels, such as cargo ships, routinely take on ballast water to maintain their balance when operating without a full load. Ballast water is typically taken on board in one region, when a ship is empty, and discharged elsewhere when the ship takes on a new cargo.

To prevent invasive species, such as microbes, spreading from one region to another, the discharged water must comply to the International Maritime Organization (IMO) and US Coast Guard (USCG) standards. SKF BlueSonic BWMS (ballast water management system) helps ship owners and operators meet these strict environmental regulations.

Ultraviolet (UV) lamps, use of chemicals or electrolytic treatment, which can be explosive, are common approaches to treat the ballast water. For UV lamps to operate efficiently, a biofilm that builds up on the surface of the lamps must be removed. Most UV systems do this with chemicals, which cause pollution.

SKF BlueSonic BWMS works more efficiently than competing systems, using ultrasound to clean the lamps continuously. With disinfection and lamp-cleaning taking place simultaneously, the system can operate constantly. This chemical-free approach also brings time and cost savings on maintenance, chemicals, storage and training.

SKF BlueSonic BWMS became commercially available in 2020 following extensive land-based, shipboard and environmental testing. The system has received full type approval to meet the IMO G8 regulations and it also complies with USCG type standards. After being made available to customers, it will be installed in a fleet of commercial cargo vessels operated by the German ship manager F&L Schifffahrt.

Risk management

The SKF Group operates in many different industries and geographical areas. A general economic downturn on a global level, for exampel caused by a pandemic, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services. Terrorism and other hostilities, natural disasters and disturbances in worldwide financial markets, could also have a negative effect on the demand for the Group's products and services. There are also regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies that could limit the SKF Group's operations.

SKF applies an integrated approach to risk management and has implemented an enterprise risk management (ERM) process that covers all parts of the Group. During 2020, the evaluation of the risk impact has been changed from a strictly financial evaluation to include impact on strategy, long term financial performance, as well as brand and reputation. The enterprise risk and opportunity management process is illustrated below. The risks highlighted below and on next page are the main risks identified during the 2020 Group ERM process. The main areas of opportunity are described on pages 20–21.

Sustainability is integrated in SKF's business and in the risk management framework. Operational environmental, health, safety and human rights risks are managed via SKF's group-wide management procedures covering all significant sites. The system for environment, health and safety (EHS) is certified in accordance with ISO 14001 (environment) and OHSAS 18001 (health & safety). The latter will soon be replaced with ISO 45001. SKF's ISO 5001 certification (energy management) covers factories making up 90% of SKF's energy use. SKF's Code of Conduct reflects relevant aspects from the SA8000 standard and the UN Guiding Principles on Business and Human Rights. SKF has established a product material compliance approach to help SKF's business to comply with directives and legislation such as REACH, RoHS, WEEE and DoddFrank regarding conflict minerals.

For information about financial risks including currency risks, interest risks, liquidity risks and credit risks, see Note 26 on pages 94–97.

For Information about ongoing compliance related investigations, see Note 19 on pages 86–87.

Risk	Trend	Mitigation
Information Security Increasing cyber security threats. Increasing requirements from customers and governments to adhere to information security standards such as ISO, NIST and ITAR.	↗	Continuously measure and evaluate effectiveness of protection mechanisms and invest in new solutions to meet the changes in threat landscape. Strengthen the information security awareness and continue to implement controls according to SKF's Information Security Management System (ISMS).
Digitalization Increasing demands for a fully connected value chain and excellent digital customer experience placing high demands on the speed of the digital transformation.	↗	Strategic initiatives in place to ramp-up digitalization including strengthening capabilities, investing in digital talents, modernizing, harmonizing and simplifying the IT landscape.
New product technologies Introduction of disruptive and quickly changing new technologies.	↗	Acquisitions and partnerships to help SKF make step changes in new technology areas. Establish a process to systematically look for new opportunities.
Aftermarket disruption New online channels disrupting existing channels to the aftermarket.	↗	Maintain existing channels to market, and at the same time work strategically with new digital channels. Give the SKF channel partners a competitive advantage through online tools. Ensure leadership across full SKF value chain and focus on application specific offers which bring differentiation/uniqueness making it harder for digital channels to take market shares from SKF.

SKF Group ERM process

Risk and opportunity assessments → **Risk and opportunity consolidation** → **Group Management review** →

Assessments are made by the business areas and Group support functions.

Group Risk Manager receive and consolidate the assessments.

Group Management reviews the consolidated assessment.

The result is shared yearly with Group Management and the Audit Committee. There is also a half-year internal assessment to monitor changes and make sure mitigation actions are in place and delivering expected result which is presented to Group Management.

Audit Committee	The consolidated risk assessment is shared with the Audit Committee.
SKF strategy development & execution	The risk assessments are used as input to strategy development and execution on Group level.
Risk owners	Risk owners manage risk mitigation and follow-up.
Annual Report	A high level overview is shared externally in the Annual Report.

Risk	Trend	Mitigation
Workforce Changing demographic in combination with "the war of talent" and the need of a digital competence shift leading to difficulties to attract and retain talented employees with the right skills.	→	Future Workforce is defined as a SKF strategic focus area. Takes a holistic approach in strengthening SKF as the employer of choice. Employee engagement, leadership, competence and way of working are all key building blocks of the strategic focus area.
Business interruption Demand chain interruption.	↗	Implement a sourcing strategy with reduced single sourcing and regionalized supplier base. Implement a systematic process to manage supply chain disruption situations. Modernize, harmonize and simplify the IT landscape to reduce risk of system failure.
Global/regional crisis Sanctions, tariffs and other trade barriers. Climate change, pandemics, war and other major events.	↗	Regionalize SKFs manufacturing footprint and supplier base. Prepare for a situation where US technology cannot be used in China. Focus on business that will benefit on the increased climate focus.
Compliance The compliance risks include illegal cooperation and information exchange between competitors and anti-trust risks in the distribution business.	→	Policies & instructions combined with management commitment and a strong tone from the top. Employee training, audits and the SKF Ethics & Compliance Reporting Line. This is valid for all compliance areas.

The SKF share

SKF's A and B shares are listed on the NASDAQ Stockholm, Large Cap stock exchange and are included in several indexes.

In 2020, the share price increased by 10.8% for the SKF A share and 9.8% for the SKF B share. The total number of SKF shares traded on Nasdaq Stockholm was 465,892,766. SKF's B shares are also traded on Bats CXE, Bats BXE and Turquoise. The total number of shares traded on these three marketplaces combined in 2020 was 291,476,554. SKF's American Depositary Receipts (ADRs) are traded on the OTC market.

Share conversion
Owners of A shares have an option to convert these to B shares. In 2020, 1,089,473 shares were converted. as of 31 December 2020, A shares were 6.9% (7.1) of the total number of shares.

Dividend and total return
The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.50 per share be paid for 2020, which is in line with SKF's dividend policy. The total return from investing in the SKF A share over the past three years was 29.2% and for the SKF B share 28.5%.

Ownership structure
SKF had 58,167 shareholders on 31 December 2020. Around 52.4% of the share capital was owned by foreign investors, around 40.7% by Swedish companies, institutions and mutual funds and around 6.9% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, which means that the actual shareholders are not officially registered.

FAM AB, which is wholly owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing more than 10% of the voting rights in SKF.

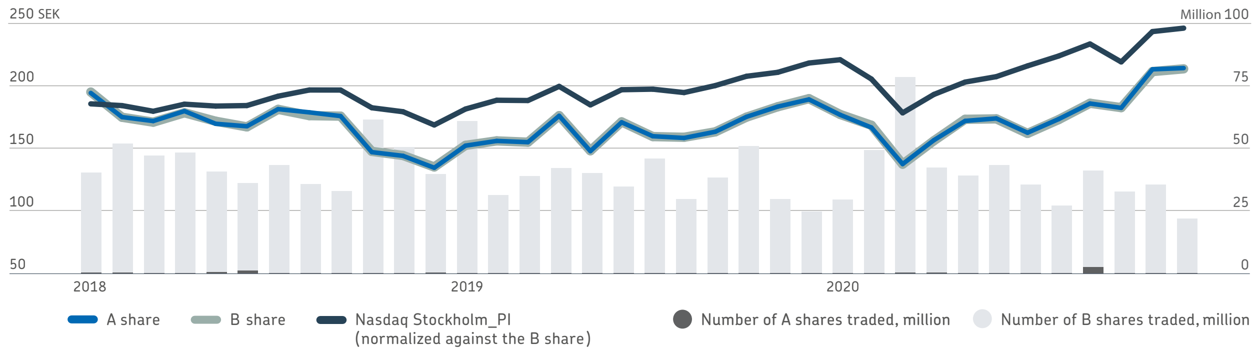
Information to shareholders
Financial reports and further information about the share can be found at skf.com/investors. A list of analysts following SKF and the opportunity to subscribe to information from SKF is also available on the website.

Sustainability indexes
Based on the 2020 submission, SKF has been rated A– within the Carbon Disclosure Project (CDP) rating system which signifies leadership and application of best practice in relation to climate change issues.

SKF is also evaluated as Platinum (in the top 1% of companies in its sector) via the EcoVadis supplier sustainability evaluation platform which is used by many of the Groups global customers to understand supplier sustainability performance.

Additional information
There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge, no agreements exist between shareholders limiting the right to transfer SKF shares (e.g. by pre-emption or first refusal clauses). No restrictions exist limiting the number of votes that each shareholder may cast at a shareholders' meeting. There are no existing agreements between SKF and any Board member or employee, allowing them to receive compensation in the event of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid for the shares in AB SKF.

Share development 2018–2020

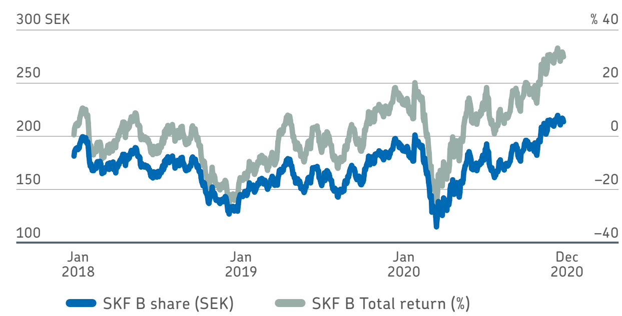


Data per share

SEK per share unless otherwise stated	2020	2019
Earnings per share	9.44	12.20
Dividend per A and B share	6.50[1)]	3.00
Total dividends, MSEK	2,960[1)]	1,366
Purchase price of B shares at year-end on NASDAQ Stockholm	213.40	189.40
Equity per share	75	78
Yield (B), %	3.0[1)]	1.6
P/E ratio, B (share price/earnings per share)	22.6	15.5
Cash flow from operations, per share	18.15	20.67
Cash flow, after investments before financing, per share	11.55	10.88

1) According to the Board's proposal for the year 2020.

Total return 2018–2020

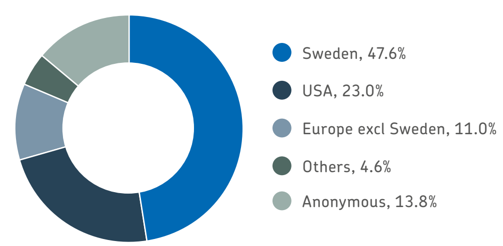


The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	62,936,151	13.8	29.5
AFA Försäkring	3,741,405	0.8	4.2
Harris Associates	22,675,860	5.0	3.0
Livförsäkringsbolaget Skandia	4,460,806	1.0	2.7
Swedbank Robur Fonder	17,621,074	3.9	2.4
BlackRock	13,291,195	2.9	1.8
SEB-Stiftelsen	1,650,000	0.4	1.7
Handelsbanken Fonder	11,822,349	2.6	1.6
Vanguard	10,880,405	2.4	1.6
JP Morgan AM	10,135,908	2.2	1.4

Source: Monitor, Modular Finance as of 31 December 2020.

Geographic ownership 2020



Unique solution for the offshore industry

Big bearings for tough conditions

Equipment used in the offshore industry is often very expensive. When it costs hundreds of millions of dollars, it needs to last for many decades. To achieve this, a common approach is to replace major bearings within the equipment, allowing it to handle more rigorous conditions such as higher loads or faster speeds. Against this backdrop, in 2020, SKF helped an offshore equipment manufacturer with a unique set of bearings.

The manufacturer builds handling and pipe-laying equipment for offshore vessels. In a recent upgrade, it needed to ensure that the bearings on two cable drums could withstand the tough conditions of unspooling pipe into the sea from a pipe-laying vessel.

Conditions on this type of vessel are hugely challenging. The bearings are under constant loading pressures, both radially from the load itself and axially from the continuous motion of the ship on the sea. The challenge for the bearings had nothing to do with speed, as the drums turn at around one-third of a revolution per minute. Instead, the difficulty was to design bearings that could take enormous loads while moving at such slow rotation speeds. The key is to achieve a reliable and robust solution – failure in these conditions would be catastrophic and potentially dangerous for the workers on the ship.

SKF´s solution was six separate bearings in three different types, totalling 28 tonnes: spherical roller bearings (SRBs); spherical roller thrust bearings (SRTBs); and self-aligning CARB bearings. The bearings were used on two different cable drums; one large and one small.

8 DECENT WORK AND ECONOMIC GROWTH


SKF

Nomination of Board members and notice of Annual General Meeting

In addition to specially appointed members and deputies, the company's Board of Directors shall according to the Articles of Association, comprise a minimum of five and a maximum of twelve members, with a maximum of five deputies. The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

Notice to attend an Annual General Meeting and notice to attend an Extra General Meeting where an issue relating to a change in the Articles of Association will be dealt with, shall be issued no earlier than six weeks and no later than four weeks prior to the General Meeting. Notice to attend an Extra General Meeting for other matters, shall be issued no earlier than six weeks and no later than three weeks prior to the General Meeting.

Financial position, remuneration to Group Management and dividend policy

Financial performance management model

SKF's financial performance management model is a simplified, economic value-added model, called Total Value Added (TVA), promoting a greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital in the country where business is conducted. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 6% above the risk-free interest rate for the equity part and on actual borrowing cost. The TVA performance for the Group correlates well with the share price trend over a longer period. This model is a key component in the variable salary schemes. The principles of remuneration for Group Management members were adopted on the annual general meeting in 2020 and are summarized in the Annual Report 2020, Consolidated Financial Statements, Note 23.

Capital structure

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio, excluding pension liabilities, below 40%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December 2020, the gearing was 48.0% (47.1), the equity/assets ratio 39.4% (39.7) and the net debt/equity ratio, excluding pension liabilities 9.3% (18.3).

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December 2020, the average maturity of SKF's loans was four years. SKF has three notes issued on the European bond market. EUR 296 million per 2022, EUR 300 million per 2025, and one with an outstanding amount of EUR 300 million, due 2029. In addition to these notes, SKF also has two notes issued on the Swedish bond market, due 2024 and in a total of SEK 3,000 million.

According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company in combination with a rating downgrade to a non-investment grade as a consequence of this. Change of control meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF's shares carrying more than 50% of the voting rights.

Since SKF has relatively standardized loan documentation similar conditions also apply to other loan agreements. In addition to the bonds mentioned above, SKF also has two loans, one of EUR 200 million due in 2021 and one of USD 100 million due in 2027. In addition to its own liquidity, AB SKF has two unutilized committed credit facilities, one of EUR 500 million with a due date in 2025 and one of EUR 250 million with a due date in 2022.

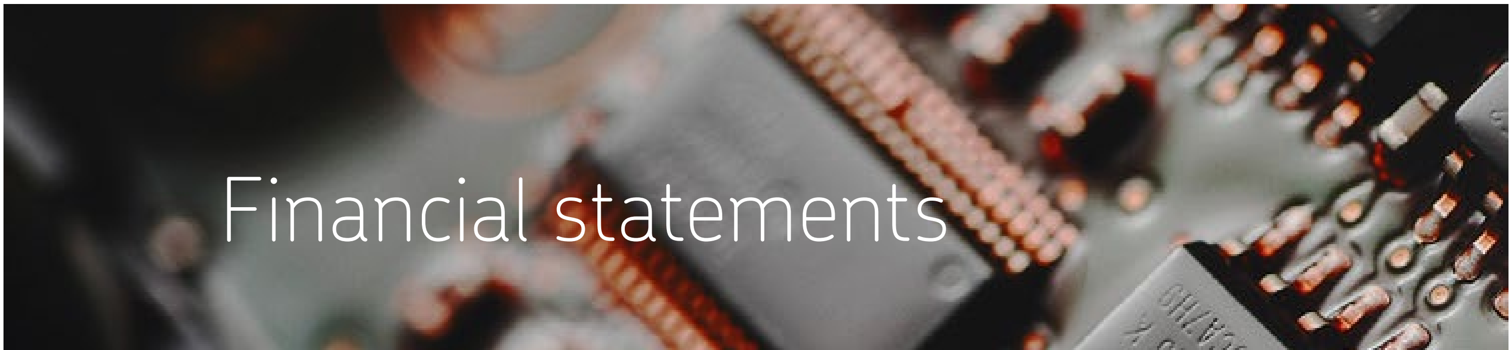
Credit rating

On 31 December 2020, the Group had a Baa1 rating from Moody's Investors Service and a BBB+ rating from Fitch Ratings, both with a stable outlook. SKF intends to keep a strong credit rating, which is reflected in its capital structure targets.

Dividend

SKF's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow, while considering the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend pay-out ratio should amount to around one half of SKF's average net profit calculated over a business cycle which, since 4 November 2020, is reflected in SKF's long-term financial targets. If the financial position of the SKF Group exceeds the targets for the capital structure an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or a repurchase of the company's own shares. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Based on the operating performance, cash generation capacity and outlook, the Board has decided to propose to the Annual General Meeting a dividend of SEK 6.50 (3.00) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2021, see page 109, Proposed distribution of surplus.



Financial statements

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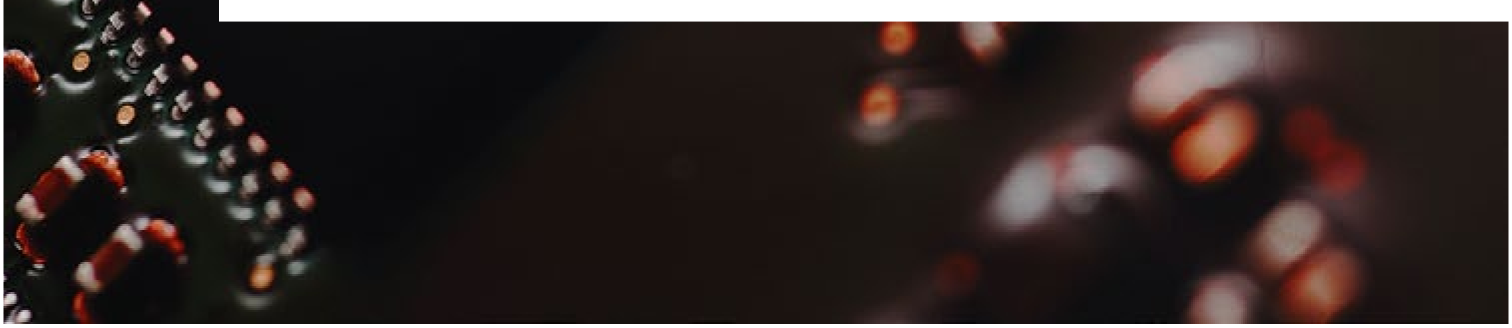
Amounts in MSEK unless otherwise stated. Amounts in parentheses refer to comparable figures for 2019.

The Administration Report is presented on pages 16–56, 98 and 109. It has been audited by SKF's external auditors. See the **Auditor's Report** on pages 137–140. According to the Swedish accounting act chapter 6, §11, SKF's statutory sustainability report is prepared as a separate report. The scope of this **Sustainability Report** is presented on page 110.



Consolidated income statements

MSEK	Note	January–December 2020	2019
Net sales	2	74,852	86,013
Cost of goods sold	5, 6	–57,863	–65,071
Gross profit		**16,989**	**20,942**
Selling expenses	6	–9,732	–11,414
Administrative expenses	6	–521	–405
Other operating income and expenses, net	7	333	272
Operating profit		**7,069**	**9,395**
Financial income and expenses, net	8	–769	–926
Profit before taxes		**6,300**	**8,469**
Income tax	9	–1,826	–2,677
Net profit		**4,474**	**5,792**
Net profit attributable to:			
Shareholders of AB SKF		4,298	5,557
Non-controlling interests		176	235
Basic earnings per share (SEK)	17	9.44	12.20
Diluted earnings per share (SEK)	17	9.43	12.19

Consolidated statements of comprehensive income

MSEK	Note	January–December 2020	2019
Net profit		**4,474**	**5,792**
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	18	–850	–2,469
Income tax	9	203	719
		–647	**–1,750**
Items that may be reclassified to the income statement			
Currency translation adjustments		–3,726	835
Assets at fair value through other comprehensive income	14	–39	–13
Income tax	9	8	54
		–3,757	**876**
Other comprehensive income, net of tax		**–4,404**	**–874**
Total comprehensive income		**70**	**4,918**
Total comprehensive income attributable to			
Shareholders of AB SKF		111	4,666
Non-controlling interests		–41	252

Comments on the consolidated income statements

General
The Group's income statement for 2020 included the result of a smaller divested business in Asia for the period 1 January–30 June and a smaller divested business in Sweden for the period 1 January –31 October. It also included the result of an acquired business within lubrication for the period 1 November–31 December.

Net sales
In 2020, net sales amounted to MSEK 74,852 (86,013) corresponding to a decrease of 13% compared to 2019. The change of the Swedish krona towards other currencies had a negative impact in 2020 of –3.0%. Structural changes accounted for 0%. Net sales in local currencies decreased with –10.0%, driven mainly by lower sales volumes in North America and Europe.

Sales development y-o-y, %	Q1	Q2	Q3	Q4	Full year
Organic	–8.6	–25.2	–5.1	–0.1	–10.0
Structure	0.1	0.0	0.0	0.0	0.0
Currency	2.9	–1.0	–6.5	–7.6	–3.0
Total	**–5.6**	**–26.2**	**–11.6**	**–7.7**	**–13.0**

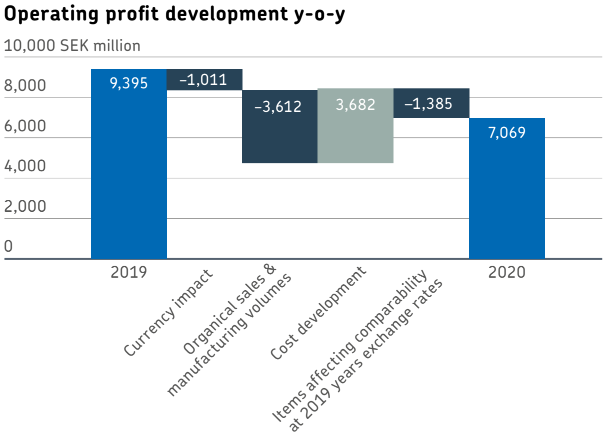
Operating profit
Operating profit for the year was MSEK 7,069 (9,395). Operating profit was positively impacted by sales price, customer mix, and costs reductions. Operating profit was negatively impacted by sales and manufacturing volumes and currency effects. Operating profit included items affecting comparability of MSEK –2,124 (–741) whereof MSEK –1,683 (–571) related to the restructuring and cost reduction program and MSEK –442 net (–170) related to settlements and impairments, partially offset by a postive revaluation of a VAT credit.

Financial income and expenses, net
The financial income and expenses, net for 2020 was MSEK –769 (–926). The financial net for 2019 was negatively impacted by costs related to repayment of a loan by MSEK –137. For more information about the changes year-over-year, see Note 8.

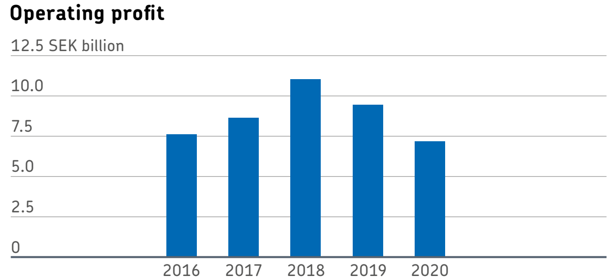
Taxes
The effective tax rate for the year was 29% (32). The tax rate in 2020 was negatively impacted by withholding tax on intra-group dividends of MSEK –128. Adjusted for this the tax rate would have been 27%. Last year's tax was negatively impacted by an adjustment related to the US tax reform as well as other tax effects related to prior years and withholding tax on dividend. Adjusted for this the tax rate was 28%. For more information see Note 9.

Values by quarter MSEK	Q1	Q2	Q3	Q4	Full year
Net sales	20,085	16,599	18,596	19,572	74,852
Operating profit	2,268	669	1,922	2,210	7,069
Profit before taxes	1,856	580	1,720	2,144	6,300
Basic earnings per share (SEK)	2.75	0.75	2.59	3.36	9.44

Operating profit development y-o-y



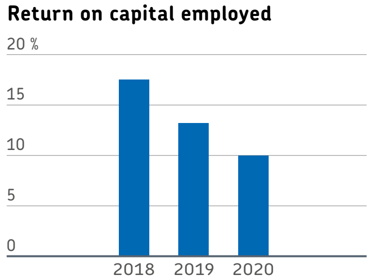
Operating profit



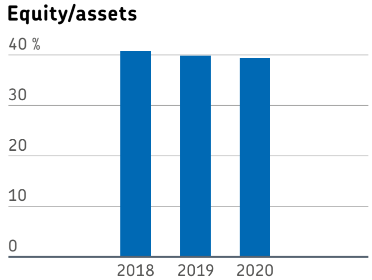
Consolidated balance sheets

MSEK	Note	As of 31 December 2020	2019
ASSETS			
Non-current assets			
Goodwill	10	10,117	11,251
Other intangible assets	10	6,125	7,146
Property, plant and equipment	11	18,161	18,420
Right-of-use assets	12	2,517	2,991
Long-term financial assets	14	1,306	1,281
Deferred tax assets	9	4,800	4,437
Other long-term assets		633	738
		43,659	**46,264**
Current assets			
Inventories	13	15,733	18,051
Trade receivables	14	12,286	14,006
Other short-term assets	15	4,242	4,546
Other short-term financial assets	14	587	4,811
Cash and cash equivalents	14	14,050	6,430
		46,898	**47,844**
Total assets		**90,557**	**94,108**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		34,309	35,512
Equity attributable to non-controlling interests	27	1,403	1,854
		35,712	**37,366**
Non-current liabilities			
Long-term financial liabilities	20	13,065	13,080
Long term lease liabilities	12,20	2,024	2,327
Provisions for post-employment benefits	18	15,170	15,366
Deferred tax provisions	9	792	960
Other long-term provisions	19	2,073	1,821
Other long-term liabilities		77	48
		33,201	**33,602**
Current liabilities			
Trade payables	20	8,459	8,266
Short-term provisions	19	1,409	653
Other short-term financial liabilities	20	3,260	3,610
Other short-term liabilities	21	8,516	10,611
		21,644	**23,140**
Total equity and liabilities		**90,557**	**94,108**

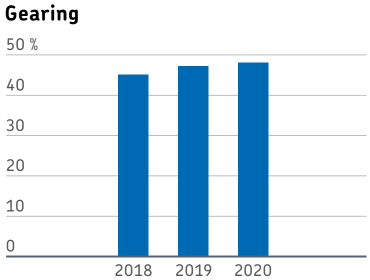
Return on capital employed



Equity/assets



Gearing



Comments on the consolidated balance sheets

Net working capital
On 31 December 2020, net working capital as percentage of sales was 26.1% (27.7) consisting of the following components:

- Inventories amounted to MSEK 15,733 (18,051) being 21.0% (21.0) of annual sales. Inventories decreased by MSEK –776 due to a weaker Swedish krona and decreased due to volumes by MSEK –1,542 net of divestments and acquisitions.
- Trade receivables amounted to MSEK 12,286 (14,006) which is 16.4% (16.3) of annual sales. The change in trade receivables was attributable to currencies with MSEK –614 and to volume decrease with MSEK –1,106, net of divestments and acquisitions. The average days of outstanding trade receivables were 64 days (64).
- Trade payables amounted to MSEK 8,459 (8,266) corresponding to 11.3% (9.6) of annual sales. The change attributable to currencies was MSEK –81 and the remaining MSEK 274 was due to volume increase, net of divestments and acquisitions.

Plant and property
On 31 December 2020, plant and property amounted to MSEK 18,161 (18,420). This was as a percentage of annual sales 24.3% (21.4). The change attributable to currencies was MSEK –1,472.

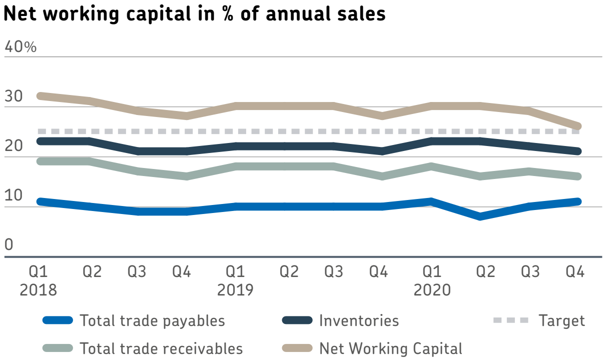
Net debt
Net debt amounted to MSEK 18,460 (22,176) at the end of 2020.
Post-employment benefit provisions totalled MSEK 15,136 (15,313) at year end, representing a net decrease of MSEK 177 (2,480), which was attributable to:

- Cash payments of MSEK –888 (–917)
- Actuarial gains and losses of MSEK 850 (2,469)
- Expenses of MSEK 757 (732)
- Acquired/divested businesses of MSEK 0 (16)
- The remainder was attributable to currency translation differences.

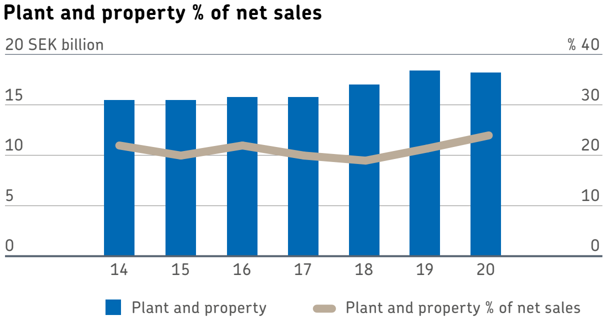
Loans totalled MSEK 15,240 (14,970), at the end of 2020, representing an increase of MSEK 270. The change was primarily attributable to a net increase between the repayment of a bond due and a new bond issued during the year of MSEK 848 and negative currency translation effects of MSEK –587

Equity
During the year, equity decreased from MSEK 37,366 to MSEK 35,712. Net profit amounted to MSEK 4,474 (5,792) and dividends paid were MSEK 1,778 (2,790). Currency translation had a negative effect of MSEK –3 726 (835). Remeasurements had a net of tax effect of MSEK –639 (–1,696). The capital structure target for the Group is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio, excluding pension liabilities, below 40%. This underpins the Group's financial flexibility and its ability to continue investing in its business. On 31 December 2020, the gearing was 48.0% (47.1), the equity/assets ratio 39.4% (39.7) and the net debt/equity ratio, excluding pension liabilities 9.3% (18.3).

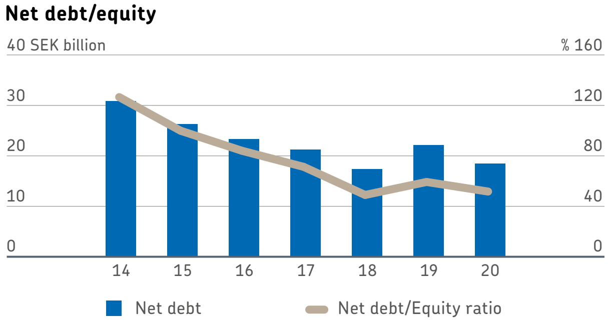
Net working capital in % of annual sales



Plant and property % of net sales



Net debt/equity



Consolidated statements of cash flow

MSEK	Note	January–December 2020	2019
Operating activities			
Operating profit		7,069	9,395
Adjustments for			
Depreciation, amortization and impairment	6	3,401	3,496
Net gain on sales of businesses and property, plant and equipment		–245	12
Other non-cash items		806	566
Income taxes paid		–2,240	–2,114
Contributions to and payments under post-employment defined benefit plans	18	–888	–917
Associated companies		–51	12
Changes in working capital			
Inventories		1 542	277
Trade receivables		1 102	177
Trade payables		396	326
Other operating assets and liabilities, net		–1 810	–1,163
Interest and other financial items		–817	–657
Net cash flow from operating activities		**8,265**	**9,410**
Investing activities			
Additions to intangible assets	10	–39	–240
Additions to property, plant and equipment	11	–3,332	–3,461
Sales of property, plant, equipment, and intangible assets	10, 11	354	48
Acquisitions of businesses, net of cash and cash equivalents	3	–4	–696
Divestments of businesses, net of cash and cash equivalents	4	20	–87
Investment in/sale of equity securities		–5	–21
Net cash flow used in investing activities		**–3,006**	**–4,457**
Net cash flow after investments before financing		**5,259**	**4,953**
Financing activities			
Proceeds from medium- and long-term loans		3,303	3,757
Repayments of medium- and long-term loans		–2,455	–5,303
Other financing items		—	–137
Payments of leases		–799	–834
Cash dividends to shareholders of AB SKF and non-controlling interests		–1,778	–2,790
Redemption of shares		—	–242
Investments in financial assets		–409	–8,680
Sales of financial assets		4,829	5,232
Net cash flow used in financing activities		**2,691**	**–8,997**
Net cash flow		**7,950**	**–4,044**
Cash and cash equivalents at 1 January		6,430	10,390
Cash effect excluding acquired/sold businesses		7,953	–4,051
Cash effect from acquired/sold businesses		–3	7
Translation effect		–330	84
Cash and cash equivalents on 31 December		**14,050**	**6,430**

Comments on the consolidated statements of cash flow

The consolidated statements of cash flow have been adjusted for exchange rate effects arising upon the translation of foreign subsidiaries' balance sheets to SEK, as these do not represent cash flows.

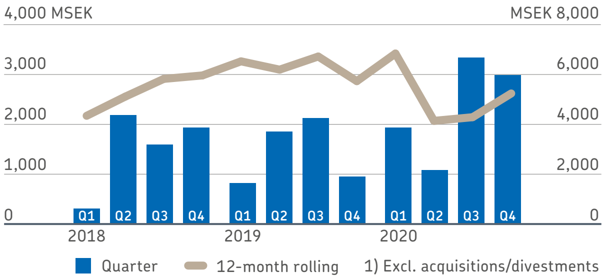
Cash and cash equivalents comprise of cash on hand, bank deposits, debt securities and other liquid investments that have a maturity of three months or less at the time of the investment.

Cash flow after investments before financing
Cash flow after investments before financing, which is the primary cash flow measure used in the Group, reached MSEK 5,259 (4,953) in 2020. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to MSEK 5,243 (5,736). Other non-cash items included expenses for which the cash flow has not yet occurred. The most significant items were related to unrealized exchange differences and expenses on the post-employment benefits.

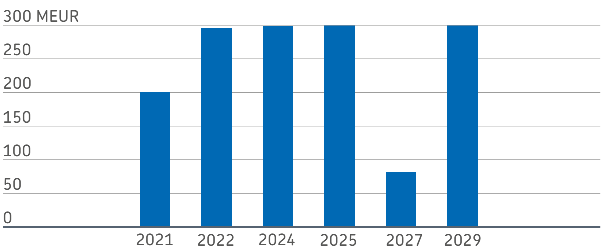
Interest and other financial items included interest paid of MSEK –431 (–694), interest received of MSEK 116 (153), and the remainder related primarily to realized derivatives on commercial flows between Group companies. During the year the Group acquired a smaller business within lubrication, which generated a net cash outflow of MSEK –4. The Group also divested smaller businesses in Asia and in Sweden which resulted in a cash inflow of MSEK +20.

Cash flow used in financing activities
The Group's debt structure improved in 2020, by net of repayment of a EUR bond due during the year and with the issuing of a new SEK bond with maturity 2024.

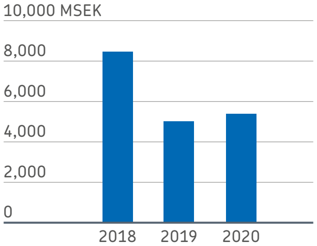
Cash flow after investments before financing[1)]



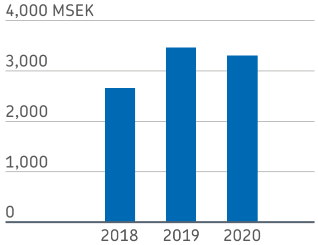
Debt structure



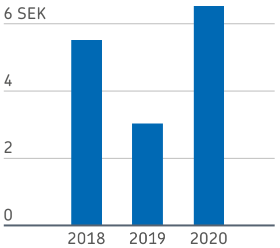
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2020, which is subject to approval at the Annual General Meeting in March 2021, includes an ordinary dividend of SEK 6.5 per share, see Note 16.

Cont. Comments on the consolidated statements of cash flow

Change in net debt

MSEK	2020 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2020 Opening balance
Loans[1]	15,240	848	—	9	–587	14,970
Post-employment benefits, net[2]	15,136	–888	—	921	–210	15,313
Lease liabilities	2,584	–799	—	602	–230	3,011
Other short-term financial assets[3]	–450	4,225	—	–21	34	–4,688
Cash and cash equivalents	–14,050	–7,953	3	—	330	–6,430
Net debt	**18,460**	**–4,567**	**3**	**1,511**	**–663**	**22,176**
Derivatives[4] included in Other financing items	—	–314	—	–133	—	447

MSEK	2019 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2019 Opening balance
Loans[1]	14,970	–1,546	5	–9	371	16,149
Post-employment benefits, net[2]	15,313	–917	16	3,088	293	12,833
Lease liabilities	3,011	–834	–1	520	96	3,230
Other short-term financial assets[3]	–4,688	–3,488	14	–22	—	–1,192
Cash and cash equivalents	–6,430	4,051	–7	—	–84	–10,390
Net debt	**22,176**	**–2,734**	**27**	**3,577**	**676**	**20,630**[5]
Derivatives[4] included in Other financing items	447	—	—	7	—	440

1) Excludes derivatives, see Note 20.
2) Other non-cash changes includes remeasurements as well as expenses on defined benefit plans, see Note 18.
3) Other short-term financial assets excludes derivatives, see Note 14. Cash change of MSEK 4,225 (–3,488) is explained by investment in financial assets of MSEK –396 (–8,661) and sale of financial assets of MSEK 4,621 (5,173).
4) Financing activities to hedge short and long term loans. Other financing items in cash flow includes cash flow from derivatives as stated in the table and interest premium for the repayment of loans.
5) Lease liabilities of MSEK 3,230 have been added to the opening balance of 2019 compared to the closing balance of 2018.

Consolidated statements of changes in equity

MSEK	Share capital	Share premium	FV OCI reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	Equity attributable to owners of AB SKF							
Opening balance 1 January 2019	**1,138**	**564**	**143**	**1,366**	**30,325**	**33,536**	**1,916**	**35,452**
Net profit	—	—	—	—	5,557	5,557	235	5,792
Hyperinflation adjustment[3]	—	—	—	—	133	133	–1	132
Components of other comprehensive income								
Currency translation adjustments	—	—	—	817	—	817	18	835
Change in FV OCI assets and cash flow hedges	—	—	–13	—	—	–13	—	–13
Remeasurements	—	—	—	—	–2,468	–2,468	–1	–2,469
Income taxes	—	—	—	54	719	773	—	773
Transactions with shareholders								
Non-controlling interest[1]	—	—	—	—	–30	–30	–254	–284
Cost for Performance Share Programmes, net[2]	—	—	—	—	–62	–62	—	–62
Dividends	—	—	—	—	–2,731	–2,731	–59	–2,790
Closing balance 31 December 2019	**1,138**	**564**	**130**	**2,237**	**31,443**	**35,512**	**1,854**	**37,366**
Net profit	—	—	—	—	4,299	4,299	175	4,474
Hyperinflation adjustment[3]	—	—	—	—	99	99	—	99
Components of other comprehensive income								
Currency translation adjustments	—	—	—	–3,513	—	–3,513	–213	–3,726
Change in FV OCI assets and cash flow hedges	—	—	–39	—	—	–39	—	–39
Remeasurements	—	—	—	—	–847	–847	–3	–850
Income taxes	—	—	—	8	202	210	1	211
Transactions with shareholders								
Non-controlling interest[1]	—	—	—	—	50	50	—	50
Cost for Performance Share Programmes, net[2]	—	—	—	—	–95	–95	—	–95
Dividends	—	—	—	—	–1,366	–1,366	–412	–1,778
Closing balance 31 December 2020	**1,138**	**564**	**91**	**–1,268**	**33,785**	**34,310**	**1,402**	**35,712**

1) See Note 27 for details.
2) See Note 23 for details.
3) See Note 1 for details.

Fair value other comprehensive income reserve
The fair value other comprehensive income (FV OCI) reserve accumulates changes in the fair value of assets recognized directly in other comprehensive income, net of tax, with the exception of any dividends and any impairment losses. See Note 14 for details on FV OCI assets.

Hedging reserve
The hedging reserve accumulates activity related to cash flow hedges, net of tax, being both changes in fair value as well as amounts released to the income statement. See Note 26 for details on hedging activity.

Translation reserve
Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated in the translation reserve. Upon the sale of a foreign operation, the accumulated translation amounts are recycled to the income statement and included in the gain or loss on the disposal. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. See Note 26 for details.

Notes to the consolidated financial statements

1 Accounting policies

Basis of presentation
The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Furthermore, the Group is in compliance with the Swedish Financial Reporting Board's RFR 1, Supplementary Accounting Rules for Groups, as well as their interpretations (UFR).

The Annual Report of the Parent Company, AB SKF, has been signed by the Board of Directors on 2 March 2021. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheets are subject to adoption at the Annual General Meeting on 25 March 2021.

The consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below or in respective note.

Basis of consolidation
The consolidated financial statements include the Parent Company, AB SKF and those companies in which it directly or indirectly exercises control, and hereafter is referred to as "the Group", "SKF" or "the SKF Group". Control exists when the Group has the right to direct the relevant activities of a company, is exposed to variable returns and can use those rights to affect those returns. For the vast majority of the Group's subsidiaries, control exists via 100% ownership. There is also a very limited number of subsidiaries controlled by SKF where ownership is between 50–100%. The largest of such companies is SKF India Ltd. that is a publicly listed company in India of which the Group has control via ownership of 52,6% of the voting rights. For the subsidiaries where less than 100% is owned, the non-controlling interests are shown separately within equity.

Translation of foreign financial statements and items denominated in foreign currency
AB SKF's functional currency is the Swedish krona (SEK), which is also the Group's reporting currency.

All foreign subsidiaries report in their functional currency, being the currency of the primary economic environment in which the subsidiary operates. Upon consolidation, all balance sheet items are translated to the Swedish krona based on the year-end exchange rates. Income statement items are translated at average exchange rates, with an exception for those mentioned below in hyperinflation reporting. The accumulated exchange differences arising from these translations are recognized via other comprehensive income to the translation reserve in equity. Such translation differences are reclassified into the income statement upon the disposal of the foreign operation.

Transactions in foreign currencies during the year have been translated at the exchange rate prevailing at the respective transaction date.

Assets and liabilities denominated in a foreign currency, primarily receivables and payables and loans, have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

Exchange rates
The following exchange rates have been used when translating the financial statements of foreign subsidiaries operating in the countries shown below into SEK:

			Average rates		Year-end rates	
Country	Unit	Currency	2020	2019	2020	2019
Argentina	1	ARS	0.15	0.20	0.10	0.16
China	1	CNY	1.44	1.37	1.25	1.33
EMU countries	1	EUR	11.38	10.58	10.02	10.44
India	100	INR	13.55	13.42	11.2	13.07
Brazil	1	BRL	2.00	2.40	1.57	2.31
United Kingdom	1	GBP	12.85	12.04	11.09	12.21
USA	1	USD	10.00	9.44	8.18	9.32

Hyperinflation reporting
Argentina is classified as a hyperinflation economy. Since SKF has operations in the country, the Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies and restated the financial statements accordingly. The Argentinian indexes used in the restatement is; Wholesale Domestic Price Index (IPIM) and Consumer Price Index (IPC).

Revenue
Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfilment of the contract. Any products that are included in service contracts are reported as separate performance obligations and classified as revenue from products.

Revenue is recognized when the control has been transferred to the customer. Sales are recorded net of allowances for volume rebates, sales returns and other variable considerations if it is highly probable that they will occur.

Revenues from products are recognized at a point in time. Revenues from service and/or maintenance contracts are either recognized at a point in time or over time. In those contracts where the service is delivered to the customer over time, the revenue are accounted for over the duration of the contract with the use of either the input or output methods. These are different methods to measure the progress towards a complete satisfaction of a performance obligation. Revenue from all other service contracts are accounted for at a point in time.

Any anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

For revenue presented per customer industry, segment and geographic area, see Note 2.

Critical accounting estimates and judgements
Management believes that the following areas contain the most key judgements and the most significant sources of estimation uncertainty used in the preparation of the financial statements, where a different opinion or estimate could lead to significant changes to the Group's financial statements in the upcoming year.

- Judgement on the realizability of deferred tax assets (Note 9)
- Judgements in recoverability of the carrying value of internally developed software (Note 10)
- Estimates and key assumptions used in impairment testing of intangible assets (Note 10)
- Judgements used in determening extension options for right of use assets (Note 12)
- Significant assumptions used in the calculation of the post employment benefit obligations (Note 18)
- Judgements used in the recognition and disclosure of provisions and contingent liabilities (Note 19)

New accounting principles

New accounting principles 2020
IASB issued several new and amended accounting standards that were endorsed by EU, effective date 1 January 2020. None of these has had an material effect on the SKF Group's financial statements.

New accounting principles 2021
IASB issued several amended accounting standards that were endorsed by EU, effective date 1 January 2021. None of these are expected to have a material effect on the SKF Group's financial statements.

COVID-19
The industries and regions in which SKF operates have been impacted by the effects related to the spread of COVID-19. Due to this there have been uncertainties in demand and revenue growth which has led SKF to perform several initiatives to reduce costs. As a result of the ongoing pandemic SKF received government grants mainly related to employee expenses. Government grants has been accounted for in accordance with IAS 20 as a deduction of the related expense.

2 Segment information

Each operating segment is defined as those business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. In the case of SKF, the CODM is defined as Group Management which make decisions about allocation of resources to the segments and also to assess their performance on a regular basis. The internal reporting package comprises two segments, Industrial and Automotive.

This segment information includes sales and operating profit related to all significant industrial and automotive customers. Segment profit represents the business result generated by the capital employed of the segment and includes allocated corporate expenses and eliminations.

Segment assets include all operating assets used and controlled by a segment and consist principally of property plant and equipment, intangible assets, external trade receivables and inventories. Segment liabilities include all operating liabilities used and controlled by a segment and consist principally of external trade payables, other provisions as well as accruals. Reconciling items to the Group's reported assets and liabilities include consolidation eliminations, all tax-related balances as well as items of a financial, interest bearing nature, including post-employment benefit assets and provisions.

Asymmetrical allocations affecting the segments relate primarily to post-employment benefits where non-financial expenses are allocated to the segments although the related provision is not.

Additionally, receivables and payables relating to sales between segments, are not allocated to the segments. Such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Industrial is structured according to a functional approach and is managed as one segment comprising six different functional organizations: Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Industrial Technologies, Bearing Operations, and Aerospace.

Industrial sells to customers in the global industrial market, directly and indirectly through SKF's worldwide distributor network. Key customers are companies within industrial drives, heavy industry (such as metals, mining, cement, and pulp and paper), other industrial (such as automation and machine tool), railway, marine, energy (such as wind, oil and gas) and aerospace. These customer industries are served both directly to OEMs and end-users as well as indirectly through SKF's network of industrial distributors.

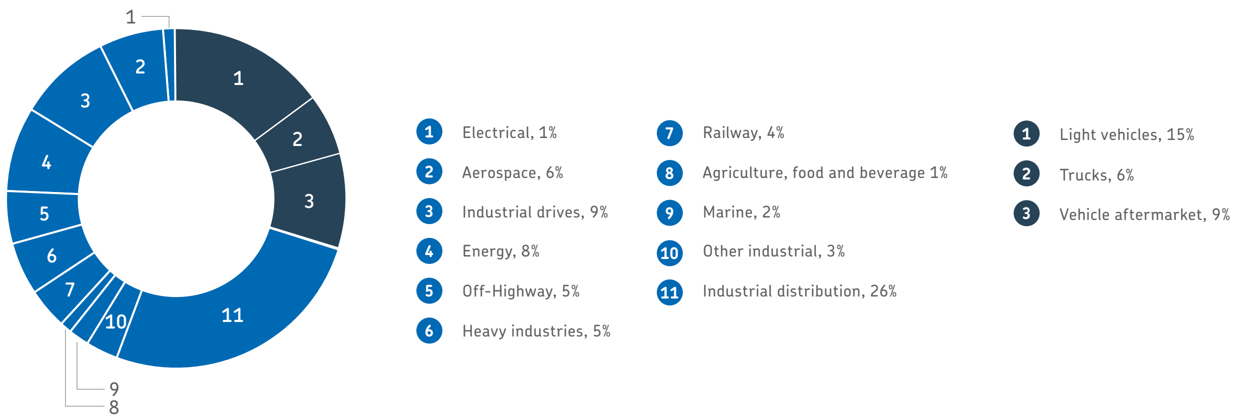
Automotive sells to customers in the global automotive market, directly or indirectly through SKF's distributor network. Key customers are manufacturers of cars, light and heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

For more information on the customer industries and related products, see pages 6–8 and 43–47.

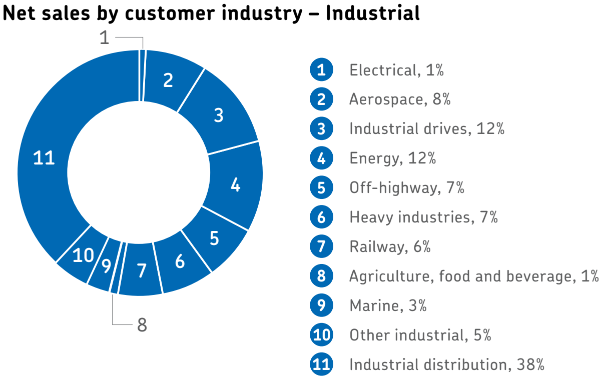
Previously published segment figures for 2019 have been restated to reflect a change in classification of smaller customers.

Cont. Note 2

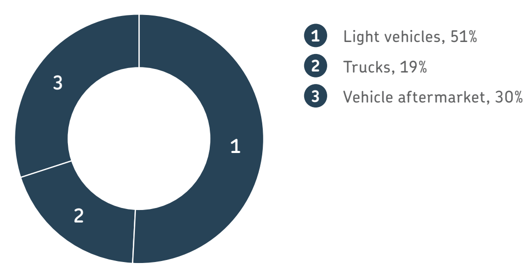
Net sales – Total



Net sales by customer industry – Industrial



Net sales by customer industry – Automotive



MSEK	Net sales 2020	Net sales 2019	Contribution to profit before tax 2020	Contribution to profit before tax 2019
Industrial	54,463	61,597	6,773	8,686
Automotive	20,389	24,416	296	709
Subtotal operating segments	**74,852**	**86,013**	**7,069**	**9,395**
Financial net	—	—	–769	–926
Total	**74,852**	**86,013**	**6,300**	**8,469**

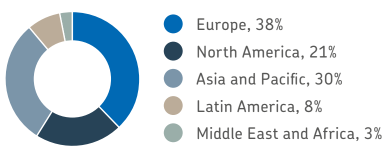
MSEK	Depreciation and amortization 2020	Depreciation and amortization 2019	Impairments 2020	Impairments 2019	Additions to property, plant and equipment, intangible assets and right-of-use assets 2020	Additions to property, plant and equipment, intangible assets and right-of-use assets 2019
Industrial	2,999	3,051	23	134	2,910	3,992
Automotive	371	287	8	24	975	191
Total	**3,370**	**3,338**	**31**	**158**	**3,885**	**4,183**

MSEK	Assets 2020	Assets 2019	Liabilities 2020	Liabilities 2019
Industrial	48,363	54,711	9,852	11,110
Automotive	15,361	16,898	6,006	5,596
Subtotal operating segments	**63,724**	**71,609**	**15,858**	**16,706**
Financial and tax items	21,518	17,722	33,874	34,229
Eliminations and other unallocated items	5,315	4,777	5,113	5,807
Total	**90,557**	**94,108**	**54,845**	**56,742**

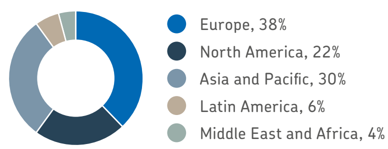
Geographic disclosure MSEK	Net sales by customer location		Non-current assets	
	2020	2019	**2020**	2019
Sweden	1,680	2,000	4,270	4,356
Europe excl. Sweden	26,477	31,573	14,212	14,580
North America (incl. Mexico)	17,148	20,645	11,358	13,273
Asia-Pacific	23,486	24,865	5,422	5,691
Middle East/Africa	2,139	2,264	255	350
Latin America	3,922	4,666	1,485	1,703
Eliminations	—	—	517	540
Total	**74,852**	**86,013**	**37,519**	**40,493**

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (17) were located in China, 19% (20) in USA and 9% (10) in Germany. Non-current assets exclude financial assets, deferred tax assets and post-employment benefit assets. Non-current assets are allocated according to the location of the subsidiaries. Of the Group's total non-current assets as defined above, 28% (33) were located in USA, 15% (16) in Germany, and 10% (10) in China.

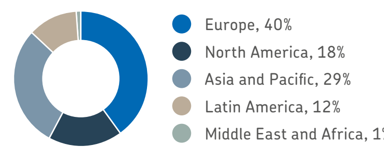
Net sales by geographic area



Net sales by geographic area – Industrial



Net sales by geographic area – Automotive



3 Acquisitions

Accounting policy

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, when control is obtained, the acquired assets, liabilities and contingent liabilities (net identifiable assets) are measured at fair value.

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognized as goodwill.

Companies acquired during the year are included in the financial statements as of acquisition date.

MSEK	**2020**	2019
Total fair value of net assets acquired		
Intangible assets, excluding goodwill	4	30
Property, plant and equipment	—	71
Current assets	—	114
Non-current liabilities	—	–33
Current liabilities	—	–26
Fair value net assets acquired	**4**	**156**
Goodwill	—	573
Total acquisition cost	**4**	**729**
Deferred consideration	—	–23
Cash and cash equivalents acquired	—	–10
Cash outflow	**4**	**696**

In 2020, SKF had a cash outflow of MSEK 4 for the acquisition of a smaller business within lubrication.

Also during 2020, adjustments have been made to the initial PPA relating to the 2019 acquisition of SKF AI (former Presenso). Identification of IP has been made and a reclassification net of tax of MSEK 86 have been made from goodwill to other intangible assets.

In 2019, SKF had a total net cash outflow of MSEK 696 for the acquisition of RecondOil, Presenso Ltd, Form Automation Solutions (FAS) and a metal stamping branch.

RecondOil was acquired in June and is a Swedish cleantech start-up that has developed a chemical filtration and rejuvenation process for industrial lubrication fluid and oil. The acquisition will strengthen the Group's lubrication business and REP offer and the goodwill amounted to MSEK 297.

Presenso Ltd was acquired in October and is a company based in Israel that develops and deploys artificial intelligence (AI)-based predictive maintenance software. SKF Presenso's AI capability enables production plants to find and act on anomalies that were previously difficult to detect, automatically and without the need to employ data scientists. SKF Presenso's competence will be used to strengthen the Group's REP offer and the goodwill amounted to MSEK 246. FAS was acquired in November and is a U.S.-based software development start-up company. FAS has developed GoPlant, a mobile-based asset inspection and data collection solution used in industrial applications. The technology will be integrated into SKF's existing mobile solutions and REP offering.

4 Divestment of businesses

MSEK	2020	2019
Goodwill	—	—
Other intangible assets	—	16
Property, plant and equipment	1	29
Deferred tax assets	—	6
Other non-current assets	5	—
Current assets	8	61
Deferred tax provisions	—	—
Non-current liabilities	–1	–1
Current liabilities	–1	–94
Non-controlling interest	—	–4
Net assets disposed of	**12**	**13**
Profit/loss	11	–13
Total consideration	**23**	**—**
Cash and cash equivalents divested	–3	–3
Cash outflow for previous year's divestments	—	–84
Total cashflow	**20**	**–87**

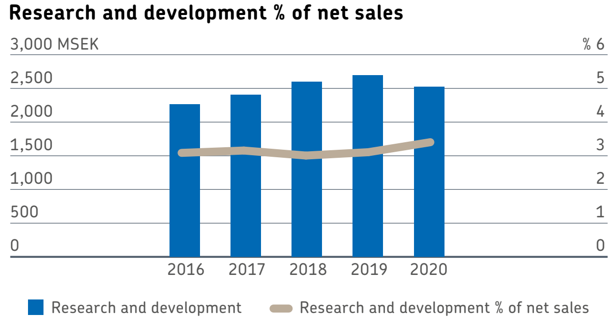
During 2020, the Group divested smaller businesses in Asia and in Sweden, resulting in a total cash inflow of MSEK 20 and a net gain of MSEK 11.

During 2019, the Group divested a smaller business in Asia for a total cash flow of MSEK –3, resulting in a net loss of MSEK –13. Additionally, the Group had a cash outflow of MSEK –84 for adjusted consideration to previous year's L&AT divestment.

5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled MSEK 2,515 (2,691), corresponding to 3.4% (3.1) of annual sales.

Research and development % of net sales



6 Expenses by nature

MSEK	2020	2019
Employee benefit expenses including social charges	23,000	26,227
Raw material and components consumed, including traded products	24,361	27,917
Change in work in process and finished goods	–578	104
Depreciation, amortization and impairments	3,401	3,496
Other expenses, primarily purchased services, shop supplies and utilities	17,932	19,146
Total operating expenses	**68,116**	**76,890**

Depreciation, amortization and impairments were accounted for as (MSEK)	2020				2019			
	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	2,304	99	20	2,423	2,291	103	80	2,474
Selling expenses	454	513	11	978	435	509	78	1,022
Total	**2,758**	**612**	**31**	**3,401**	**2,726**	**612**	**158**	**3,496**

7 Other operating income and expenses

MSEK	2020	2019
Other operating income		
Exchange gains on trade receivables/payables	392	258
Profit from sale of property, plant and equipment	247	34
Profit from associated companies	16	12
Profit from divestment of businesses	11	—
Other[1)]	369	461
Total	**1,035**	**765**
Other operating expenses		
Exchange losses on trade receivables/payables	–529	–342
Loss from sale of property, plant and equipment	–37	–36
Loss on divestment of businesses	—	–13
Other	–136	–102
Total	**–702**	**–493**
Other operating income and expenses, net	**333**	**272**

1) Includes VAT credit.

8 Financial income and financial expenses

MSEK	2020	2019
Interest income	68	122
Interest expense	–289	–748
Net gains/losses:		
Net interest cost on post-employment benefits	–239	–317
Exchange differences, net	–179	170
Other financial income including dividends	4	1
Other financial expense	–134	–154
Financial net	**–769**	**–926**

Interest expense amounted to MSEK –289 (–748). Interest expense 2019 included MSEK –137 related to debt repurchase. Other financial expense included costs related to unwinding the discount on provisions, bank charges and other transaction-related costs.

The below table specifies which category of financial instrument that gave rise to the financial income and expense as described above. For a specification of the underlying financial assets and financial liabilities to these categories see Note 14 and Note 20.

	2020			2019		
Financial net specified by category of financial instruments (MSEK)	Interest income	Interest expense	Net gains/ losses	Interest income	Interest expense	Net gains/ losses
Financial assets/liabilities at fair value through profit or loss						
Designated upon initial recognition	2	—	—	–8	—	—
Derivatives held for trading	1	–65	420	1	–139	396
Derivatives held for hedge accounting	—	—	—	—	—	–1
Financial assets classified as amortized cost	65	—	–23	129	—	327
Financial assets classified as fair value through other comprehensive income	—	—	10	—	—	5
Other financial liabilities, primarily loans	—	–224	–582	—	–609	–556
Other liabilities including post-employment benefits	—	—	–373	—	—	–471
Total	**68**	**–289**	**–548**	**122**	**–748**	**–300**

Derivatives classified as held for trading are mainly used for economic hedging, which mitigate the effect of certain items in the categories loans and receivables and other liabilities. Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for other liabilities, which includes primarily net interest costs on post-employment benefits and other financial expenses.

9 Taxes

Accounting policy
Taxes include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding taxes on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income taxes are recognized in the income statement, except to the extent that they relate to items directly taken to other comprehensive income or to equity, in which case they are recognized in other comprehensive income or directly in equity.

All the companies within the Group calculate current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable.

The Group applies the required balance sheet approach for measuring deferred taxes, where deferred tax assets and provisions are recorded based on enacted tax rates for the expected future tax consequences when the asset is realized or debt regulated. These tax rates are applied on existing differences between accounting and tax reporting bases of assets and liabilities, as well as for tax loss and tax credit carry-forwards. Such tax loss and tax credit carry-forwards can be used to offset future income.

Accounting estimates and judgements
Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax provisions and assets. The process involves estimating the current tax together with assessing temporary differences arising from differing treatment of items for tax and accounting purposes. The process also involves judgements when there is uncertainty over income tax treatments.

In particular, management assesses the likelihood that deferred tax assets will be recoverable from future taxable income. Deferred tax assets are recorded to the extent that it is probable in management's opinion that sufficient future taxable income will be available to allow the recognition of such benefits.

Tax expense (MSEK)	2020			2019		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	–2,222	—	–2,222	–2,991	—	–2,991
Deferred taxes	396	211	608	314	773	1,087
Total	**–1,826**	**211**	**–1,614**	**–2,677**	**773**	**–1,904**

Taxes charged to other comprehensive income included MSEK 203 (719) related to remeasurements of post-employment benefits and MSEK 8 (54) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (MSEK)	2020	2019
Tax calculated using statutory tax rate in Sweden	–1,348	–1,812
Difference between statutory tax rate in Sweden and foreign subsidiaries	–180	–301
Other taxes	–72	–109
Tax credits and similar items	59	79
Non-deductible/non-taxable profit items	–319	–308
Tax loss carry-forwards	27	18
Current tax referring to previous years	–14	–228
Other	21	–16
Tax expense Income Statement	**–1,826**	**–2,677**

The corporate statutory income tax rate in Sweden was 21.4% (21.4). The actual tax rate on profit before taxes was 29.0% (31.6). The tax loss carry-forwards included losses created during the year not recognized as tax assets.

Gross deferred taxes per type (MSEK)	2020		2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangibles and other assets	25	1,236	40	1,497
Property, plant and equipment	66	874	60	890
Inventories	544	322	574	381
Trade receivables	49	1	56	4
Provisions for post-employment benefits	3,324	47	3,393	49
Other accruals and liabilities	956	49	815	32
Tax loss carry-forwards	1,178	—	1,122	—
Tax credit carry-forwards	179	—	136	—
Other	322	106	232	98
Gross deferred taxes	**6,643**	**2,635**	**6,428**	**2,951**
Net deferred taxes presented in the Consolidated balance sheet	4,800	792	4,437	960

Realizability of net deferred tax assets are assessed by management based on the individual company's profitability history, forecasts of taxable profits as well as length to expiry of the asset.

The SKF Group had total unrecognized deferred tax assets of MSEK 183 (235), whereof MSEK 107 (133) related to tax loss carry-forwards and MSEK 77 (102) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of MSEK 7 (0) related to tax losses and will expire during the period 2021 to 2025. The remaining unrecognized assets will expire after 2025 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was MSEK 1 (16) mainly relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that impacted deferred tax expense was MSEK 51 (71) which resulted from a revised judgement on the realizability of certain tax assets in future years.

Gross value of tax loss carry-forwards

As of 31 December 2020, the Group had tax loss carry-forwards amounting to MSEK 6,042 (5,841), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2021–2024	50
2025	313
2026 and thereafter	229
Never	5,450

10 Intangible assets

Accounting policy

Intangible assets are stated at initial cost less any accumulated amortization and any impairment. Amortization is made on a straight line basis over the estimated useful lives and begins once the asset is ready for its intended use. Until 2018, the ERP system (SKF ERP Programme) followed another amortization pattern, as described below under Internally developed intangibles. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset.

The useful lives are:
- Patents and similar rights up to 11 years;
- Software in use 4–12 years;
- Customer relationships 10–15 years;
- Product development expenditures 3–7 years;
- Technology acquired in business combinations 15–18 years;
- Other intangibles 3–5 years;
- Strategic tradenames indefinite
- Goodwill indefinite

Amortization and impairments are included in cost of goods sold, selling expenses or administrative expenses depending on where the assets have been used.

Internally developed intangibles

The Group's most significant internally developed intangibles are software in use, developed for internal purposes and to a minor extent product development. The amortization plan for SKF ERP Programme (SEP) was during 2019 changed to a straight-line amortization, keeping the original useful life. For 2019, and the rest of the useful life, the amortization rate is 10%. For 2018, the yearly amortization was around 3% of the net book value at the end of 2017. Capitalized costs during 2018 started to be amortized during 2019 and the original useful life for the asset remains, which expects to end in 2028.

Intangible assets with definite useful lives

Intangible assets with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The determination is usually performed at the cash generating unit (CGU) level but could also be at the individual asset level.

Factors that are considered important are:
- Underperformance relative to historical and forecasted operating results;
- Significant negative industry or economic trends;
- Significant changes relative to the asset including plans to discontinue or restructure the operation to which the asset belongs.

When there is an indication that the carrying value may not be recoverable based on the above indicators, the profitability of the CGU to which the asset belongs is analyzed to further confirm the nature and extent of the indication. If an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected assets exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives have been allocated to CGUs, and are tested for impairment annually and whenever an indication of impairment exists. The impairment test is carried out at the lowest level at which these assets are monitored by management. The lowest CGU level used for impairment test is the segment level, Industrial and Automotive.

Accounting estimates and judgements

Significant management judgement is required in determining if development expenditures should be capitalized. Such expenses are only capitalized when it is probable that they will result in future economic benefits for the Group and the expenditures during the development phase can be reliably measured. The Group applies stringent criteria before a development project results in the recording of an asset, which include the ability to complete the project, evidence of technical feasibility, intention and ability to use or sell the asset. When evaluating software for internal use, management specifically considers new functionality and/or increased standard of performance to be strong evidence that future economic benefits will be achieved. In evaluating product development projects,

Cont. Note 10

management considers the existence of a customer order as significant evidence of technological and economic feasibility. All other research expenditures as well as development expenditures not meeting the capitalization criteria, are charged to cost of goods sold in the income statement when incurred.

When there is an indication that the carrying value may not be recoverable, the carrying amount of the asset is compared against its recoverable amount. The recoverable amount is the greater of the estimated fair value less costs to sell and value in use. In assessing value in use, a discounted cash flow model (DCF) is used. This assessment contains a key source of estimation uncertainty because the estimates and assumptions used in the DCF model encompass uncertainty about future events and market conditions. The actual outcomes may be significantly different. However, estimates and assumptions are reviewed by management and are consistent with internal forecasts and business outlook.

The DCF model involves the forecasting of future operating cash flows over a five years period and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the revenue growth rates and the discount rate. These forecasts of future operating cash flows are built up from business strategic plans representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information. Estimates are extrapolated using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors. A terminal value is then calculated based on the Gordon Growth model, which includes a terminal growth factor representing an outlook not exceeding the market growth for the industry.

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, considering the long-term government bond rate, the corporate spread, the market risk premium, the country risk premium where applicable, and the systematic risk of the CGU at the date of evaluation. Management determines the discount rate to be used based on the risk inherent in the related activity's current business model and industry comparisons.

MSEK	2020 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1]	Translation effects	2020 Opening balance
Acquisition cost								
Goodwill	10,890	8	—	–1	—	–83	–1,133	12,099
Patents, tradenames and similar rights	2,705	8	—	—	—	9	–316	3,004
Internally developed software	2,617	10	—	–3	—	19	–9	2,600
Customer relationships	4,378	2	—	—	—	–6	–472	4,854
Leaseholds	246	—	—	—	—	–8	–17	271
Product development	347	8	—	—	—	–1	–18	358
Technology	1,130	—	—	—	—	–3	–115	1,248
Other intangible assets	227	3	4	—	—	107	–6	119
Total	**22,540**	**39**	**4**	**–4**	**—**	**34**	**–2,086**	**24,553**

MSEK	2020 Closing balance	Amortizations	Businesses acquired/ sold	Disposals	Impairments	Other[1]	Translation effects	2020 Opening balance
Accumulated amortization and impairments								
Goodwill	773	—	—	—	—	11	–86	848
Patents, tradenames and similar rights	485	23	—	—	—	9	–21	474
Internally developed software	1,187	182	—	–3	—	2	–9	1,015
Customer relationships	2,817	285	—	–11	—	–21	–285	2,849
Leaseholds	93	5	—	11	—	–8	–6	91
Product development	178	7	—	—	—	–33	–10	214
Technology	667	92	—	—	—	66	–69	578
Other intangible assets	98	18	—	—	—	–2	–5	87
Total	**6,298**	**612**	—	**–3**	—	**24**	**–491**	**6,156**
Net book value	**16,242**							**18,397**

1) Includes reclassification between categories. It also includes reclassification from Goodwill to Other Intangible assets of MSEK 112 related to the 2019 acquisition of SKF AI. For more information, refer to note 3.

MSEK	2019 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2019 Opening balance
Acquisition cost								
Goodwill	12,099	—	573	—	—	3	356	11,167
Patents, tradenames and similar rights	3,004	—	29	—	—	1	103	2,871
Internally developed software	2,600	192	1	–1	—	—	3	2,405
Customer relationships	4,854	—	—	—	—	—	151	4,703
Leaseholds	271	20	–10	—	—	—	5	256
Product development	358	24	—	—	—	—	7	327
Technology	1,248	—	—	—	—	—	38	1,210
Other intangible assets	119	4	–19	—	—	—	4	130
Total	**24,553**	**240**	**574**	**–1**	**—**	**4**	**667**	**23,069**

MSEK	2019 Closing balance	Amorti-zations	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2019 Opening balance
Accumulated amortization and impairments								
Goodwill	848	—	–1	—	1	1	27	820
Patents, tradenames and similar rights	474	21	—	—	—	—	8	445
Internally developed software	1,015	171	1	–1	77	—	3	764
Customer relationships	2,849	296	—	—	—	–5	74	2,484
Leaseholds	91	15	–1	—	—	—	1	76
Product development	214	14	—	—	—	—	4	196
Technology	578	90	—	—	—	—	14	474
Other intangible assets	87	5	–12	—	—	5	1	88
Total	**6,156**	**612**	**–13**	**–1**	**78**	**1**	**132**	**5,347**
Net book value	**18,397**							**17,722**

Impairment losses

Impairments amounted to MSEK 0 in 2020.

Impairments amounted to MSEK –78 in 2019, which referred to the scrapping of licenses from SEP.

Intangibles with indefinite useful lives

Certain tradenames and trademarks are considered to have indefinite useful lives as the Group anticipates to continue to promote these brands in the foreseeable future. This includes the tradenames and trademarks in Lincoln MSEK 1,080 (1,231), Kaydon Friction MSEK 536 (611), PEER MSEK 178 (232), GBC MSEK 187 (213) and others MSEK 71 (82).

Significant intangibles

Internally generated software related primarily to the development of SEP to create and deploy improved processes and solutions across the Group. The balance of capitalized expenditures was MSEK 1,411 (1,585), including amortizations of MSEK –174 (–163) made during 2020. Remaining useful life is eight years. In 2019, an impairment of MSEK –77 was made related to the scrapping of licenses.

Other individual intangible assets that are material for the Group include the customer relationships for Lincoln amounting to MSEK 603 (806) having a remaining useful life of five years, and for Kaydon amounting to MSEK 622 (780) having a remaining useful life of eight years.

CGUs with significant intangibles

The CGUs follow the segment reporting. The table below shows goodwill and other intangibles with indefinite useful lives allocated to the CGUs Industrial and Automotive, as well as some crucial rates that were used for the DCF calculation.

	2020		2019	
	Industrial	Automotive	Industrial	Automotive
Goodwill, MSEK	9,902	215	10,905	346
Tradenames, MSEK	2,077	187	2,156	213
Average revenue growth rate, %	6.1	5.9	4.2	2.2
Discount rate, pre tax, %	10.5	10.7	11.3	11.4
Terminal growth factor, %	2.5	2.5	2.5	2.5

The recoverable amounts used in the testing of the CGUs have been calculated based on value in use using the DCF model as described in Accounting estimates and judgements. The most significant assumptions are the discount rate and the growth rates, being both the revenue growth rates and the terminal growth factor. Revenue growth rates are expressed in the above table as the average growth rate over the five-year forecast period. The same discount rate is applied to all cash flows in the five-year forecast period. Additional information on the forecast period as well as the discount rate and growth rates and how they are calculated is described in accounting estimates and judgements above.

A number of sensitivity analyzes were performed to evaluate if any reasonable possible adverse changes in assumptions would lead to impairment. The analyzes focused around decreasing the revenue growth rates to zero, and increasing the discount rate by two percentage points, each taken individually and while holding all other assumptions constant. No impairment needs were indicated.

11 Property, plant and equipment

Accounting policy
Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost, less accumulated depreciation and any impairment loss. A component approach to depreciation is applied. This means that where items of property, plant and equipment are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review.

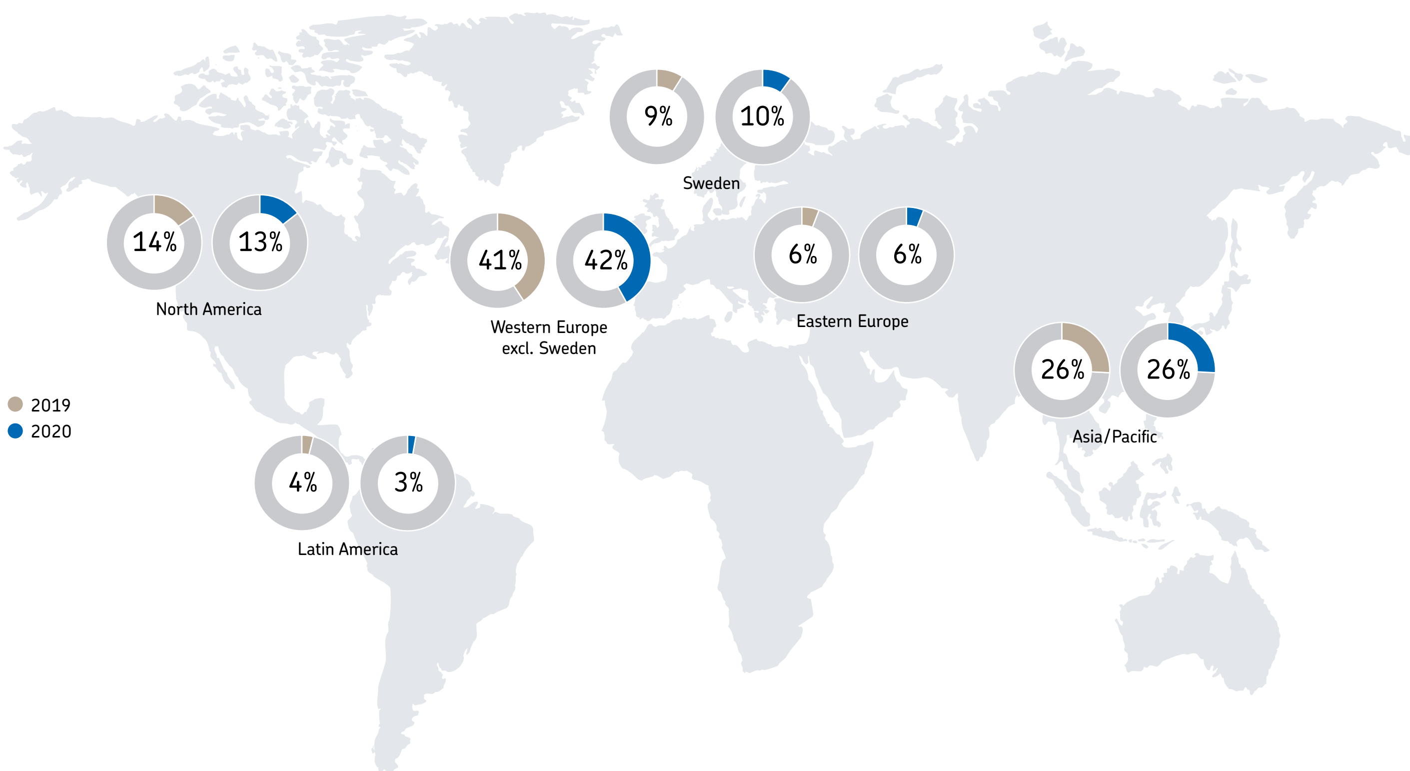
The useful lives are:
- 33 years for buildings and installations;
- 10–20 years for machinery and supply systems;
- 10 years for control systems within machinery and supply systems;
- 4–5 years for tools, office equipment and vehicles.

Depreciation and impairments are included in cost of goods sold, selling expenses or administrative expenses depending on where the assets have been used.

Accounting estimates and judgments
The useful lives are based upon estimates of the periods during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological development.

PPE is tested for impairment whenever events or changes in circumstances indicates that the carrying value may not be recoverable.

Geographical distribution of property, plant and equipment 2019–2020



MSEK	2020 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1)]	Translation effects	2020 Opening balance
Acquisition cost								
Buildings	9,564	494	—	–16	—	497	–666	9,255
Land and land improvements	989	339	—	–85	—	27	–55	763
Machinery and supply systems	32,024	748	–2	–471	—	1,178	–2,405	32,976
Machine tooling and factory fittings	4,161	217	—	–58	—	57	–336	4,281
Assets under construction including advances[2)]	2,355	1,534	—	—	—	–1,797	–235	2,853
Total	**49,093**	**3,332**	**–2**	**–630**	**—**	**–38**	**–3,697**	**50,128**

MSEK	2020 Closing balance	Depre- ciation	Businesses sold	Disposals	Impairments	Other[1)]	Translation effects	2020 Opening balance
Accumulated depreciation and impairments								
Buildings	4,499	274	—	–16	1	5	–299	4,534
Land improvements	277	7	—	—	7	–17	–20	300
Machinery and supply systems	23,095	1,507	–1	–448	24	55	–1,668	23,626
Machine tooling and factory fittings	3,061	208	—	–35	—	–116	–244	3,248
Total	**30,932**	**1,996**	**–1**	**–499**	**32**	**–73**	**–2,231**	**31,708**
Net book value	**18,161**							**18,420**

MSEK	2019 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1)]	Translation effects	2019 Opening balance
Acquisition cost								
Buildings	9,255	542	–27	–11	—	97	138	8,516
Land and land improvements	763	16	—	–1	—	–39	21	766
Machinery and supply systems	32,976	1,065	44	–120	—	203	676	31,108
Machine tooling and factory fittings	4,281	276	2	–43	—	7	84	3,955
Assets under construction including advances[2)]	2,853	1,562	—	–1	—	–1,454	60	2,686
Total	**50,128**	**3,461**	**19**	**-176**	**—**	**–1,186**	**979**	**47,031**

MSEK	2019 Closing balance	Depre- ciation	Businesses sold	Disposals	Impairments	Other[1)]	Translation effects	2019 Opening balance
Accumulated depreciation and impairments								
Buildings	4,534	285	–7	–9	10	–91	88	4,258
Land improvements	300	9	—	—	—	–5	7	289
Machinery and supply systems	23,626	1,521	–12	–92	56	–897	491	22,559
Machine tooling and factory fittings	3,248	132	–4	–33	—	–154	70	3,237
Total	**31,708**	**1,947**	**–23**	**–134**	**66**	**–1,147**	**656**	**30,343**
Net book value	**18,420**							**16,688**

1) Includes reclassification between categories and 2019 figures include adjustment for change in accounting policy referring to IFRS 16.
2) Contractual commitments for acquisition of PPE not yet booked amounted to MSEK 89 (250).

12 Right-of-use assets

Accounting policy
As of 1 January 2019, SKF applies IFRS 16 for accounting of leases and the following policy applies: All lease contracts are recognized in the balance sheet, at commencement date, as a right-of-use asset and a lease liability. A contract is or contains a lease if it conveys, to the Group, the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability is recognized for all leases with a term of more than 12 months unless the underlying asset is of low value. The right-of-use asset is subsequently accounted for with the same regulations as Property, plant and equipment.

The lease liability is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used. The incremental borrowing rate is established by the Group´s treasury centre based on currency and maturity of lease contracts. The lease term is determined as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The Group also applies the practical expedient for fixed non-lease components and includes them together with any lease component in the contract.

Any future lease modification not registered as a separate contract, is recognized as a remeasurement of the lease liability and an adjustment to the right-of-use asset.

Accounting estimates and judgments
Management judgement and assumptions are required to determine the value of the right-of-use assets and the present value of the lease liability. Such judgement and assumptions involve identifying a lease, defining the lease term and defining the discount rate.

Lease expenses for short-term leases, low value-assets and variable lease payments amount to MSEK 290 (396). The lease expenses correspond in all material aspects to the cash flow for those leases.

Interest expenses related to leases amount to MSEK 103 (126).

MSEK	2020	2019
Short-term lease expenses	195	265
Low-value asset lease expenses	66	80
Variable lease payments not included in lease liability	19	18
Other	10	33
Total	**290**	**396**

MSEK	2020 Closing balance	Additions	Modifications	Impairments	Translation effects	2020 Opening balance
Acquisition cost						
Premises	3,119	347	–41	—	–286	3,099
Vehicles	541	131	14	—	–32	428
Forklifts	202	30	3	—	–8	177
Machinery	33	—	—	—	–1	34
Office equipment	20	4	—	—	–3	19
Other	6	2	—	—	—	4
Total	**3,921**	**514**	**–24**	**—**	**–330**	**3,761**

MSEK	2020 Closing balance	Depreciation	Modifications	Impairments	Translation effects	2020 Opening balance
Accumulated depreciation and impairments						
Premises	932	513	–17	–1	–84	521
Vehicles	323	169	—	—	–19	173
Forklifts	108	56	1	—	–6	57
Machinery	22	11	—	—	–1	12
Office equipment	12	6	—	—	–1	7
Other	7	7	—	—	—	—
Total	**1,404**	**762**	**–16**	**–1**	**–111**	**770**
Net book value	**2,517**					**2,991**

MSEK	2019 Closing balance	Additions	Modifications	Impairments	Translation effects	2019 Opening balance
Acquisition cost						
Premises	3,099	298	55	—	81	2,665
Vehicles	428	131	12	—	4	281
Forklifts	177	41	—	—	2	134
Machinery	34	1	–3	—	1	35
Office equipment	19	—	3	—	—	16
Other	4	11	–106	—	—	99
Total	**3,761**	**482**	**–39**	**—**	**88**	**3,230**

MSEK	2019 Closing balance	Depreciation	Modifications	Impairments	Translation effects	2019 Opening balance
Accumulated depreciation and impairments						
Premises	521	534	–20	13	–6	—
Vehicles	173	175	—	—	–2	—
Forklifts	57	51	6	1	–1	—
Machinery	12	12	—	—	—	—
Office equipment	7	7	—	—	—	—
Other	—	—	—	—	—	—
Total	**770**	**779**	**–14**	**14**	**–9**	**—**
Net book value	**2,991**					**3,230**

13 Inventories

Accounting policy
Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realisable value). Initially raw materials and purchased finished goods are valued at actual purchase costs and work in process and manufactured finished goods are valued at actual production costs. Production costs include direct costs such as material and labour, as well as manufacturing overhead as appropriate.

Accounting estimates and judgements
Adjustments to the cost of inventory may be necessary when the cost exceeds net realisable value. Net realisable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realisable value are a source of estimation uncertainty. As future selling prices and selling costs are not known at the time of assessment, management's best estimates are used based on current price and cost levels. Adjustments to net realisable value also include estimates of technical and commercial obsolescence on an individual subsidiary basis. Commercial obsolescence is assessed by the rate of turnover and ageing as risk indicators.

MSEK	2020	2019
Finished goods	9,188	10,688
Raw materials and supplies	5,202	5,749
Work in process	1,343	1,614
Total	**15,733**	**18,051**

Inventory values are stated net of a provision for net realizable value of MSEK 1,498 (1,523). The amount charged to expense for net realizable provisions during the year was MSEK 269 (114). Reversals of net realizable provisions during the year were MSEK 70 (26).

14 Financial assets

Accounting policy
Financial assets are classified in three categories and are based on the Groups business model for managing the asset and the asset's contractual cash flow characteristics. The assets can be measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

Financial assets are recognized in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are initially measured at fair value, which is normally equal to cost. Settlement day recognition is applied for purchases and sales of financial assets.

Financial assets measured at amortized cost are calculated using the effective interest method. For disclosure purpose, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data. For current receivables, such as trade receivables, the carrying amount is considered to correspond to fair value.

Equity securities are measured at fair value. Equity securities without a quoted price are held at cost if the fair value cannot be measured reliably. The Group have elected to classify Equity securities at FVOCI since these investments are held as long-term strategic investments. There is no reclassification of fair value gain or loss when the investment is derecognized and the dividends from those investments are recognized in profit or loss when the Group have the right to receive the payment.

Debt securities are valued at fair value based on the current bid price for the securities and they are classified as either at FVPL or at FVOCI depending on the Groups model for managing those securities and on the characteristics of the cash flows.

Derivatives are categorized as held for trading unless they are subject to hedge accounting. Derivatives classified as held for trading are mainly derivatives used in economic hedges where the changes in fair value are taking directly through profit or loss.

Financial assets and allowance for doubtful accounts, are recognized with the use of a forward-looking 'expected-loss' impairment model which indicates when the asset may not be recovered. The forward-looking information should capture changes in the market that the customers operate in.

Financial assets are derecognized when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards.

Accounting estimates and judgements
An allowance for doubtful accounts for expected losses on trade receivables is maintained. When evaluating the need for an allowance, management considers the aging of trade receivable balances, historical write-off experience of customer with similar characteristics. Management does also an estimation of expected credit losses based on market conditions.

Where discounted cash flow techniques are used, the future cash flows are determined (if not stated explicit in the contract) based on the best assessment by management and discounted using the market interest rate for similar instruments.

Financial assets per category 2020

			Fair value through profit or loss			
MSEK	Amortized cost	Fair value through other comprehensive income	At initial recognition	Trading	Total	Of which current
Trade receivables	12,286	—	—	—	12,286	12,286
Cash and cash equivalents	8,952	—	5,098	—	14,050	14,050
Equity securities	—	301	—	—	301	—
Marketable securities	—	—	—	607	607	—
Hedging derivatives	—	—	295	—	295	—
Trading derivatives	—	—	—	137	137	137
Debt securities	—	22	5	—	27	5
Other loans and receivables	526	—	—	—	526	445
Carrying amount	**21,764**	**323**	**5,398**	**744**	**28,229**	**26,923**
Fair value	**21,764**	**323**	**5,398**	**744**		

Financial assets per category 2019

			Fair value through profit or loss			
MSEK	Amortized cost	Fair value through other comprehensive income	At initial recognition	Trading	Total	Of which current
Trade receivables	14,006	—	—	—	14,006	14,006
Cash and cash equivalents	3,096	—	3,334	—	6,430	6,430
Equity securities	—	354	—	—	354	—
Marketable securities	—	—	—	800	800	—
Trading derivatives	—	—	—	100	100	100
Debt securities	—	22	260	—	282	260
Other loans and receivables	4,556	—	—	—	4,556	4,451
Carrying amount	**21,658**	**376**	**3,594**	**900**	**26,528**	**25,247**
Fair value	**21,658**	**376**	**3,594**	**900**		

Financial assets categorized as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Debt securities and strategic investments in equity securities are categorised as FVOCI. The exception is debt securities held by SKF Treasury Centre which are categorised as FVPL at initial recognition.

Financial instruments are designated at FVPL when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as trading derivatives unless they are subject to hedge accounting.

Fair value hierarchy for financial assets at fair value (MSEK)	Level 1	Level 2	Level 3	2020	Level 1	Level 2	Level 3	2019
Fair value through other comprehensive income								
Equity securities	253	—	—	253	288	—	—	288
Debt securities	22	—	—	22	22	—	—	22
Fair value through profit or loss								
Trading securities	558	—	55	613	985	—	75	1,060
Cash and cash equivalents	5,098	—	—	5,098	3,334	—	—	3,334
Hedging derivatives	—	295	—	295	—	—	—	—
Trading derivatives	—	137	—	137	—	100	—	100
Total	**5,931**	**432**	**55**	**6,418**	**4,629**	**100**	**75**	**4,804**

Financial assets recorded at fair value, which includes the columns Fair value through other comprehensive income and Fair value through profit or loss are disclosed above according to the hierarchy that shows the significance of the inputs used in the fair value measurements as defined in IFRS 13. Level 1 includes financial instruments with a quoted price in an active market. Level 2 includes financial instruments with inputs based on observable data other than quoted prices in an active market. Fair value has been calculated using mainly discounted cash flow analyses based on observable market data. Level 3 includes inputs that are not based on observable market data.

Amounts for equity securities include MSEK 48 (66) valued at cost and are not included in the specification above.

			Past due, net of allowance			
Trade receivables by due date (MSEK)	Carrying amount	Not yet due	1–30 days	31–60 days	61–90 days	>91 days
2020	12,286	10,824	1,096	236	85	45
2019	14,006	11,859	1,497	365	143	142

The average days outstanding of trade receivables in 2020 were 64 days (64). Trade receivables as a percentage of annual net sales totalled 16.4% (16.3). Trade receivables included receivables sold with recourse amounting to MSEK 69 (119). The risk of customer default for these receivables has not been transferred in such a way that the financial assets qualify for derecognition.

The table below shows the development of the reserve for credit losses on trade receivables.

Specification of reserve for credit losses (MSEK)	2020	2019
Opening balance 1 January	**413**	**451**
Additions	121	66
Reversals	–82	–94
Changes through the income statement	**39**	**–28**
Allowances used to cover write-offs	–24	–21
Currency translation adjustments	–33	11
Closing balance 31 December	**395**	**413**

15 Other short-term assets

MSEK	2020	2019
Value added taxes receivables, net	2,145	1,754
Income tax receivables	775	762
Prepaid expenses	514	559
Accrued income	138	286
Advances to suppliers	95	97
Other current receivables	575	1,088
Total	**4,242**	**4,546**

16 Share capital

	Number of shares authorized and outstanding			
	A Shares	B Shares	Total	Share capital (MSEK)
Opening balance 1 January 2019	**33,355,803**	**421,995,265**	**455,351,068**	**1,138**
Conversion of A shares to B shares	–895,275	895,275	—	—
Closing balance 31 December 2019	**32,460,528**	**422,890,540**	**455,351,068**	**1,138**
Conversion of A shares to B shares	–1,089,473	1,089,473	—	—
Closing balance 31 December 2020	**31,371,055**	**423,980,013**	**455,351,068**	**1,138**

An A share has one vote and a B share has one-tenth of a vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 195,565,692 A shares have been converted to B shares. The quota value for all shares is SEK 2.50.

Dividend policy

The SKF Group's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow while taking account of the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend should amount to around one half of the SKF Group's average net profit calculated over a business cycle.

If the financial position of the SKF Group exceeds the target for capital structure, which is described in Note 26, an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or as a repurchase of the company's own share. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend payments

The total surplus of the Parent Company amounted to MSEK 23,646 (22,630), see page 109. The Board has decided to propose to the Annual General Meeting, on 25 March 2021, a dividend of SEK 6.50 per share to be paid to the shareholders. The proposed dividend for 2020 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 30 March 2021. The total proposed dividend to be paid is MSEK 2,960 (1,366). The dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. On 2 April 2020, a dividend of SEK 3.00 per share was paid to the shareholders.

17 Earnings per share

	2020	2019
Net profit attributable to owners of AB SKF (MSEK)	4,298	5,557
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	**9.44**	**12.20**
Dilutive shares from Performance Share Programmes	311,565	530,654
Weighted average diluted number of shares	455,662,633	455,881,722
Diluted earnings per share (SEK)	**9.43**	**12.19**

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares. Performance shares are considered dilutive if vesting conditions are fulfilled on the balance sheet date.

18 Provisions for post-employment benefits

Accounting policy

The post-employment provisions and assets arise from defined benefit obligations in plans which are either unfunded or funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation. For funded defined benefit plans, the assets of the plans are held in trusts legally separate from the Group. The related balance sheet provision or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation. However, an asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of reductions in future contributions or refunds from the plan. When such excess is not available it is not recognized, but it is disclosed in the note as an asset ceiling adjustment.

The projected unit credit method is used to determine the present value of all defined benefit obligations and the related current service cost. Valuations are carried out quarterly for the most significant plans and annually for other plans. External actuarial experts are used for these valuations and estimating the obligations and costs involves the use of assumptions. Remeasurements arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized immediately in other comprehensive income and are never reclassified to the income statement.

For all defined benefit plans the cost charged to the income statement consists of current service cost, net interest cost and when applicable past service cost, curtailments and settlements. Any past service cost is recognized immediately. Net interest cost is classified as financial expense while all other expenses are allocated to the operations based on the employee's function as manufacturing, selling or administrative.

The defined benefit accounting described above is applied only in the consolidated accounts. Subsidiaries, as well as the Parent Company, continue to use the local statutory pension calculations to determine pension costs, provisions and assets in the stand-alone statutory reporting, and when applicable funding requirements.

Some post-employment benefits are also provided by defined contribution schemes, where the Group has no obligation to pay benefits after payment of an agreed-upon contribution to the third party responsible for the plan. Such contributions are recognized as expense when incurred.

Accounting estimates and judgements

Significant judgements and assumptions are required to determine the present value of all defined benefit obligations and the related costs. Such assumptions vary according to the economic conditions of the country in which the plan is located and are adjusted to reflect market conditions at valuation point. However, the actual costs and obligations that in fact arise under the plans may be materially different from the estimates based on the assumptions due to changing market and economic conditions.

The most significant assumptions can vary per plan but in general include discount rate, pension increase rate, salary growth rate and longevity. These assumptions are established for each plan separately. The discount rate for each plan is determined by reference to yields on high quality corporate bonds (AA-rated corporate bonds as well as mortgage bonds for the plans in Sweden) having maturities matching the duration of the obligation. The pension increase rate assumption is relevant mainly for retired plan members, and refers to the indexation of pension payments tied primarily to inflation. The salary growth rate is relevant for active plan members and reflect the long-term actual experience, the near term outlook and assumed inflation. Longevity reflects the life expectancy of plan members and is established based on mortality tables used for each plan.

Cont. Note 18

Amounts recognized in the consolidated balance sheet (MSEK)	2020 USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	413	626	823	—	335	859	3,056
Present value of funded defined benefit obligation	8,323	—	11,055	4,456	2,890	1,752	28,476
Less: Fair value of plan assets	–7,180	—	–3,118	–3,905	–728	–1,465	–16,396
Total	**1,556**	**626**	**8,760**	**551**	**2,497**	**1,146**	**15,136**
Reflected as							
Other long-term assets	—	—	—	—	—	–34	–34
Provisions for post-employment benefits	1,556	626	8,760	551	2,497	1,180	15,170
Total	**1,556**	**626**	**8,760**	**551**	**2,497**	**1,146**	**15,136**

Amounts recognized in the consolidated balance sheet (MSEK)	2019 USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	469	735	816	—	287	953	3,260
Present value of funded defined benefit obligation	9,203	—	11,104	4,530	2,519	1,822	29,178
Less: Fair value of plan assets	–8,069	—	–3,205	–3,634	–705	–1,512	–17,125
Total	**1,603**	**735**	**8,715**	**896**	**2,101**	**1,263**	**15,313**
Reflected as							
Other long-term assets	—	—	—	—	—	–53	–53
Provisions for post-employment benefits	1,603	735	8,715	896	2,101	1,316	15,366
Total	**1,603**	**735**	**8,715**	**896**	**2,101**	**1,263**	**15,313**

The Group sponsors post-employment defined benefit plans in a number of subsidiaries. The most significant plans are the pension plans in USA, Germany, U.K., and Sweden, which supplement the social security pensions in these countries.

USA

The major U.S. pension plans, represent around 86% of the total U.S. obligation. Benefits are based on length of service and average final salary or a years of service multiplier. All these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. The salary and non-Union defined benefit pension plans have been frozen as of December 2016, hence no additional service cost will be accrued for these plans.

Governance of the plans lies with a benefit board whose members are chosen by the board of directors of the U.S. subsidiary. The plans are subject to regulatory minimum funding requirements based on an adjusted statutory pension formula which in the case of funding deficits, require contributions to achieve full funding in seven years.

The U.S. subsidiary also sponsors post-retirement health care plans which are closed for new entrants. The plans provide health care and life insurance benefits for eligible retired employees. The company is entitled to receive a subsidy under the U.S. Medicare Program Part D, for prescription drug costs for certain plan participants. On 31 December 2020, this reimbursement right totalled MSEK 5 (20).

Germany

The major German pension plans represent around 91% of the total German obligation. Benefits are based on length of service and final salary, and are indexed when paid. The majority of entitlement conditions are determined in accordance with a governmental pensions act. A plan change affecting around 75% of the participants of the major German pension plan occurred from 1 January 2018. For these participants no additional service cost is accrued from 2018 and they are covered by defined contribution pension solutions. The remaining participants of the major German pension plan are still entitled to a defined benefit pension solution.

United Kingdom

The major plans in the U.K. represent around 91% of the total U.K. obligation. Benefits under these plans are based on length of service and a career average revalued earnings basis, and are indexed when paid. As of April 2012, these plans are closed to new entrants, who instead are entitled to defined contribution pension solutions. Responsibility for the governance of the plan lies jointly with the subsidiary and a board of trustees comprised of representatives of the subsidiary as well as plan participants in accordance with the Plan constitution. The plan is subject to statutory funding objectives based on the local pension calculation which in the case of funding deficits have an agreed recovery plan to achieve full funding in ten years.

Sweden

The major plan in Sweden is the ITP plan and it represents around 90% of the total Swedish obligation. Benefits are based on final salary and are indexed when paid. Benefits are established in accordance with a collective agreement established between participating Swedish companies. The plan is closed for employees born after 1978, who instead are entitled to a defined contribution pension solution. The Swedish subsidiaries are required to have credit insurance which covers all pension obligations in case of insolvency. For the Swedish subsidiaries, the portions of the ITP pension financed through insurance premiums to Alecta only cover family pension, health insurance and TGL and as such are immaterial. There are no regulatory funding requirements, however voluntary funding has been provided for the plans through a foundation, which is governed jointly by the company and employee representatives. The foundation must comply with government regulations.

Other

The most significant plans include the funded pension plans in Switzerland, Canada, and Belgium. Additionally, there are retirement indemnity plans in France and termination indemnity plans in Italy, where lump sum payments are made upon retirement and termination respectively.

MSEK	2020 Present value of obligation	2020 Fair value of plan assets	2020 Total	2019 Present value of obligation	2019 Fair value of plan assets	2019 Total
Opening balance 1 January	**32,438**	**–17,125**	**15,313**	**28,011**	**–15,178**	**12,833**
Interest expense/(income)	626	–387	239	832	–515	317
Current service cost	402	—	402	390	—	390
Past service cost	17	—	17	20	—	20
Settlements	–80	5	–75	—	—	—
Other	167	7	174	–3	8	5
Subtotal expenses	1,132	–375	757	1,239	–507	732
Difference between actual return and interest income	—	–1,475	–1,475	—	–1,641	–1,641
Actuarial (gains)/losses – demographic assumptions	–27	—	–27	–109	—	–109
Actuarial (gains)/losses – financial assumptions	2,599	—	2,599	4,131	—	4,131
Experience adjustments	–247	—	–247	88	—	88
Subtotal remeasurements in OCI	2,325	–1,475	850	4,110	–1,641	2,469
Employer contribution	—	–271	–271	—	–297	–297
Employee contribution	27	–5	22	35	–4	31
Benefit payments	–1,640	1,001	–639	–1,727	1,076	–651
Subtotal cash flow[1)]	–1,613	725	–888	–1,692	775	–917
Sold businesses	—	—	—	16	—	16
Other	–475	–211	–686	–120	7	–113
Translation differences	–2,275	2,065	–210	874	–581	293
Closing balance 31 December	**31,532**	**–16,396**	**15,136**	**32,438**	**–17,125**	**15,313**

1) Cash outflows for 2021 are expected to be some MSEK 830 which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Components of total post-employment benefit expenses (MSEK)	2020	2019
Post-employment defined benefit expense	757	732
Post-employment defined contribution expense	597	713
Total post-employment benefit expenses	**1,354**	**1,445**
Whereof amounts charged to:		
Cost of goods sold	737	673
Selling expenses	353	423
Administrative expenses	25	32
Financial expenses	239	317
Total	**1,354**	**1,445**

Plan asset composition (MSEK)	2020 Quoted	2020 Unquoted	2020 Total	2019 Quoted	2019 Unquoted	2019 Total
Government bonds	1,622	—	1,622	516	310	826
Corporate bonds	5,533	5	5,538	6,928	–44	6,884
Equity instruments	4,937	449	5,386	5,496	546	6,042
Real estate	232	681	913	252	828	1,080
Other, primarily cash and other financial receivables	2,056	884	2,940	1,722	571	2,293
Total	**14,380**	**2,019**	**16,399**	**14,914**	**2,211**	**17,125**

To enable consistent, proactive and effective management of the post-employment benefits in line with its business strategy and values, the SKF Group established a Global Pension Committee, a governance body who is responsible to align post-employment benefits to SKF Global Pension Policy. SKF Global Pension Policy sets out principles for managing SKF´s pension and other long-term employee benefits within SKF globally.

The SKF Group strives to balance risk in the investments of plan assets, by aiming for a range of 30–50% equity instruments with the remainder in lower risk/fixed income investments such as corporate and government bonds.

The investment positions for the major pension plans are managed within the asset-liability matching framework. Within this framework, the Group's objective is to match plan assets to

Cont. Note 18

the pension obligations by investing in securities with maturities that align with the benefit payments as they fall due and in the appropriate currency. SKF Treasury Centre regularly monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Final investment decisions are taken by the local subsidiary/trustee together with SKF Treasury Centre.

	2020					
Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	2.5	2.3	0.6	1.3	1.1	1.1
Pension increase rate[1)]	n/a	n/a	2.0	2.9	1.8	n/a
Salary growth rate[2)]	n/a	n/a	2.7	2.9	3.1	3.0
Longevity male/female[3)]	20.5/22.4	20.4/22.4	20.2/23.6	21.6/23.6	22.2/24.6	19.9/22.9
Weighted average duration of the plan (in years)[4)]	11.2	9.4	20.3	20.1	22.2	10.6

	2019					
Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	3.3	3.1	1.0	1.9	1.6	1.3
Pension increase rate[1)]	n/a	n/a	2.0	2.9	1.8	n/a
Salary growth rate[2)]	n/a	n/a	2.7	2.9	3.1	3.2
Longevity male/female[3)]	20.6/22.6	20.6/22.6	20.1/23.7	21.5/23.4	22.0/25.0	20.5/22.0
Weighted average duration of the plan (in years)[4)]	11.8	8.9	20.1	20.1	21.3	11.6

1) Pension increase rate refers to indexation primarily tied to inflation.
2) Salary growth rate for the U.S. pension is n/a as no additional service cost will be accrued for these plans.
3) Longevity is expressed as the life expectancy of a current 65 year old in number of years.
4) Represents the average number of years remaining until the obligation is paid out.
n/a = assumptions not applicable or not significant for the plan.

Sensitivity analysis of significant assumptions	Change in actuarial assumption	Impact on DBO Defined benefit obligations, MSEK
Discount rate	+1%	–4,303
	–1%	5,632
Salary growth rate	+0.5%	601
	–0.5%	–565
Pension increase rate	+0.5%	1,343
	–0.5%	–945
Longevity	+1 year	1,222
	–1 year	–1,224

The sensitivity analysis is based on the change in one assumption while holding all other assumptions constant, see notes to previous table. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the DBO to changes in assumptions the same method has been applied as when calculating the pension liability recognized within the obligation.

The sensitivity analysis considers the most significant plans in the U.S., Germany, U.K. and Sweden, and it has been prepared consistently with prior years.

19 Other provisions and contingent liabilities

Accounting policy

In general, a provision is recognized when there is a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as provisions is management's best estimate of the future cash flows necessary to settle the obligations at the balance sheet date, and the timing of settlement is uncertain.

Claims include both provisions for litigation and warranties, and represent management's best estimate of the future cash flows necessary to settle obligations. Other long-term employee benefits refer to benefits earned and expected to be settled before employment ends. These provisions are calculated using the projected unit credit method and remeasurements (actuarial gains and losses) are recognized immediately in the income statement.

Restructuring programmes are defined as activities that materially change the way a unit does business. Any related restructuring provisions are recognized when a detailed formal plan has been established and a public announcement of the plan has occurred thereby creating a valid expectation that the plan will be carried out.

When an obligation does not meet the criteria for recognition it may be considered a contingent liability and disclosed. Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. They also include existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

Accounting estimates and judgements
Significant management judgement is required in determining the existence and amount of provisions. As the estimates may involve uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

Claims include both provisions for litigation and warranties, and represent management's best estimate of the future cash flows necessary to settle obligations, although the timing of the settlement is uncertain. Provisions for litigation are based on the nature of the litigation, the legal process in the applicable jurisdiction, the progress of the cases, the opinions of internal and external legal counsel and advisers regarding the outcome of the case and experience with similar cases. Tax claims in different countries and in different stages of the claim that do not meet the definition of tax liability are recognized as contingent liabilities.

SKF is part of investigations regarding possible violations of anti-trust rules, class action claims and lawsuits. SKF is subject to two investigations in Brazil by the General Superintendence of the Administrative Council for Economic Defense, one investigation regarding an alleged violation of anti-trust rules concerning bearing manufactures, and another investigation regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. As per management judgement, these investigations did not qualify for recognition as other provisions or contingent liabilities.

Warranty provisions involve estimates of the outcome of claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers. Assumptions are required for anticipated returns and for cost for replacing defective products and/or compensating customers for damage caused by the Group's products. These assumptions consider historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the Group.

Restructuring provisions involve estimates of the timing and cost of the planned future activities where the most significant estimates relates to the costs necessary to settle employee severance/separation obligations, as well as the costs involved in contract cancellations and other exit costs. These estimates are based on historical experience as well as the current status of negotiations with the affected parties and/or their representatives.

MSEK	2020 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2020 Opening balance
Claims	296	92	–50	–108	–3	–23	388
Other employee benefits	1,351	647	–138	–8	52	–34	832
Restructuring	1,142	1,095	–456	–77	–6	28	558
Other	693	241	–93	–102	–10	–39	696
Total	**3,482**	**2,075**	**–737**	**–295**	**33**	**–68**	**2,474**

MSEK	Of which current
Claims	78
Other employee benefits	45
Restructuring	1,063
Other	223
Total	**1,409**

Claims decreased during 2020 with MSEK –92, related to warranty claims.

In 2020, the total restructuring cost amounted to around MSEK 1,683, whereof MSEK 456 refers to utilized amounts in provisions and includes the consolidation of factories in North America and Europe as well as a general reduction in headcount driven by new ways of working and simplified organizational structures. This cost includes voluntary and involuntary termination benefits spread over several countries. The majority of the remaining restructuring provisions are expected to be settled in 2021 and 2022.

The largest items in other employee benefits are jubilee bonus in Italy, part-time retirement programmes in Germany and special payroll tax in Sweden.

Other provisions primarily include insurance and worker's compensation as well as environmental commitments.

Contingent liabilities at nominal values (MSEK)	2020	2019
Guarantees	10	23
Tax claims	1,124	1,413
Other contingent liabilities	23	22
Total	**1,157**	**1,458**

20 Financial liabilities

Accounting policy
Financial liabilities are recognized in the balance sheets when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are initially recorded at fair value, which is normally equal to acquisition cost. Transaction costs are included in the initial measurement of financial liabilities that are not subsequently measured at fair value through the income statement. Derivatives are recognized at trade date.

Financial liabilities, excluding derivatives, are classified as Other financial liabilities measured at amortized cost. Amortized cost is measured using the effective interest method. The carrying amount of liabilities that are hedged items, for which fair value hedge accounting is applied, are adjusted for gains or losses attributable to the hedged risks. Derivatives are classified into the category Fair value through profit or loss. Financial liabilities are derecognized when they are extinguished.

Accounting estimates and judgements
For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

		2020		2019	
MSEK	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
MEUR 200		—	—	2,088	2,089
MEUR 296	2022	2,963	3,096	3,079	3,267
MSEK 900	2024	897	939	—	—
MSEK 2,100	2024	2,096	2,174	—	—
MEUR 300	2025	3,127	3,151	3,215	3,242
MUSD 100	2027	817	1,018	931	1,106
MEUR 300	2029	2,993	3,332	3,113	3,352
Long-term lease liabilities	2022 and thereafter	2,024	2,024	2,327	2,327
Other long-term loans	2022–2028	172	172	167	167
Derivatives held for hedge accounting		—	—	16	16
Derivatives held for trading		—	—	471	471
Subtotal long-term financial liabilities		**15,089**	**15,906**	**15,407**	**16,037**
Short-term financial liabilities					
MEUR 205		—	—	2,142	2,184
MEUR 200	2021	2,006	2,005	—	—
Trade payables	2021	8,459	8,459	8,266	8,266
Short-term lease liabilities	2021	560	560	684	684
Short-term loans	2021	169	169	236	236
Derivatives held for hedge accounting	2021	—	—	442	442
Derivatives held for trading	2021	525	525	106	106
Subtotal short-term financial liabilities		**11,719**	**11,718**	**11,876**	**11,918**
Total		**26,808**	**27,624**	**27,283**	**27,955**

Derivatives are measured at fair value and fall into Level 2 of the fair value hierarchy. See Note 14 for a description of the fair value hierarchy.

The maturities for bonds and loans stated in the table above are based on the earliest date on which they can be required to be repaid.

One of the loans are subject to fair value hedging. The fixed EUR interest on the MEUR 300 loan has been swapped into floating USD interest rate.

Part of the long-term loan, MEUR 30 of outstanding MEUR 296 with due date 2022 have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of this financial liability amounted to MSEK 317 (335) as of the balance sheet date.

More information regarding financial risk management and hedge accounting can be found in Note 26. Methods used for establishing fair value are described in Note 14. Interest rates for the loans are disclosed in Note 11 of the Parent Company.

The Group does not have any pledged assets to secure financial liabilities.

21 Other short-term liabilities

MSEK	2020	2019
Employee related accruals	2,356	3,787
Accrual for rebates	935	1,004
Income tax payable	1,027	1,015
Deferred income	256	278
Customer advances	520	929
Value added taxes payable, net	937	594
Other current liabilities	804	1,072
Other accrued expenses	1,681	1,932
Total	**8,516**	**10,611**

22 Related parties including associated companies

FAM is a privately owned holding company that manages assets as an active owner with a long-term ownership horizon. FAM is owned by the three largest Wallenberg foundations – the Knut and Alice Wallenberg Foundation, the Marianne and Marcus Wallenberg Foundation and the Marcus and Amalia Wallenberg Foundation. The Foundations have since 1917, granted funding to excellent researchers and research projects beneficial to Sweden, primarily to Swedish universities.

The SKF Group has had no indication that FAM has obtained its ownership interest in the Group for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to FAM. At the end of 2020 FAM is the major shareholder of the Parent Company, holding 29.5% (29.1) of the voting rights and 13.8% (13.8) of the share capital.

Investments in associated companies include a 25% shareholding of Simplex Turbolo Co. Ltd. in the U.K and a 28% shareholding of Sunstrength Renewables Pvt Ltd. in India. Other investments include primarily a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, and a 20% share in CoLinx, LLC in the U.S.

Transactions with Associated companies (MSEK)	2020	2019
Sales of goods and services	53	64
Purchases of goods and services	328	396
Receivables as of 31 December	7	6
Liabilities as of 31 December	32	22

Other related party transactions include remuneration to key management as specified in Note 23. For a list of significant subsidiaries, see Note 8 to the financial statements of the Parent Company.

23 Remuneration to key Management

Salaries and other remunerations for SKF Board of Directors, President and Group Management

Principles of remuneration for Group Management

In March 2020, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

Group Management is defined as the President and the other members of the management team. The principles shall apply to remuneration agreed and amendments to remuneration already agreed, after the adoption of the principles by the Annual General

Meeting 2020, 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 contribute to the SKF Group's mission and business strategy, its long-term interests and sustainability. 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 shall consist of the following components: fixed salary, variable salary, 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.

The remuneration principles adopted by the Annual General Meeting 2020, have been fully implemented. No deviations from the principles have been decided and no derogations from the procedure for implementation of the principles have been made.

The Annual General Meeting also, irrespective of the principles of remuneration for Group Management, resolved on SKF's Performance Share Programme 2020 for senior managers and key employees, where Group Management is included. For more information on SKF's Performance Share Programme 2020, see page 92.

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. It shall be based on competence, responsibility, experience and performance. The SKF Group shall use an internationally well-recognized evaluation system, in order to evaluate the scope and responsibility of the position. Market benchmarks shall be conducted on a yearly basis.

The performance of Group Management members shall be continuously monitored during the year and shall be used as a basis for annual reviews of fixed salaries.

Variable salary

The variable salary of a Group Management member shall run according to a performance-based programme. The purpose of the programme shall be to motivate and compensate value-creating achievements in order to support operational and financial targets and thereby promote the SKF Group's business strategy, sustainability and long-term interests.

The performance-based programme shall have predetermined and measurable criteria including both financial and non-financial targets. The criteria shall primarily be based on the annual financial performance of the SKF Group, such as TVA, cash flow and individual goals.

The satisfaction of criteria for awarding variable salary shall be measured over a period of one year. If the financial performance of the SKF Group is not in line with the requirements of the performance-based programme, no variable salary will be paid.

The maximum variable salary shall vary between 50 to 70% of the accumulated annual fixed salary of Group Management members.

Other benefits

The SKF Group may provide other benefits to Group Management members in accordance with local practice. Premiums and other costs relating to such benefits shall depend on and follow local conditions and local practice but shall represent, as a general rule, a limited value and may amount to not more than 10% of the fixed salary of the members of Group Management.

Other benefits can for instance be a company car or health and medical insurance.

Pension

The SKF Group shall strive 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 shall be 65 years.

For employments governed by rules other than Swedish, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of the principles. For employments governed by Swedish rules, the premium for the supplementary pension plan shall be linked to age and amount to a maximum of 40% of the fixed annual salary not covered by any other pension plan.

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' of service, provided that it shall always be maximized to two years' fixed salary.

Salary and terms of employment for employees

When preparing the principles, the Board of Directors has paid regard to the salary and terms of employment of the employees of the company. Information about employees' total remuneration, the components of the remuneration and the growth and growth rate over time have been part of the basis for the Board of Director's and the Remuneration Committee's evaluation of the fairness of the principles of remuneration and the limitations which the principles entail.

The decision-making process to determine, review and implement the principles

The Board of Directors 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 terms of employment for the President.

The principles of remuneration for Group Management are presented by the Remuneration Committee to the Board of Directors that, at least every fourth year, submits a proposal for such principles to the Annual General Meeting for approval. The principles of remuneration shall be valid until new principles have been adopted by the Annual General Meeting. The Board of Directors must approve the terms of employment for the President. The Remuneration Committee shall also monitor and evaluate programmes for variable remuneration for Group Management, the application of the principles of remuneration for Group Management and applicable remuneration structures and levels of the SKF Group.

The members of the Remuneration Committee are independent of the SKF Group and Group Management. The President and other members of Group Management shall not be present when the Board of Directors process and resolve on remuneration related matters in so far as they are affected by such matters.

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

The Board of Directors may derogate from the principles of remuneration decided by the Annual General Meeting, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the SKF Group's long-term interests, including its sustainability, or to ensure the SKF Group's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration related matters. This includes any resolutions to derogate from the guidelines.

Board of Directors

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2020 it was decided that the Board should be entitled to a firm allotment of SEK 7,257,000 to be distributed with SEK 2,133,000 to the Chairman of the Board and with SEK 732,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that an allotment of SEK 973,000 for committee work shall be divided with SEK 248,000 to the Chairman of the Audit Committee, with SEK 176,000 to each of the other members of the Audit Committee, with SEK 145,000 to the Chairman of the Remuneration Committee and with SEK 114,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Alrik Danielson, President and Chief Executive Officer of AB SKF, has received remuneration from the company in year 2020 in accordance with the reumuneration principles decided upon by the Annual General Meeting 2020; salary and other remunerations amounted to a total of SEK 24,555,168 of which SEK 13,463,205 was fixed annual salary, SEK 5,061,963 was variable salary related to 2019 year's performance, and SEK 6,030,000 was alottment of shares under the Performance Share Programme 2017.

The pension arrangement is a combination of the ITP scheme and a defined contribution of 40% of the annual fixed salary above 30 income base amounts.

Alrik Danielson's employment will seize during 2021. The maximum severance payment is one and a half year's fixed salary. The severance payments are subject to certain conditions. Any other income that the CEO may have from new employment or any business activity after six months from the last employment date will reduce the severance payment. Therefore, the severance payment cannot be determined until the severance payment period has ended. However, the severance payment will be in the range of SEK 6,812,000 to SEK 20,438,000.

AB SKF and Alrik Danielson have entered into a non-compete agreement, which prohibits Alrik Danielson from working for a competitor to AB SKF before 16 November 2023. For the non-compete undertaking Alrik Danielson will receive SEK 11,500,000, paid in monthly installments which stands for approximately 55% of his fixed salary.

Alrik Danielson's shareholdings (own and/or held by related parties) in the company as well as material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships are listed in the Corporate Governance Report.

Group Management

The SKF's Group Management, consisting of 10 people at the end of the year, received in 2020 (exclusive of the President) salary and other remunerations amounting to a total of SEK 77,692,471 of which SEK 47,566,635 was fixed annual salary, SEK 14,626,454 was variable salary related to 2019 year's performance, and SEK 15,499,382 was alottment of shares under the Performance Share Programme 2017.

The variable salary for Group Management was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model, TVA, which is a simplified economic value-added model.

SKF's Performance Share Programmes are further described on page 92.

In the event of termination of employment at the request of the company of a person in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

For Group Management the Board has decided on a defined contribution supplementary pension plan. The plan entitles Group Management members covered to receive an additional pension over and above the basic pension (for Swedish members usually the ITP pension plan). The contributions paid for Group Management members covered by the defined contribution plan are based on each individual's pensionable salary (normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding the level of the basic pension (for Swedish members 30 income base amounts). Certain members of Group Management have defined benefit pension solutions on parts of their salary relating to previous agreements. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements. The normal retirement age is 65 years.

Cont. Note 23

	Fixed salary and other benefits[1]/fixed Board remuneration		Short-term variable salary		Performance Share Programmes		Remuneration for committee work		Gross pension costs[2]		
Amounts in SEK	Amounts paid in 2020[3]	Amounts expensed in 2020[3]	Amounts paid in 2020 related to 2019[3]	Amounts expensed in 2020[3]	Amounts paid in 2020 related to prior years[3]	Amounts expensed in 2020[3]	Amounts paid in 2020[3]	Amounts expensed in 2020[3]	Amounts expensed in 2020[3]	Total expensed in 2020	Total expensed in 2019
Board of directors of AB SKF											
Hans Stråberg	2,133,000	2,133,000	—	—	—	—	321,000	321,000	—	2,454,000	2,454,000
Lars Wedenborn	—	—	—	—	—	—	—	—	—	—	1,094,000
Hock Goh	732,000	732,000	—	—	—	—	—	—	—	732,000	732,000
Nancy Gougarty	—	—	—	—	—	—	—	—	—	—	366,000
Ronnie Leten	732,000	732,000	—	—	—	—	290,000	290,000	—	1,022,000	1,022,000
Barb Samardzich	732,000	732,000	—	—	—	—	—	—	—	732,000	732,000
Colleen Repplier	732,000	732,000	—	—	—	—	—	—	—	732,000	732,000
Geert Follens	732,000	732,000	—	—	—	—	—	—	—	732,000	732,000
Håkan Buskhe	366,000	732,000	—	—	—	—	362,000	362,000	—	1,094,000	—
Susanna Schneeberger	366,000	732,000	—	—	—	—	—	—	—	732,000	—
CEO [5] [6]	13,463,205	34,671,893[4]	5,061,963	2,101,256	6,030,000	1,557,000	—	—	5,270,005	43,600,153 [4]	28,977,090
Group Management [6] [7]	47,566,635	49,387,044	14,626,454	14,177,678	15,499,382	4,286,699	—	—	17,326,677	85,158,098	95,227,594
whereof AB SKF	29,124,985	30,925,394	6,910,215	3,982,093	12,856,984	4,979,234	—	—	15,039,530	54,926,251	60,611,875
Total 2020	67,554,840	91,295,937	19,688,417	16,278,933	21,529,382	5,843,699	973,000	973,000	22,596,682	136,988,251	—
whereof AB SKF	49,113,190	72,854,287	11,972,178	6,083,348	18,886,984	6,536,234	973,000	973,000	20,309,535	106,756,404	—
Total 2019	71,053,159	72,016,716	26,344,459	20,196,890	16,218,393	13,559,143	973,000	973,000	25,322,935	—	132,068,684
whereof AB SKF	53,058,916	54,022,473	17,901,946	11,754,377	13,849,435	11,526,018	973,000	973,000	19,177,097	—	97,452,965

1) Other benefits include for example company car and medical insurance.
2) Represents premiums paid under defined contribution plans as well as gross service costs under defined benefit plans.
3) Amounts paid represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes. Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual.
4) Includes maximum severance payment of SEK 20,438,000, which will be in the range of SEK 6,812,000 to SEK 20,438,000 depending on any other income from new employment or any other business activity which will be deducted from the maximum amount.
5) Compensation for the non-compete undertaking is not included in the table.
6) Total pension obligations, for SKF Group, related to Group Management (including CEO) were MSEK 211.
7) Exclusive of CEO.

SKF's Performance Share Programme

Performance Shares

The Annual General Meeting 2020 decided on the introduction of SKF's Performance Share Programme 2020. The programme covers a maximum of 225 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF shares of series B.

The number of shares that may be allotted is related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial years 2020–2022 compared to the financial year 2019. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

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

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.

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.

The share-based compensation programmes of the Group are mainly equity-settled through the SKF Group's Performance Share programmes.

The fair value of the SKF B share at grant date is calculated as the market value of the share excluding the present value of expected dividend payments for the next three years.

The estimated cost for these programmes, which is based on the fair value of the SKF B share at grant date and the number of shares expected to vest, is recognized as an operating expense with a corresponding offset in equity. The fair value of the SKF shares of series B at grant date was determined as SEK 125 for SKF's Performance Share Programme 2020. The dividend compensation amount is recognized as employee benefit expense separate from the share-based compensation expense. The cost for the programmes is adjusted annually for changes to the number of shares expected to vest and for the forfeitures of the participants' rights that no longer satisfy the programme conditions. Provisions for social costs to be paid by the employer in connection with share-based compensation programmes are calculated based on the fair value of the SKF B share at each reporting date and expensed over the vesting period.

Allotment of shares under SKF's Performance Share Programme requires that the persons covered by each of the programmes are employed in the SKF Group during the entire three year calculation period.

SKF's Performance Share Programme 2017: Allotment of shares was made in February 2020. In total 647,652 SKF class B shares were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2017–2019.

SKF's Performance Share Programme 2018: Allotment of shares was made in February 2021. In total 392 883 SKF class B shares were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2018–2020.

SKF's Performance Share Programme 2019: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2022, if all the conditions of the programme are met and the allotment is approved by the Board.

SKF's Performance Share Programme 2020: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2023, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2020 for all programmes were MSEK 26 (81) excluding social charges. The total provision for all programmes was MSEK 89 (176) and the total provision for social charges for all programmes was MSEK 25 (42).

Men and women in Board of Directors and Group Management	2020 Number of persons	2020 Whereof men	2019 Number of persons	2019 Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	9	67%	10	80%
Group Management incl. CEO	10	80%	10	80%
Parent Company				
Board of Directors of the Parent company incl. CEO	9	67%	10	80%
Group Management incl. CEO	8	75%	8	75%

24 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (MSEK)	2020	2019
Audit fees	47	48
Audit related fees	1	1
Tax fees	9	7
Other fees	1	2
	58	**58**
The Parent Company's share (MSEK)		
Audit fees	9	8
Audit related fees	1	1
Tax fees	0	—
Other fees to auditors	0	1
	10	**10**

Audit fees related to examination of the annual report and financial accounting and the administration by the Board and the President as well as other tasks related to the duties of a company auditor. Audit related fees are mainly attributable to the review of the SKF's sustainability report. Tax fees related to tax consultancy and tax compliance services. All other assignments were defined as other.

Fees in 2020 to PwC AB included audit fees of MSEK 11, audit related fees of MSEK 1, tax related fees of MSEK 0 and MSEK 0 for other fees.

25 Average number of employees

	2020		2019	
	Number of employees	Whereof men,%	Number of employees	Whereof men,%
Parent Company in Sweden	691	68	698	69
Subsidiaries in Sweden	1,846	80	1,975	80
Subsidiaries abroad	35,848	79	38,886	79
	38,385	**78**	**41,559**	**79**

	2020		2019	
Geographic specification of average number of employees in subsidiaries abroad	Number of employees	Whereof men,%	Number of employees	Whereof men,%
France	1,995	82	2,148	81
Italy	3,074	78	3,263	78
Germany	4,842	88	5,237	88
Other Western Europe excluding Sweden	3,136	84	3,459	84
Central and Eastern Europe	3,811	64	4,055	64
USA	3,660	76	4,238	76
Canada	174	76	225	76
Mexico	1,349	71	1,441	70
Latin America	2,947	89	2,916	89
China	5,851	67	6,205	70
India	2,421	95	2,580	96
Other Asian countries/Pacific	2,230	81	2,667	81
Middle East and Africa	358	76	452	76
	35,848	**79**	**38,886**	**79**

26 Financial risk management

The Group's overall financial objective is to create value for its shareholders. Over time, the return on the shareholders' investment in the SKF share should exceed the risk-free interest rate by around six percentage points. This is the basis for the Group's long-term financial objectives and the financial performance management model.

The SKF Group defines its managed capital as the capital employed. One of the Group's long term financial targets is to achieve a return on capital employed of 16%.

The capital structure target of the Group is
- a gearing of around 50%, which corresponds to
- an equity/assets ratio of around 35% or
- a net debt/equity ratio, excluding pension liabilities of below 40%.

Key figures[1]	2020	2019
Total equity, MSEK	35,712	37,366
Gearing, %	48.0	47.1
Equity/assets ratio, %	39.4	39.7
Net debt/equity ratio, excluding post-employment benefits, %	9.3	18.3
Adjusted Return on capital employed[2], %	12.7	14.2

1) Definition of these key figures is available on page 154.
2) Adjusted for items affecting comparability.

The purpose of the targeted capital structure is to keep an appropriate balance between equity and debt financing. This will ensure financial flexibility and enable the Group to continue investing in its business while maintaining a strong credit rating. The Group's policy and structure of debt financing are presented below.

The SKF Group's operations are exposed to various types of financial risks; market risks (being currency risk, interest rate risk and other price risks), liquidity risks and credit risks, each being discussed below.

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are largely centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Financial derivative instruments are used primarily to manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. The Group also uses financial derivative instruments for trading purposes, according to Group policy.

Market risk – Currency risk

The Group is exposed to changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions and to loans and investments in foreign currencies, i.e. transaction exposure. The Group's accounts are also affected by translating the results and net assets of foreign subsidiaries into SEK, i.e. translation exposure.

Transaction exposure

Transaction exposure mainly arises as a result of intra-Group transactions between the Group's manufacturing companies and the Group's sales companies, situated in other countries and selling the products to end-customers normally in local currency on their local market. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. Currency rates and payment conditions to be applied to the internal trade between SKF companies are set by SKF Treasury Centre. Currency exposure and risk is primarily, and to a large extent, reduced by netting internal transactions. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from MSEK 58,341 (68,706) to MSEK 4,538 (4,626). This amount represented the Group's main transaction exposure excluding hedges.

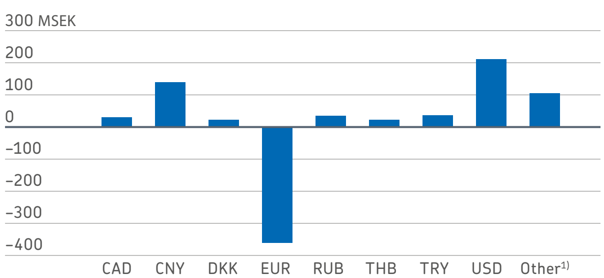
Net currency flows (MSEK)	2020	2019
CAD	621	656
CNY	2,803	2,834
DKK	444	380
EUR	–7,194	–6,903
RUB	719	835
THB	462	537
TRY	761	696
USD	4,245	4,918
Other[1]	1,677	673
SEK	–4,538	–4,626

1) Other is a sum comprising 11 different currencies

Based on the assumption that the net currency flows will be the same as in 2020, the below graph represents a sensitivity-analysis that shows the effect in SEK on operating profit of a 5% weaker SEK against all other currencies.

The effect on equity is the below result after tax. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

Effect of transactional currency flows on operating profits of a 5% weaker SEK

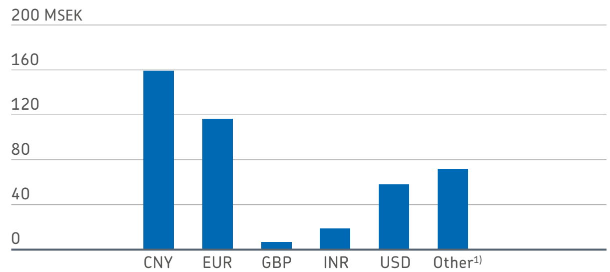


1) Other is a sum comprising 11 different currencies.

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to SEK. Based on 2020 operating profits in local currencies, the below graph represents a sensitivity-analysis that shows the effect in SEK on the translation of operating profits of a 5% weaker SEK against all other currencies. To reduce the translation exposure of net assets, the Group has hedged some of its net investment in foreign subsidiaries, for details see pages 96–97.

Effect of translation on operating profits to SEK of a 5% weaker SEK



1) Other is a sum comprising 42 different currencies.

Market risk – Interest rate risk

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates.

At year-end, total interest bearing financial liabilities amounted to MSEK 32,960 (33,295) and total interest-bearing financial assets amounted to MSEK 15,210 (12,045). Liquidity management is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

To manage the interest rate risk and currency risk in the borrowing, the Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating USD and floating EUR interest rates are swapped into floating USD.

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavourable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around MSEK 65 (90). For details on interest rates of individual loans, see Note 11 of the Parent Company's financial statements.

Market risk – Price risks

Market risks also include other price risks, where the relevant risk variables for the Group are stock exchange prices or indexes.

As of 31 December, the Group held investments in equity securities with quoted stock prices, amounting to MSEK 301 (355), which are categorized as fair value through other comprehensive income. If the market share prices had been 5% higher/lower at the balance sheet date, the available-for-sale reserve in equity would have been MSEK 15 (18) higher/lower.

Cont. Note 26

Liquidity risk

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet commitments. Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the balance sheet date, in addition to its own liquidity, the Group had unutilzed committed credit facilities of MEUR 500 syndicated by ten banks that will expire in 2025, and one unutilzed committed credit facilities of MEUR 250 that will expire in 2022.

A good rating is important in the management of liquidity risks. As of 31 December 2020 the long-term rating of the Group is Baa1 by Moody's Investors Service and BBB+ by Fitch Ratings, both with stable outlook.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment flows. All instruments held on 31 December 2020 for which payments were contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were translated at closing rate. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December 2020. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2020 Cash flows			
MSEK	2021	2022	2023–2025	2026 and thereafter
Loans	–2,249	–3,201	–6,472	–3,966
Trade payables	–8,459	—	—	—
Derivatives, net	–101	—	295	—
Lease liabilities	–560	–424	–795	–1,083
Total	**–11,369**	**–3,625**	**–6,972**	**–5,049**

Credit risk

Credit risk is defined as the Group's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation. The SKF Group is exposed to credit risk from its operating activities and certain financing activities.

The maximum exposure to credit risk for the Group amounted to MSEK 27,928 (26,172) as of the balance sheet date. The exposure is represented by total financial assets that are carried on the balance sheet with the exception of equity securities. No granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed as of the balance sheet date.

Credit risk (MSEK)	2020	2019
Trade receivables	12,286	14,006
Other receivables	1,160	5,636
Derivatives	432	100
Cash and cash equivalent	14,050	6,430
Total	**27,928**	**26,172**

At operational level, the outstanding trade receivables are continuously monitored locally in each area. The Group's concentration of credit risk related to trade receivables is mitigated primarily due to its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The SKF Group has signed ISDA agreements (International Swaps and Derivatives Association, Inc.) with nearly all of these financial institutions. ISDA is classified as an enforceable netting arrangement. One feature of the ISDA agreement is that it enables the SKF Group to calculate its credit exposure on a net basis per counterpart, i.e. the difference between what the Group owes and is owed. The agreement between the Group and the counterparty allows for net settlement of derivatives when both elect to settle net. In the event of default of one of the counterparties the other counterpart of the netting agreement has the option to settle on a net basis. Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored. As of the balance sheet date the Group had derivative assets of around MSEK 425 (77) and derivative liabilities of around MSEK 513 (1,027) subject to enforceable master netting arrangements.

Hedge accounting

The Group manages risks related to the volatility of balance sheet items and future cash flows, which otherwise would affect the income statement, by hedging. A distinction is made between cash flow hedges, fair value hedges and hedges of net investment in foreign operations based on the nature of the hedged item.

Derivative instruments which provide effective economic hedges, but are not designated for hedge accounting by the Group, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial income or expense or in the operating result depending on the nature of the hedged item.

Fair value hedges

Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. Changes in the fair value of these derivative financial instruments designated as hedging instruments are recognized in the income statement under financial items. The carrying amount of the hedged item (the financial liability) is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognized in the income statement under financial items. If a hedge relationship is discontinued, the accumulated adjustment to the carrying amount is amortized over the duration of the life of the hedged item.

The SKF Group hedges the fair value risk of financial liabilities on December 2020, by using cross-currency interest rate swap.

The MEUR 300 loan with fixed interest payments has been swapped into floating USD interest. Maturity and carrying amount are disclosed in Note 20. The effectiveness of the hedging relationship is measured at inception of the hedge relationship and prospectively to ensure that the economic relationship between hedge item and hedging instrument remains. When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item. As the list of the fair values of derivatives shows (see table in the Derivatives section below), the Group had designated interest rate derivatives for a net amount of MSEK 295 (–457) as fair value hedges as of 31 December 2020.

The following table shows the changes in the fair value of the hedges recorded in interest expense during the year.

MSEK	Financial expense 2020	Financial expense 2019
Financial liabilities (hedged items)	–4	–43
Cross-currency interest-rate swaps (hedging instruments)	3	43
Difference (inefficiency)	**–1**	**0**

Hedges of net investments

Hedge accounting is applied to financial instruments which are effective in offsetting the exposure to translation differences arising when the net assets of foreign operations are translated into the Group's functional currency. Any gain or loss on the hedging is recognized in the foreign currency translation reserve via other comprehensive income.

As of the balance sheet date net investments in foreign operations for a nominal amount of MEUR 30 (30) were hedged by the Group against changes in the EUR/SEK exchange rates. EUR loan for an amount of MEUR 30 (30) and derivatives for an amount of MEUR 0 (0) were designated as hedge instruments.

The result of the hedges totalled MSEK –36 (–254) before tax in 2020 and was recognized as a translation difference in other comprehensive income. During the year no gains/losses (0) have been recycled from other comprehensive income to the income statement, matching the recycling of the hedged subsidiary's cumulative translation differences.

Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 14 and liabilities in Note 20. A distinction is made depending on whether these are part of an effective hedging relationship or not.

Derivative net (MSEK)	Category	2020	2019
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	295	–457
Economic hedges	Trading	–242	–474
Currency forwards/ currency options			
Economic hedges	Trading	–148	–9
Share swaps			
Economic hedges	Trading	2	5
		–93	**–935**

27 Non-controlling interests

Accounting policy

Subsidiaries that the Group controls, but owns less than 100% in, are consolidated into the Group's financial statements. The category "non-controlling interests (NCI)" in the equity report accumulates the portion of a subsidiary's equity that is not attributable to the owners of AB SKF.

Significant non-controlling interests

During 2020, there has been no change in significant non-controlling interests. In 2019 the Group increased its' shareholding in India, and divested a smaller business in Asia, which reduced equity of non-controlling interests with MSEK –254.

The largest non-controlling interest is SKF India Ltd. The non-controlling interests holds a 47.4% (47.4) shareholding in the company. This represents 2.2% (3.0) of the Group's total equity. The table below presents the summarized financial information of SKF India Ltd.

	January–December	
Summarized income statement (MSEK)	2020	2019
Net sales	2,944	3,945
Operating profit	451	592
Net income	**321**	**376**
Other comprehensive income	–349	37
Total comprehensive income	**–28**	**413**
Profit allocated to NCI	152	178
Dividends paid to NCI	–355	–38

	As of 31 December	
Summarized balance sheet (MSEK)	2020	2019
Non-current assets	539	679
Current assets	1,851	2,513
Total assets	**2,390**	**3,192**
Equity attributable to shareholders of AB SKF	853	1,262
Equity attributable to NCI	770	1,138
Non-current liabilites	31	67
Current liabilities	736	725
Total equity and liabilities	**2,390**	**3,192**

Parent Company, AB SKF

AB SKF, corporate identity number 556007-3495, which is the Parent Company of the SKF Group, is a registered Swedish limited liability company domiciled in Gothenburg. The headquarters' address is AB SKF, SE-415 26 Gothenburg, Sweden.

AB SKF is the Entrepreneur within the Group. The role of Entrepreneur is to make the strategic decisions and pay for research and development in the Group as well as the management services. Subsidiaries in the Group perform tasks decided by the Entrepreneur and thus have a limited commercial liability.

Dividend income from consolidated subsidiaries amounted to MSEK 2,878 (6,665).

Net investments in subsidiaries increased by MSEK 58 (504) whereof MSEK –490 (–42) is attribuatble to impairments and MSEK 279 (483) related to capital contributions. Shares with a booked value of MSEK 0 (–3) were sold during the year.

Risks and uncertainties in the business for the Group are described in the Administration Report for the Group. The financial position of the Parent Company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit and lower dividend income for the Parent Company, as well as a need for write-down of the values in the shares in subsidiaries. Due to the wide spread of markets, geographically as well as operationally in which the subsidiaries operate, the risk that the financial position for the Parent Company will be negatively affected is assessed as small.

Unrestricted equity in the Parent Company amounted to MSEK 23,646.

Parent Company income statements

		January–December	
MSEK	Note	2020	2019
Revenue	2	5,267	6,073
Cost of revenue	2	–4,819	–5,068
General management and administrative expenses	2	–1,489	–1,661
Other operating income and expenses, net	2	13	–4
Operating profit		**–1,028**	**–660**
Financial income and expenses, net	3	2,271	6,510
Profit after financial items		**1,243**	**5,850**
Appropriations	4	1,070	1,487
Profit before tax		**2,313**	**7,337**
Income taxes	5	30	–102
Net profit		**2,343**	**7,235**

Parent Company statements of comprehensive income

		January–December	
MSEK	Note	2020	2019
Net profit		2,343	7,235
Items that may be reclassified to the income statement			
Assets at fair value through other comprehensive income	9	–40	–14
Other comprehensive income, net of tax		**–40**	**–14**
Total comprehensive income		**2,303**	**7,221**

Parent Company balance sheets

MSEK	Note	As of 31 December 2020	2019
ASSETS			
Non-current assets			
Intangible assets	6	1,528	1,611
Property, plant and equipment	7	83	81
Investments in subsidiaries	8	22,496	22,438
Long-term receivables from subsidiaries		12,749	12,313
Investments in equity securities	9	253	289
Other long-term receivables		334	472
Deferred tax assets	5	301	208
		37,744	**37,412**
Current assets			
Short-term receivables from subsidiaries		5,971	6,585
Other short-term receivables		70	51
Prepaid expenses and accrued income		91	92
Cash and cash equivalents		2	8
		6,134	**6,736**
Total assets		**43,878**	**44,148**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		99	273
		2,155	**2,329**
Unrestricted equity			
Fair value reserve		68	108
Retained earnings		21,235	15,287
Net profit		2,343	7,235
		23,646	**22,630**
		25,801	**24,959**
Untaxed reserves	4	—	—
Provisions			
Provisions for post-employment benefits	10	431	378
Other provisions		37	6
		468	**384**
Non-current liabilities			
Long-term loans	11	12,750	12,312
		12,750	**12,312**
Current liabilities			
Short-term loans	11	2,005	2,142
Trade payables		180	355
Short-term liabilities to subsidiaries		2,135	3,392
Other short-term liabilities		151	142
Accrued expenses and deferred income		388	462
		4,859	**6,493**
Total shareholders' equity and liabilities		**43,878**	**44,148**

Parent Company statements of cash flow

MSEK	Note	January–December 2020	2019
Operating activities			
Operating loss/profit		–1,028	–660
Adjustments for			
Depreciation, amortization and impairments	6, 7	206	470
Impairments equity securities	8	490	42
Other non-cash items[1)]		–366	154
Payments under post-employment defined benefit plans	10	–28	–27
Changes in working capital			
Trade payables		–175	121
Other operating assets and liabilities, net		–684	–1,330
Interest received		235	289
Interest paid		–301	–426
Other financial items		–139	–99
Net cash flow from operating activities		**–1,790**	**–1,466**
Investing activities			
Additions to intangible assets	6	—	–286
Additions to property, plant and equipment	7	–13	–32
Dividends received from subsidiaries	3	2,878	6,665
Investments in subsidiaries	8	–548	–724
Sales of shares in subsidiaries	8	—	3
Capital repayments from subsidiaries	8	—	175
Investments in equity securities	9	–4	–3
Net cash flow used in investing activities		**2,313**	**5,798**
Net cash flow after investments before financing		**523**	**4,332**
Financing activities			
Proceeds from medium- and long-term loans		3,000	3,222
Repayment of medium- and long-term loans		–2,163	–4,816
Cash dividends to AB SKF's shareholders		–1,366	–2,732
Net cash flow used in financing activities		**–529**	**–4,326**
Increase(+)/decrease(–) in cash and cash equivalents		**–6**	**6**
Cash and cash equivalents at 1 January		8	2
Cash and cash equivalents at 31 December		**2**	**8**

1) Includes additions to intangible assets of MSEK 112 to be paid in 2021.

Parent Company statements of changes in equity

	Restricted equity			Unrestricted equity		
MSEK	Share capital[1]	Statutory reserve	Capitalized development reserve	Fair value reserve	Retained earnings	Total
Opening balance 1 January 2019	**1,138**	**918**	**324**	**122**	**18,033**	**20,535**
Net profit	—	—	—	—	7,235	7,235
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	–14	—	–14
Capitalized development reserve	—	—	–51	—	51	0
Transactions with shareholders						
Cost under Performance Share Programmes[2]	—	—	—	—	–65	–65
Dividends	—	—	—	—	–2,732	–2,732
Closing balance 31 December 2019	**1,138**	**918**	**273**	**108**	**22,522**	**24,959**
Net profit	—	—	—	—	2,343	2,343
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	–40	—	–40
Capitalized development reserve	—	—	–174	—	174	—
Transactions with shareholders						
Cost under Performance Share Programmes[2]					–95	–95
Dividends	—	—	—	—	–1,366	–1,366
Closing balance 31 December 2020	**1,138**	**918**	**99**	**68**	**23,578**	**25,801**

1) The distribution of share capital between share types and the quota value is shown in Note 16 to the Consolidated financial statements.
2) See Note 23 to Consolidated financial statements for information about Performance Share Programmes.

Restricted equity includes share capital and statutory reserves as well as capitalized development reserves which are not available for dividend payments.

Unrestricted equity includes retained earnings which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets.

Notes to the financial statements of the Parent Company

1 Accounting policies

Basis of presentation
The financial statements of the Parent Company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities" as well as their interpretation (UFR). In accordance with RFR 2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent Company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the Consolidated financial statements.

Post-employment benefits
AB SKF reports pensions in the financial statements in accordance with RFR 2. According to RFR 2, IAS 19 shall be adopted regarding supplementary disclosures when applicable.

Investments in subsidiaries
Investments in subsidiaries are recorded at acquisition cost, reduced by any impairment.

Untaxed reserves
The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation.

Equity
When development expenses are capitalized for internal development of intangible assets, a corresponding amount is transferred from retained earnings to a reserve for capitalized development in restricted equity. The reserve is released to retained earnings upon amortization of the capitalized development.

Intangible assets
According to Swedish legislation, goodwill has a definite useful life. The useful life amounts to eight years and the amortization follows a linear pattern.

Leases
RFR 2 allows an exception from IFRS 16 which the Parent Company has applied. Lease contracts are reported as operational leases.

2 Revenues and operating expenses

AB SKF is since 2012 the entrepreneur within the Group and as such entitled to the residual profits while taking the costs for management and research and development. Consequently the revenues are comprised of residual profits and royalties from subsidiaries. Cost of revenue include research and development expenses totalling MSEK 2,221 (2,373).

Of the total operating expenses, MSEK 3,336 (3,694) was invoiced from subsidiaries.

3 Financial income and financial expenses

MSEK	2020	2019
Income from participations in Group companies		
Dividends from subsidiaries	2,878	6,665
Other financial income from investments in subsidiaries	—	184
Impairment and disposals of investments in subsidiaries	–490	–42
	2,388	**6,807**
Financial income		
Interest income from subsidiaries	235	284
Other financial income	8	4
	243	**288**
Financial expenses		
Interest expenses to subsidiaries	–84	–138
Interest expenses to external parties	–242	–283
Other financial expense	–34	–164
	–360	**–585**

4 Appropriations

Appropriations (MSEK)	2020	2019
Paid/received group contribution	1,070	1,463
Untaxed reserves	—	—
Change in accelerated depreciation reserve	—	24
	1,070	**1,487**
Untaxed reserves in the balance sheet		
Accelerated depreciation reserve	—	—

5 Taxes

Taxes on profit before tax (MSEK)	2020	2019
Current taxes	—	—
Other taxes	93	–90
Deferred tax	–63	–12
	30	**–102**

Net deferred assets per type net (MSEK)	2020	2019
Provisions for post-employment benefits	97	76
Tax credit carry forwards	190	132
Tax loss carry forwards	—	—
Other	14	—
Deferred tax assets	**301**	**208**

Reconciliation of the statutory tax in Sweden and the actual tax (MSEK)	2020	2019
Tax calculated using the statutory tax rate in Sweden	–495	–1,570
Non-taxable dividends and other financial income	617	1,467
Tax referring to previous years	36	16
Other non-deductible and non-taxable profit items, net	–128	–15
Actual tax	**30**	**–102**

The corporate statutory income tax rate in Sweden is 21.4% (21.4).

6 Intangible assets

MSEK	2020 Closing balance	Additions	Impairments	Derecognitions	2020 Opening balance
Acquisition cost					
Goodwill	35	—	—	—	35
Technology and similar items	1,013	112	—	—	901
Internally developed software	2,252	—	—	—	2,252
	3,300	**112**	—	—	**3,188**

MSEK	2020 Closing balance	Amortization	Impairments	Derecognitions	2020 Opening balance
Accumulated amortization					
Goodwill	20	5	—	—	15
Technology and similar items	909	16	—	—	893
Internally developed software	843	174	—	—	669
	1,772	**195**	—	—	**1,577**
Net book value	**1,528**				**1,611**

MSEK	2019 Closing balance	Additions	Impairments	Derecognitions	2019 Opening balance
Acquisition cost					
Goodwill	35	5	—	—	30
Technology and similar items	901	—	—	—	901
Internally developed software	2,252	281	—	–91	2,062
	3,188	**286**	**—**	**–91**	**2,993**

MSEK	2019 Closing balance	Amortization	Impairments	Derecognitions	2019 Opening balance
Accumulated amortization					
Goodwill	15	5	—	—	10
Technology and similar items	893	113	—	—	780
Internally developed software	669	255	77	–91	428
	1,577	**373**	**77**	**–91**	**1,218**
Net book value	**1,611**				**1,775**

See Note 10 to the Consolidated financial statements for information on the internally developed software including impairment. Technology and similar items are amortized over eight years.

7 Property, plant and equipment

MSEK	2020 Closing balance	Additions	Disposals	2020 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	81	3	–18	95
Assets under construction including advances	40	10	–3	34
	126	**13**	**–21**	**134**

MSEK	2020 Closing balance	Depreciation	Disposals	2020 Opening balance
Accumulated depreciation				
Buildings	3	1	—	2
Machine toolings and factory fittings	40	7	–18	51
	43	**8**	**–18**	**53**
Net book value	**83**			**81**

MSEK	2019 Closing balance	Additions	Disposals	2019 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	95	8	—	87
Assets under construction including advances	34	24	–13	23
	134	**32**	**–13**	**115**

MSEK	2019 Closing balance	Depreciation	Disposals	2019 Opening balance
Accumulated depreciation				
Buildings	2	—	—	2
Machine toolings and factory fittings	51	7	—	44
	53	**7**	**—**	**46**
Net book value	**81**			**69**

8 Investments in subsidiaries

Investments in subsidiaries held on 31 December (MSEK)	2020	Additions	Impairment	Disposals and capital repayments	2019	Additions	Impairment	Disposals and capital repayments	2018
Investments in subsidiaries	22,496	548	–490	—	22,438	724	–42	–178	21,934

The Group is composed of 193 legal entities (subsidiaries), where AB SKF is the ultimate parent either directly or indirectly via intermediate holding companies. The vast majority of the Group's subsidiaries perform activities related to manufacturing and sales. A limited number are involved in central Group functions such as treasury or reinsurance, or as previously mentioned, act as intermediate holding companies. This legal structure is designed to effectively manage legal requirements, administration, financing and taxes in the countries in which the Group operates. In contrast, the Group's operational structure described in the Administration Report, gives a better overview of how the Group runs its business. See also Note 2 to the Consolidated financial statements.

The tables below list firstly, the subsidiaries owned directly by the Parent Company, and secondly, the most significant of the remaining subsidiaries of the Group. Taken together these subsidiaries account for more than 90% of the Group's sales and for more than 90% of the Group's manufacturing facilities.

Name of directly owned subsidiaries	Country/Region	Registration number	No. of shares	% ownership	Book value (MSEK) 2020	Book value (MSEK) 2019	Main activities[1]
SKF Argentina S.A.	Argentina	—	14,677,299	29.2[2]	75	75	M,S
SKF Australia Pty. Ltd.	Australia	—	96,500	100	—	—	S
SKF Österreich AG	Austria	—	200	100	176	176	M,S
SKF Belgium NV/SA	Belgium	—	1,778,642	99.9[2]	109	109	S

Name of directly owned subsidiaries	Country/Region	Registration number	No. of shares	% ownership	Book value (MSEK) 2020	2019	Main activities[1]
Carried Forward					**360**	**360**	
SKF Logistics Services Belgium NV/SA	Belgium	—	29,907,952	99.9[2]	28	28	O
SKF do Brasil Ltda.	Brazil	—	517,294,748	99.9[2]	626	918	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100	183	183	M
SKF Bulgaria Ltd	Bulgaria	—	5	100	19	—	S
SKF Canada Ltd.	Canada	—	130,000	100	58	58	M,S
SKF Chilena S.A.I.C.	Chile	—	88,191	99.9[2]	—	—	S
SKF (China) Co. Ltd.	China	—	133,400	100	1,135	1,135	O
SKF China Ltd.	China	—	11,000,000	100	15	15	S
SKF CZ, a.s.	Czech Republic	—	430	100	10	10	S
SKF Danmark A/S	Denmark	—	5	100	7	7	S
Oy SKF Ab	Finland	—	48,400	100	12	12	M,S
SKF Holding France S.A.R.L.	France	—	1	100	3,371	3,371	O
SKF GmbH	Germany	—	1,000	100	1,573	1,573	M,S
SKF Lubrication Systems Germany GmbH	Germany	—	2,574	10,1[2]	223	—	M,S
SKF Maintenance service GmbH	Germany	—	1	100	6	6	S
SKF Hellas S.A.	Greece	—	2,000	100	—	—	S
SKF Svéd Golyóscsapágy Zrt	Hungary	—	20	100	—	—	S
SKF Engineering and Lubrication India Private Ltd.	India	—	3,066,500,101	52.8[2]	314	352	M,S
SKF India Ltd.	India	—	22,666,055	45.8[3]	87	87	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60	24	24	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	5[2]	1	1	S
SKF AI Ltd	Israel	—	2,413,322	100	220	220	S
SKF Industrie S.p.A	Italy	—	465,000	100	912	912	M,S
SKF Japan Ltd.	Japan	—	32,400	100	196	225	S
SKF Malaysia Sdn Bhd	Malaysia	—	1,000,000	100	57	57	S
SKF de México, S.A. de C.V.	Mexico	—	375,623,529	99.9[2]	204	303	M,S
SKF New Zealand Ltd.	New Zealand	—	375,000	100	11	11	S
SKF Norge AS	Norway	—	50,000	100	—	—	S
SKF del Peru S.A.	Peru	—	2,564,903	99.9[2]	—	—	S
SKF Philippines Inc.	Philippines	—	8,395	100	20	7	S
SKF Financial Services Poland sp.zoo	Poland	—	100	100	14	—	O
SKF Polska S.A.	Poland	—	3,701,466	100	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	—	61,601	95[2]	4	4	S
SKF Korea Ltd.	Republic of Korea	—	128,667	100	74	74	M,S
SKF Sealing Solutions Korea Co., Ltd.	Republic of Korea	—	153,320	51	15	15	M,S
SKF Treasury Centre Asia & Pacific Pte. Ltd.	Singapore	—	61,500,000	100	467	467	O
SKF Asia Pacific Pte. Ltd.	Singapore	—	1,000,000	100	—	—	S
Barseco (PTY) Ltd.	South Africa	—	1,422,480	100	157	157	O
SKF Española S.A.	Spain	—	3,650,000	100	383	383	M,S
SKF Förvaltning AB	Sweden	556350-4140	124,500	99.6[2]	4,144	3,870	O
SKF HQ AB	Sweden	559250-5027	25,000	100	—	—	O
SKF International AB	Sweden	556036-8671	20,000	100	1,320	1,320	O
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100	125	125	O
Bagaregården 16:7 KB	Sweden	916622-8529	—	99.9[2]	66	61	O
SKF Eurotrade AB	Sweden	556206-7610	83,500	100	12	12	S,O
SKF Lager AB	Sweden	556219-5288	2,000	100	—	—	O
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100	—	—	O
The Waste Company Sweden AB	Sweden	559128-2016	50,000	100	—	—	O
SKF Verwaltungs AG	Switzerland	—	500	100	502	502	O
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100	139	171	S
SKF (Thailand) Ltd.	Thailand	—	1,847,000	92.4[2]	37	37	S
SKF B.V	the Netherlands	—	1,450	100	304	304	S
SKF Holding Maatschappij Holland B.V.	the Netherlands	—	60,002	100	423	423	O
Trelanoak Ltd.	United Kingdom	—	6,965,000	100	120	120	O
PSC SKF Ukraine	Ukraine	—	1,267,495,630	100	207	207	M,S
SKF USA Inc.	USA	—	1,000	100	4,155	4,155	M,S
SKF Venezolana S.A.	Venezuela	—	20,014,892	100	—	—	O
					22,496	**22,438**	

1) M=Manufacturing, S=Sales, O=Other incl treasury, reinsurance and/or holding activities.
2) Parent Company together with subsidiares own 100%.
3) Parent Company together with subsidiaries own 52.6%.

Cont. Note 8

Name of indirectly owned subsidiaries	Country/Region	% Ownership	Owned by subsidiary in	Main activities[1)]
Alemite LLC	USA	100	USA	M,S
Beijing Nankou SKF Railway Bearings Co. Ltd.	China	51	China	M,S
Cooper Roller Bearings Co. Ltd.	United Kingdom	100	United Kingdom	M
General Bearing Intern Trading Ltd.	China	100	Barbados	S
Industrial Tectonics Inc.	USA	100	USA	M,S
Kaydon Corporation	USA	100	USA	M,S
Lincoln Industrial Corporation	USA	100	USA	M,S
Lincoln Lubrication Equipment (Changshu) Co. Ltd.	China	100	USA	M,S
Lincoln Lubrication (SA) Pty Ltd.	South Africa	100	South Africa	S
M3M S.A.S	France	72.6	France	M
Ningbo General Bearing Ltd.	China	100	Barbados	M,S
PEER Bearing Company	USA	100	USA	S
PEER Bearing Company, Changshan (CPZ1)	China	100	China	M
Pilgrim International Ltd	United Kingdom	100	United Kingdom	O
RFT S.p.A.	Italy	100	Italy	M,S
RKS S.A.S	France	100	France	M
Shanghai Peer Bearing Co. Ltd. Shanghai	China	100	China	S
SKF (China) Sales Co. Ltd.	China	100	China	S
SKF (Dalian) Bearings and Precision Technologies Co. Ltd.	China	100	China	M
SKF (Jinan) Bearings & Precision Technology Co. Ltd.	China	100	China	M
SKF (Schweiz) A.G.	Switzerland	100	Switzerland	S
SKF (Shanghai) Automotive Technologies Co. Ltd.	China	100	China	M
SKF (Shanghai) Bearings Ltd.	China	100	China	M
SKF (U.K.) Ltd.	United Kingdom	100	United Kingdom	M,S
SKF (Xinchang) Bearings and Precision Technologies	China	100	China	M
SKF Aeroengine France S.A.S	France	100	France	M,S
SKF Aerospace France S.A.S.	France	100	France	M,S
SKF Bearing Industries (Malaysia) Sdn Bhd	Malaysia	100	the Netherlands	M
SKF Distribution (Shanghai) Co. Ltd.	China	100	China	S
SKF Economos Deutschland GmbH	Germany	100	Austria	S
SKF France S.A.S	France	100	France	M,S
SKF Industrial Service Shanghai Co. Ltd.	China	66	China	S
SKF Latin Trade S.A.S	Colombia	100	Chile	S
SKF LLC	Russian Federation	100	Sweden	S
SKF Lubrication Systems CZ s.r.o	Czech Republic	100	Germany	M
SKF Magnetic Mechatronics S.A.S	France	100	France	M,S
SKF Marine GmbH	Germany	100	Germany	M,S
SKF Marine Singapore Pte Ltd.	Singapore	100	Germany	S
SKF Mekan AB	Sweden	100	Sweden	M
SKF Metal Stamping S.R.L	Italy	100	Italy	M,S
SKF Sealing Solutions Austria GmbH	Austria	100	Austria	M,S
SKF Sealing Solutions GmbH	Germany	100	Germany	M,S
SKF Sealing Solutions (Qingdao) CO.	China	100	Austria	M,S
SKF Sealing Solutions (Wuhu) Co. Ltd.	China	100	China	M,S
SKF Sealing Solutions S.A. de C.V.	Mexico	100	USA	M,S
SKF South Africa (Pty) Ltd.	South Africa	70	South Africa	S
SKF Steyr Liegenschaftsvermietungs GmbH	Austria	100	Austria	O
SKF Sverige AB	Sweden	100	Sweden	M,S
SKF Türk Sanayi ve Ticaret Limited Sirketi	Turkey	100	Belgium	S
SKF Uruguay S.A	Uruguay	100	Argentina	S
Stewart Werner Corporation of Canada	Canada	100	USA	S
The Cooper Split Roller Bearing Corp	USA	100	USA	S
Venture Aerobearings LLC.	USA	51	USA	M,S
Vesta Si Sweden AB	Sweden	100	Sweden	M

1) M=Manufacturing, S=Sales, O=Other incl treasury, reinsurance and/or holding activities.

9 Investments in equity securities

Name and location (MSEK)	Holding in percent	Number of shares	Currency	2020 Book value	2019 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	237	277
Other			SEK	16	12
				253	**289**

10 Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally, the Company sponsors a complementary defined contribution (DC) scheme for a limited group of managers. This DC scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

Amount recognized in the balance sheet (MSEK)	2020	2019
Present value of funded pension obligations	510	454
Fair value of plan assets	–275	–264
Net obligation	**235**	**190**
Present value of unfunded pension obligations	196	188
Net provisions	**431**	**378**

Change in net provision for the year (MSEK)	2020	2019
Opening balance 1 January	378	347
Defined benefit expense	81	58
Pension payments	-28	–27
Closing balance 31 December	**431**	**378**

Components of expense (MSEK)	2020	2019
Pension cost	76	59
Interest expense	16	14
Return on plan assets	–11	–15
Defined benefit expense	**81**	**58**
Defined contribution expense	105	106
Total post-employment benefit expense	**186**	**164**

The calculation of defined benefit pension obligations has been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan was 3.84% (3.84) and for the other defined benefit plan it was 1.45% (2.32). Expected cash outflows for 2021 are MSEK 170.

11 Loans

MSEK	Maturity	Interest rate	2020 Carrying amount	2020 Fair value	2019 Carrying amount	2019 Fair value
Bonds						
MEUR 205	2020	2.38	—	—	2,142	2,184
MEUR 200	2021	0.15	2,005	2,005	2,088	2,089
MEUR 296	2022	1.63	2,963	3,096	3,079	3,267
MSEK 900	2024	1.13	897	939	—	—
MSEK 2,100	2024	1.14	2,096	2,174	—	—
MEUR 300	2025	1.25	2,984	3,151	3,101	3,242
MUSD 100	2027	4.06	817	1,018	931	1,106
MEUR 300	2029	0.88	2,993	3,332	3,113	3,352
			14,755	**15,715**	**14,454**	**15,240**

12 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

MSEK	2020	2019
Salaries, wages and other remuneration	768	755
Social charges (whereof post-employment benefit expense)	444 (186)	404 (153)

See Note 23 to the Consolidated financial statements for information on remuneration to the Board and president as well as men and women in management and the board. Refer to Note 25 to the Consolidated financial statements for the average number of employees and to Note 24 to the Consolidated financial statements for fees to the auditors.

13 Contingent liabilities

MSEK	2020	2019
General partner	1	1
Other contingent liabilites	22	21
	23	**22**

General partner relates to liabilities in limited partnership Bagaregården 16:7.

Other contingent liabilities refers to guarantee commitment regarding pension liabilities in the Swedish subsidiaries.

Proposed distribution of surplus

Fair value reserve	SEK	67,868,341
Retained earnings	SEK	21,235,272,636
Net profit for the year	SEK	2,342,778,330
Total surplus	**SEK**	**23,645,919,307**
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 6.50 per share[1)]	SEK	2,959,781,942
to be carried forward:		
Fair value reserve	SEK	67,868,341
Retained earnings	SEK	20,618,269,024
	SEK	**23,645,919,307**

1) Suggested record day for right to dividend, 29 March 2021.
2) Board Members' statement: The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on Company and Group equity imposed by the type, scope and risks of the business and with regards to the Company's and the Group's financial strength, liquidity and overall position.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2020 are given in the income statements and in the balance sheets together with related notes.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Gothenburg, 2 March 2021

Hans Stråberg, *Chairman*
Hock Goh, *Board member*
Alrik Danielson, *President and CEO, Board member*
Ronnie Leten, *Board member*
Barb Samardzich, *Board member*

Colleen Repplier, *Board member*
Geert Follens, *Board member*
Håkan Buskhe, *Board member*
Susanna Schneeberger, *Board member*
Jonny Hilbert, *Board member*
Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 2 March 2021.

PricewaterhouseCoopers AB

Johan Rippe
Authorized public accountant
Auditor in charge

Karin Olsson
Authorized public accountant

Sustainability statements[1)]

CONTENTS

About this report

This report has been prepared in accordance with the GRI Standards "Core" option.

The reader will find relevant sustainability information in each part of the report. These statements provide SKF's stakeholders with information on the Group's sustainability performance according to GRI Standards.

Topics related to the Annual Report
In addition to the information provided in this Annual Report, related topics can be found at skf.com/ar2020.

- GRI content index[2)]
- CO_2 emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing units 2020
- Risk Matrix
- TCFD Report
- Green Bond Investor Letter and Impact Report

Statutory Sustainability Report
SKF has prepared a separate report according to the Swedish Annual Account Act on sustainability reporting and reports on the topics:

- **Business model** pages 18–19
- **Anti-corruption** page 118
- **Climate and environment** pages 119–125
- **Employees** pages 125–131
- **Human rights and other relevant social topics** pages 132–135

Risks associated with the topics above are found in connection to the topics in SKF's overall risk management on pages 50–51 and on page 112. Risks not addressed in this report are described in the Risk Matrix published on topics related to the Annual Report 2020 on skf.com/ar2020

1) As defined by GRI Standards.
2) Documents subject to limited assurance by SKF's auditors.

General disclosures

Organizational profile

102–01 Name of the organization
AB SKF

102-02 Activities, brands, products, and services
The SKF Group is a leading global supplier of products, solutions and services within bearings, seals, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimization, engineering consultancy and training. For information on SKF's brands, please refer to skf.com/brands.

102-03 Location of headquarters
Sven Wingquists Gata 2 in Gothenburg, Sweden.

102-04 Location of operations
SKF operations are global. The Group has manufacturing operations in 22 countries and direct sales channels in 70 countries. The Group is present in 130 countries. For more information please refer to SKF's global presence on pages 42–47.

102-05 Ownership and legal form
AB SKF, listed at Nasdaq Stockholm, Large cap. For more information about the SKF share, see pages 52–53.

102-06 Markets served
SKF is a global actor, with business across all geographical markets and major customer industries. Pages 6–8 and 42–47 provide an overview of geographies and industries served.

102-07 Scale of the organization
Represented in 130 countries, 40,963 employees, 15 technical centres and 91 manufacturing sites. Net sales in 2020 amounted to SEK 74,852 million.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 60. In 2020, SKF delivered 367,532 tonnes of bearings, as well as seals, condition monitoring, lubrication systems and services.

102-08 Information on employees and other workers

Employees and other workers by employment type

	Permanent		Temporary		Agency	Total
2020	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,143	10,591	21	141	847	20,743
Asia and Pacific	2,762	6,281	7	184	2,380	11,614
North America (incl. Mexico)	1,674	3,055	22	2	186	4,939
Eastern and Central Europe	767	2,654	20	453	78	3,972
Latin America	525	2,279	0	75	33	2,912
Africa and Middle East	263	44	0	0	21	328
Total	**15,134**	**24,904**	**70**	**855**	**3,545**	**44,508**

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represent headcount per year-end December 2020.

Employees by contract and region

2020	Full time	Part time
Western Europe	18,994	902
Asia and Pacific	9,222	12
North America	4,746	7
Eastern and Central Europe	3,890	4
Latin America	2,864	15
Africa and Middle East	305	2
Total	**40,020**	**943**

Employees by gender and contract

2020	Full time	Share, %	Part time	Share, %
Men	31,790	79	328	35
Women	8,231	21	615	65
Total	**40,020**	**100**	**943**	**100**

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local HR systems and applying these percentages to the total headcount per geographic area.

102-09 Supply chain
SKF's downstream value chain serves some 40 different industries in 130 countries. To serve the diverse customer base in these markets in the best way, SKF owns and operates 91 manufacturing plants across the world. SKF directly employs over 26,000 people in manufacturing.

Reflecting its global operations, SKF sources materials and services from suppliers around the world. The purchased material consists of steel raw material, such as bars, wires, tubes and strips, and steel-based components, such as rings, balls, rollers, and sheet metal parts, and other direct material, as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and in the Americas. About 90% of supplies to SKF factories comes from local or regional suppliers. The total annual spend of the SKF Group is around SEK 37 billion and roughly around 1,100 suppliers make up 80% of the total spend by volume. For more information please refer to the Supplier assessments section on pages 134–135.

102-10 Significant changes to the organization and its supply chain

No significant changes, acquisitions or divestments, as described on pages 69–70.

102-11 Precautionary principle or approach

As required by the International Chamber of Commerce (ICC) Charter and referring to the Rio Declaration on Environment and Development, SKF applies a precautionary approach in its development work. Conservative assumptions are also used for any claims made by SKF regarding product or operational performance.

102-12 External initiatives

SKF endorses or subscribes to a number of internationally recognized principles, charters and guidelines which promote sustainable and ethical business practices. The main ones are:

- The United Nations Global Compact, which is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. SKF has participated in the Global Compact since 2006. SKF Annual Report is also the Group's communication channel on progress for the principles of the Global Compact.
- The International Labour Organization (ILO), which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.
- The International Chamber of Commerce (ICC) is the voice of world business, championing the global economy as a force for economic growth, job creation and prosperity.
- The Organization for Economic Co-operation and Development (OECD) has the mission to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this, SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.
- Pursuant to SKF's climate neutral target, SKF joined the RE 100 (Renewable Energy 100) initiative in 2020. This global initiative brings together some of the world's most influential businesses committed to using 100% renewable electricity.

102-13 Membership of associations

SKF is an active partner in several industry collaborations and initiatives. The Group holds dialogues with industrial peers on issues relating to technology and management across relevant short- and long-term aspects relating to economic, governance, environmental and social dimensions. SKF takes part in the UN Global Compact, the World Bearing Association, Transparency International, Teknikföretagen, the Royal Swedish Academy of Engineering Sciences, the Swedish Life Cycle Centre and the International Standardization Organization among others. In addition, SKF collaborates with a number of internationally recognized universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy.

Strategy

102-14 Statement from senior decision-maker

The President's letter is found on pages 10–13. Strategic priorities, trends, targets and achievements and outlook are described throughout the report.

102-15 Key impacts, risks, and opportunities

The United Nations Sustainable Development Goals help to highlight risks and opportunities for business globally. The goals also provide a lens as to the social change needed to achieve them. External drivers, trends and opportunities are described on pages 20–21. SKF's overall risk management approach is described on pages 50–51.

SKF's materiality analysis, described on page 115, helps the organization identify sustainability risks in the value chain and supports the organization to filter out and aggregate the risks that if they are materialized, would have the most significant impact on the company, its operations and society. SKF's integrated management system and processes for risk management are critical to integrate, monitor and manage the risks and opportunities that stem from internal and external forces – whether social, environmental, legal, political, technological and/or economic. For example, human rights related issues, where SKF has worked for many years according to external principles and charters to integrate human rights risks in its policies and procedures.

Ethics

102-16 Values, principles, standards, and norms of behavior

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, at Group level and in local adaptions of the SKF management systems, but the SKF Code of Conduct is the superior policy. All other policies are subordinate to it. It is available in 19 languages and publicly available on skf.com/code.

The SKF Group values

Empowerment • High ethics
Openness • Teamwork

102-17 Mechanisms for advice and concerns about ethics

SKF employees are requested to report behavior that is not in line with SKF's Code of Conduct to their manager, local human resources or to other senior managers. Employees can also raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line. The reporting line is hosted by a third part and reports can be made anonymously, unless this is prohibited by local legislation.

The SKF Ethics and Compliance Reporting Line is available to external parties on skf.com. SKF employees and others can report concerns in their own language via a designated web portal or by calling a local telephone number (telephone service is available only in Brazil and Mexico). SKF has a strict non-retaliation policy towards anyone raising concerns in good faith. During 2020, 437 concerns were reported to the central functions via the SKF Ethics and Compliance Reporting Line or via other channels. The major types of concerns reported were discrimination or harassment (15%), conflict of interest (10%) fraud (5%) and bribery (7%). Cases related to COVID-19 amounted to 19%. In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management. During 2020, a procedure has been developed for local grievances related to discrimination and harassment, to be reported centrally.

437

cases reported via the Group's whistle blowing system

Governance

102-18 Governance structure

The President of the Group, who is also the Chief Executive Officer, is appointed by the Board and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. SKF is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive, SKF Technology and Industrial Technologies. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations.

Group Management and the Board of Directors have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. The Director of Group Sustainability reports directly to the Chief Executive Officer and has the task to assure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group. The Director of Group Sustainability also establishes policies, strategies and targets related to SKF's overall sustainability performance. These in turn drive and support the integration of sustainability into business practices, processes, operations and staff functions.

Sustainability performance is the responsibility of the operations and shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management.

The implementation of the sustainability program in the line organization is driven by the respective SKF areas, their business units or by country organizations, with direction and coordination from formal, cross-functional, decision making bodies and working-groups such as:

- The Responsible Sourcing Committee, established to assure that SKF's Code of Conduct for suppliers and sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the Code of Conduct are identified at our suppliers.
- The EHS and Quality Board, and the operational EHS network, oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001 (soon to be ISO 45001), ISO 50001 and associated policies and instructions; and coordinates the deployment of the Group's related strategy.
- The Group Ethics and Compliance Committee, which oversees the risks and opportunities related to the ethics and compliance areas.

In general, EHS and Sustainability topics are integrated into SKF processes and governance structures – for example, performance and strategy are regularly addressed by the Bearing Operations management team. Authority and responsibility are further delegated to the country managers who are appointed by SKF's Group Management. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as stated in the SKF Group Policy on Country Manager and Managing Director Roles and Responsibilities.

Stakeholder engagement

102-40–102-44
SKF aims to align its business practices with the needs and expectations from its stakeholders. Stakeholder groups are defined as entities or individuals that may both influence and be influenced by SKF's activities. SKF works in different ways to identify individuals with whom to engage and establish ongoing dialogue. Connected to sustainable development, the general rationale is that all these different stakeholders have specific concerns. Feedback and input are therefore sought from a wide range of stakeholders and in many different ways.

The input to SKF's sustainability activities is collected from customers, investors and analysts, employees, unions and representatives from civil society, and is collected via interviews, surveys, conferences, meetings and data analysis.

The work to engage with the stakeholder groups is conducted by respective functions within the Group (e.g. Investor Relations, Human Resources, Communication, Sales, Bearing Operations and Purchasing). This includes managing the direct dialogue and identifying individuals from whom to seek feedback. SKF has not made a full stakeholder analysis during 2020 but has sought and received input which to some extent has changed the materiality matrix (see 102–49). The materiality matrix is used by SKF to ensure that enough focus and resources are put into the areas where the stakeholder interests are the highest and which have the highest impact on SKF, such as health and safety, climate and compliance.

Collective bargaining agreements
SKF holds collective bargaining agreements in most countries where it is present. The 20 countries that are part of the SKF World Union Council (WUC) Argentina, Austria, Brazil, Bulgaria, China, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, South Korea, Sweden, the U.K., Ukraine and USA – all have collective bargaining agreements. These countries make up over 95% of all blue-collar workers (around 25,000). If the workers at a site choose not to be unionized, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and are part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing, of which the biggest countries are: Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

In 2020, annual EWC and WUC meetings were held – due to the pandemic – in an online format with online translations.

	Approach to stakeholder engagement	Key topics and concerns raised
Customers	Customer input is sought and received via sales and marketing operations and activities carried out by the Group. These range from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also collects key issues and concerns from customer surveys and assessments.	• Climate impact • Conflict minerals • Environmental compliance • Human rights and labour rights (including health and safety) • Corruption
Investors and analysts	SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels, such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. Capital market days are held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via discussions during investor meetings.	• Climate impact and financial climate risk and opportunities management • Human rights along the value chain (including health and safety) • Cost competitiveness and operational efficiency • Digitalization, job development and manufacturing footprint
Employees and union organizations	SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. This is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 141–148. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.	• Environment, health and safety • Employment and competency development in relation to digital automation • Diversity and working climate • Leadership and change management
Civil society	The communities in which SKF operates are important stakeholders for the company and their input helps shape local SKF activities. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, charity work, sponsoring and local network collaboration. Local media is also considered to represent civil society. Formal and informal networks are used to share experiences and ideas with other companies, topic experts and NGOs.	• Climate impact • General responsible business conduct, tax transparency • Connection between the Group's strategy and the Global Goals
Suppliers	Suppliers' input on material topics is managed via SKF's responsible sourcing programme. Local sourcing offices enable close communication on daily operations. On-site audits and training provide feedback to SKF on suppliers' performance related quality and sustainability as part of a total cost assessment of supplier development. The SKF Code of Conduct is the standard used during audits and screening.	• Employment procedures • Health and safety • Overtime • Systematic environmental management

102-45 Entities included in the consolidated financial statements
See pages 104–106

102-46 Defining report content and topic boundaries
SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance, based on the input provided to the Group as presented in the previous section. To do this, SKF applies reporting principles of stakeholder inclusiveness, sustainability context, materiality and completeness. The topic boundaries have been evaluated from an organizational and business context, as well as from a stakeholder perspective. It is also evaluated in terms of impact and contribution to the UN Sustainable Development Goals.

When approaching stakeholders proactively, the respondents are usually provided a shortlist of potentially material topics. The stakeholders are asked to highlight the most significant topics for their assessments and decisions related to SKF. They are also asked to add additional issues or remove what they consider irrelevant. SKF uses this input, together with risk assessments, and general impact assessments to define the significant environmental, economic and social impacts.

102-47 List of material topics
When combining the feedback above with previously collected input from other stakeholder groups, as presented on page 114, the result is translated and presented in terms of GRI Standard topics. All these topics are considered material and relevant to report. As indicated below, several topics at the top right of the matrix stick out as highly material. The ambition however is not to provide an exact numeric score for each topic but instead, provide an approximated rating.

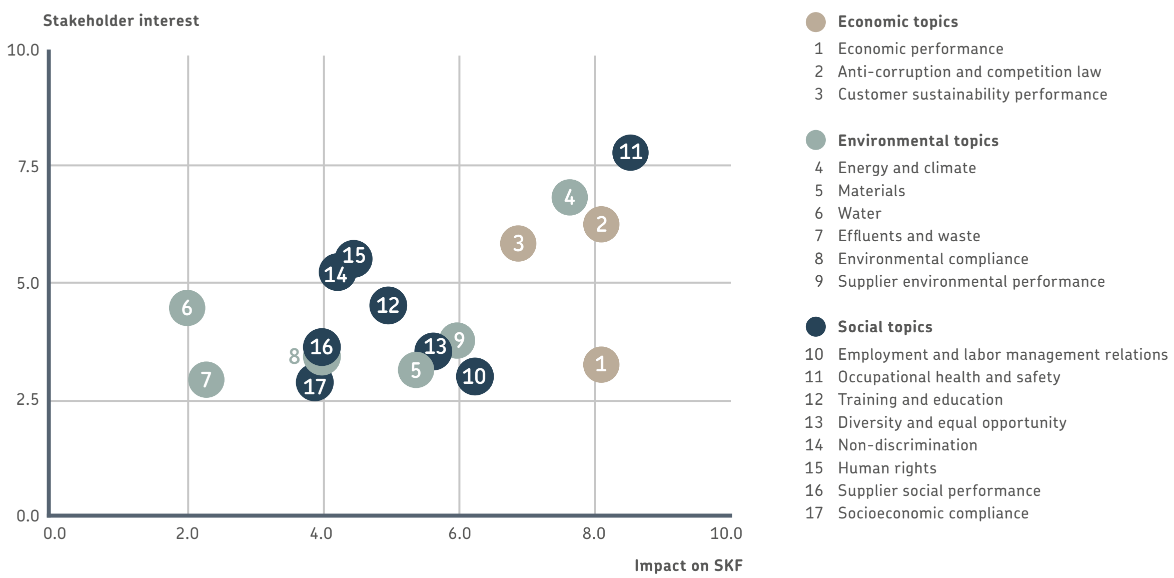
The context, scope and boundaries of each topic are described further in the specific disclosures on pages 117–135, along with the management approach.

102-48 Restatements of information
On pages 121–122, as defined by the GHG reporting protocol, Energy and CO_2 statements relating to scope 1 and 2 emissions have been restated due to acquisitions and divestments.

The weight of sold bearings and units shown on page 122 had been restated back to 2015 due to an error found. Recycled or reused (tonnes) material shown in table 306-2 on page 125 was also restated for 2018 due to a reporting error.

Due to an error in the volume reporting between 2017–2019, the CO_2 emissions related to goods transportation have been restated.

For all HR data, Mexico is since 2019 included in NAM (previously in LAM). The tables under 102-8: Employees by contract and region and Number of employees by contract and gender, have been restated due to simplification of reporting.



102-49 Changes in reporting
During 2020 SKF has started to report Scope 3 Green House Gas Emissions related to purchased materials – specifically Steel and Forgings, see pages 121–122.

The following entities started to report in 2020 and will be included in the annual report from 2021 (i.e. in Jan 2022) when 2 years of reporting are available:
- Airasca Metal Stamping (acquired in March 2019, started reporting in 2020) – Italy
- Frossasco Metal Stamping (same as above) – Italy

In the 2020 annual report, the following entity is included for the first time:
- Cooper Bearings (was part of Kaydon acquisition and started reporting during 2019) – Kings Lynn (UK).

Movement in the materiality matrix
Input received from stakeholders during 2020 has been added to complement previously collected feedback. The main new input sought pro-actively in 2020 comes from senior SKF managers, SKF customers, employees, unions and suppliers.

Broadly speaking, the updated analysis rates the issues in the same order as 2019, with some increased priority for Employee and Labour management relations and Human rights.

There were no new or removed material topics.

102-50 Reporting period
1 January to 31 December 2020.

102-51 Date of most recent report
The previous report was published on 4 March 2020.

102-52 Reporting cycle
Annual

102-53 Contact point for questions regarding the report
Johan Lannering
Director, SKF Group Sustainability & SKF Nova
email: johan.lannering@skf.com

102-54 Claims of reporting in accordance with the GRI Standards
This report has been prepared in accordance with the GRI Standards: Core option.

102-55 GRI content index
A complete GRI content index is available together with topics related to the Annual Report on skf.com/ar2020

102-56 External assurance
To ensure SKF's stakeholders and readers of the Group's sustainability report are confident in the transparency, credibility and materiality of the information published, SKF Group Management has decided to submit the sustainability report for third-party review and verification. This has been done since the year 2000. The report is audited with ISAE3000 and RevR12. The board has also approved this report.

Sustainability disclosures in the SKF Annual Report 2020 have been subject to limited assurance by SKF's auditors, please refer to Auditor's Limited Assurance Report on the Sustainability Report on page 136.

SKF's material topics

Economic Performance

Material topic – GRI 201: Economic Performance 2016

103-1 Materiality and boundaries
Economic performance is considered to be material for the SKF Group and its subsidiaries. The consolidated financial statements include the Parent Company, AB SKF and those companies in which it directly or indirectly exercises control.

103-2–103-3 Management approach, its components and evaluation
SKF is a profit-driven organization. The financial performance is the overall indicator of the economic impact SKF has on society. All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS. Please refer to page 66 for more information about SKF's financial accounting policies.

201-1 Direct economic value generated and distributed
The data from the financial statements has been used to break down economic value generated and distributed as described below.

Economic value generated and distributed (MSEK)	2020	2019
Net sales	74,852	86,013
Revenue from financial investments and other operating income	290	107
Economic value generated	**75,142**	**86,120**
Operating costs	–46,074	–50,801
Employee wages and benefits	–23,000	–26,227
Economic value distributed to providers of capital	–3,249	–1,989
Economic value distributed to government (income taxes)	–1,826	–2,677
Economic value distributed	**–74,149**	**–81,694**
Economic value retained	**993**	**4,426**

Economic value generated includes net sales, interest income, and profit on sale of assets and businesses, net.

Operating costs include total operating expenses, plus the net of other operating income and expenses, plus financial net, less employee wages and benefits, less revenues from financial investments and other operating income, less interest expenses.

Employee wages and benefits includes costs related to wages and salaries including social charges.

Economic value distributed to providers of capital includes suggested dividends to SKF's shareholders and interest expenses.

Economic value distributed to government includes Group income taxes. For the actual payment of taxes during the year, see consolidated statement of cash flow on page 62.

201-2 Financial implications and other risks and opportunities for the organization's activities due to climate change
SKF's business is diversified in terms of products, customers, geographic markets and industries. The Group usually divides its customers into some 40 different industries. SKF owns and operates around 91 manufacturing units in 22 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. SKF has started to report to CDP in 2020 and has aligned with the TCFD framework as described on page 22. It is described in detail in the report included in the Topics Related at skf.com/ar2020.

Business risks and opportunities
SKF sees it as a key element in its strategy to provide products and offerings which are sustainable, low carbon and which can improve customers' operations in these regards. SKF is also focusing on markets and industries that will benefit and grow due to the actions needed to manage the climate crisis. One example is SKF's early participation in the industrialization of wind and tidal energy. Another example is SKF's close partnerships with automotive customers in electrification and to improve energy efficiency of drivelines. Many industries, especially those producing vehicles or input material to vehicles are subject to similar transformational changes. SKF is following this on an industry, as well as on a customer level, to develop new technologies for new demands. Due to the different position of SKF in the value chain and wide variety of business, scenario planning and estimated effects on the bottom line are not aggregated at Group level.

Please see pages 6–7 for an overview of SKF's business areas.

SKF operations
SKF has mapped all its manufacturing units from a physical climate risk perspective (risks of flooding and strong wind). Climate change effects are considered when deciding where to locate new manufacturing sites.

One of the most immediate and obvious financial risks related to climate change for SKF's value chain is an increased cost of energy. It is with high uncertainty how and where, e.g. CO_2 taxation would be implemented, and SKF chooses to address this as an integrated risk of energy cost. The best way to mitigate this risk is to reduce the energy demand. In terms of spend, electricity makes up most of the energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. A 10% increase in costs related to energy would impact the Group's result by around MSEK 100. For more on SKF's climate objectives, please refer to Energy and emissions on page 119.

Supply chain
A general cost increase in energy would also impact the cost of raw materials and components purchased by SKF. Most direct materials undergo several refinement steps before being procured by SKF. This makes SKF less sensitive to raw material cost fluctuations, but has traditionally made SKF more sensitive to other operational costs at suppliers. Regardless, energy cost remains one major cost driver in the supply chain. SKF has established an objective for energy intensive major suppliers to implement the ISO 50001 energy management standard to mitigate cost risks and to reduce environmental impact.

SKF has also incorporated risk management in the purchasing strategies. One risk area is supply issues linked to natural disasters. The risk mitigation actions will support suppliers to reduce the potential impact of climate change, such as extreme weather events.

In general, the costs associated with actions to commercialize opportunities and to mitigate risks related to climate change are embedded in other costs, such as research and development, maintenance and investment budgets, and cannot be reported separately.

Anti-corruption and Anti-competitive Behavior

Material topics – GRI 205: Anti-corruption 2016 and GRI 206: Anti-competitive Behavior

103-1 Materiality and boundaries
SKF addresses anti-corruption and anti-trust as part of the Group's compliance program. The compliance program includes the areas and supporting processes that follow from the illustration below.

SKF has, over many years, had a strong focus on business ethics in its corporate values. This work has led to an increased number of reported concerns and a willingness to discuss ethical dilemmas more openly. Openness and transparency are key to a successful compliance program. SKF continues to work on fully incorporating these values in the corporate culture in all regions.

103-2–103-3 Management approach, its components and evaluation
To have a single body providing support for operations to manage compliance risk, a new corporate function has been established by merging the previous Group Audit and Group Compliance functions. The new function is called Group Compliance & Assurance and is responsible for internal control, compliance, internal audit and enterprise risk management of the Group.

SKF has Group policies and instructions setting out the expectations on how to act. Processes, controls, guidelines, training and tools are integrated parts of the program and are available for employees on the Group's internal websites. SKF's anti-corruption efforts focus on regions and activities with a high corruption risk. The regional risk assessment is mainly based on the Transparency International Corruption Perception Index.

SKF has dedicated compliance resources for all high-risk regions: China, India, South-East Asia, Russia and CIS, Central and East Europe, Middle East and Africa, and Latin America. Together with Group Compliance & Assurance, each region develops a compliance activity plan which is approved by the Audit Committee of AB SKF on a yearly basis.

As response to an increased number of fraudulent emails to SKF employees, a mandatory fraud e-learning course for all SKF employees was launched in late December 2020.

In the area of compliance, two new mandatory antitrust e-learning courses were launched. The completion rates in 2020 for the two antitrust courses were 70%, respectively 80%. Furthermore, mandatory e-learnings regarding diversity & inclusion and ethical leadership for managers were launched, with 86% respectively 84% completion rate.

The number of ethical concerns reported via SKF Ethics & Compliance Reporting Line has increased from 340 (2019) to 437. This includes 82 reports related to COVID-19.

205-1 Operations assessed for risks related to corruption
All units are required to perform yearly compliance risk assessments. One of the main challenges, and thus one of the focus areas, is to create a commitment by local management to take ownership of compliance risk management, including development and implementation of mitigating activities. The main corruption risk is when distributors and agents are used to represent SKF when interacting with governments or state-owned entities in regions with a high corruption risk. During 2020, such compliance risk assessments have been done by the Sales organizations in Eastern Europe, Latin America, Russia, North East Asia and South-East Asia.

At SKF's manufacturing units, risk-based ethics and compliance reviews are carried out, in conjunction with environmental, health and safety audits. The purpose is to assist units in their work to identify and address specific ethics and compliance risks, including corruption. During 2020, 11 such reviews have been reported. The number of reviews made are significantly lower than 2019 due to travel restrictions.

205-3 Confirmed incidents of corruption and actions taken
During 2020, 60 fraud and corruption incidents have been confirmed. In total, 68 employees have left SKF as consequence of findings from these investigations, including confirmed incidents related to other violations of the Code of Conduct. The majority of these employees left SKF due to confirmed conflicts of interest and expense fraud, and most cases were from SKF in China. There were no reported cases of contracts with business partners were terminated or not renewed due to violations related to corruption. There were also no reported public legal cases regarding corruption.

206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices
For any ongoing investigations, please refer to note 19 on pages 86–87.

Customer sustainability performance

Material topic, SKF indicator: Customer sustainability performance

103-1 Materiality and boundaries
For many years, the Group has built up knowledge around lifecycle management and how environmental and social impacts can be reduced or avoided. Studies show that the greatest impact is during the use phase of SKF's products in customer applications and systems. SKF can enable improvements in customers' sustainability performance through products, services, business models and value propositions. The improvements include for example increased energy efficiency, reduced CO_2 emissions, improved safety, reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels and more. The Group also brings value to customers through the way we run our operations as a responsible business partner.

Recent years' development with an increased understanding of the connection between economic, social and environmental issues and the implementation of the Sustainable Development Goals (SDGs) from the United Nations has provided the Group with the opportunity to collaborate more closely with customers to create and deliver ever more sustainable solutions. In doing so, the Group has carefully assessed the targets and activities proposed by the Agenda 2030 and mapped risks and opportunities related to both internal activities and how SKF can further support customers with engineered solutions.

103-2–103-3 Management approach, its components and evaluation
SKF has made cleantech one of its strategic focus areas and will continue to add technologies and offerings to the value propositions. The Group enables and drives technology development in industries such as renewable energy generation and sustainable transport systems, including electric vehicles. Moreover, the Group develops new circular business models and works in collaboration with its customers to improve sustainability performance of their applications and systems. To support that work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating customer sustainability performance. This work is in progress and SKF can enable improvements in relation to many of the SDGs.

As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from SKF customer solutions enabling climate change mitigation in four areas: renewable energy generation, electric vehicles, recycling industry and bearing remanufacturing. The total revenues of these areas amounted to SEK 6.4 billion in 2020. Going forward, SKF aims to develop and implement additional follow up and reporting related to customer sustainability performance.

SEK billion	2020	2019
Total revenues from renewable energy, electric vehicles, recycling industry and bearing remanufacturing	6.4	5.1

Energy and emissions

Material topics – GRI 302: Energy 2016 and GRI 305: Emissions 2016

103-1 Materiality and boundaries
Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy-efficient and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions. The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

103-2–103-3 Management approach, its components and evaluation
The Group's climate objectives are described in brief on page 25. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO_2 emissions from manufacturing per tonne of bearings sold and
- 40% reduction of CO_2 emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and Scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). In this statement, the management approach along the value chain and total energy and emissions are disclosed. In June 2020, SKF announced a new objective for manufacturing and other operations to become carbon neutral by 2030. This relates to Scope 1 and 2 emissions. This will be achieved by a combination of efforts focused on energy and material efficiency, generating renewable energy, sourcing renewable energy and (as a last resort to cover any remaining emissions) purchasing carbon offsets. As part of this approach, SKF has joined the RE100 initiative – a signal that the Group intends to source 100% renewable electricity by 2030.

In August 2020, SKF announced a further objective to reduce CO_2 emissions from business travel. This new target sets the maximum allowable amount of CO_2 from business travel at 50% of the full year 2019. The target commits to stay below this ceiling each year for the coming several years. This will be achieved by significantly increasing the use of digital collaboration in order to reduce the need for business travel.

SKF's own operations
In 2020, SKF used some 1,561 GWh of energy in its manufacturing operations, which has resulted in around 381,790 tonnes of CO_2 emissions. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2011. SKF plans to complete the process of updating to ISO 50001:2018 standard in Q2 of 2021. The certificate covers around 50 more energy intensive operations making up about 80% of the Group's total energy use. SKF has a centralized function to manage strategic energy sourcing decisions for the Group, including cost effective reduction of CO_2 intensity.

SKF's management approach is decentralized to SKF's sites and integrated in the environmental management system. Energy efficiency work at sites is often closely linked to local maintenance strategies.

To increase focus and accelerate improvements, in both energy and CO_2 performance, SKF developed a new Group wide energy target during 2018. This applies to all units within the scope of the ISO 50001 standard. In 2020, SKF required an improvement in energy performance of 5% compared to Unit, Cluster, Area or Group energy base line. The base line is established using linear regression of the previous two years' monthly energy use vs. value added (a measure of production activity, which is known to correlate with energy demand). This KPI removes distortions, which impact more simplistic measurements of energy performance (such as production volume variations) and allows a focus on the real underlying energy performance. In 2020, the performance against this target was –2.3% vs. the – 5.0% target. Energy efficiency measures have been slowed down as a result of the COVID-19 pandemic; however, an increased focus will be applied in this area during 2021.

Goods transportation

SKF is directly managing most of the goods transportation downstream and part of the transportation upstream. The Group works to reduce CO_2 emissions from transports in four main ways: optimizing transport networks and routing; using energy-efficient modes of transport with low CO_2 intensity (e.g. ocean and rail instead of air where feasible); procuring transport with high fuel efficiency and low-carbon fuels; and minimizing mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint). As of 2017, the Group changed efficiency measure to CO_2 emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.

Raw material and components

The emissions from raw material and components are typically as much or more than those from SKF's own operations, with the important difference being that they are not in the Group's direct control. As a main way to cut costs and emissions from the supply chain, SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. This standardized way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.

During 2020, SKF has increased its focus on driving reductions related to raw materials and components. The company is working with the five largest steel suppliers (representing 53% of total steel sourcing by weight) and the five largest suppliers of steel forgings (representing 26% of total forging supply by weight). SKF has started to focus here because steel and forgings are by far the most energy intensive types of supplier to SKF and steel represents more than 95% of weight total direct material purchased by company. The focus is applied in several ways. Firstly, the companies in scope are required to report the Scope 1 and 2 emissions which result from the materials supplied to SKF. The first aggregated report of this data is included in this report. Secondly, the suppliers are required to explain and present their plans to improve energy efficiency and CO_2 per tonne of output. SKF has developed a tool which allows product designers and purchasing colleagues to estimate the upstream CO_2 impact of different steel supplier options. This allows SKF to meet increasing customer focus on reducing the embedded CO_2 emissions in the products which they buy.

Customer solutions

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact, lies in the customer use phase of the Group's products and solutions. As reported on page 119, many of SKF's offerings can be strongly linked to sustainability needs alongside other business needs and in doing so, create value for customers, investors and society. Some are more specifically linked to mitigate climate change.

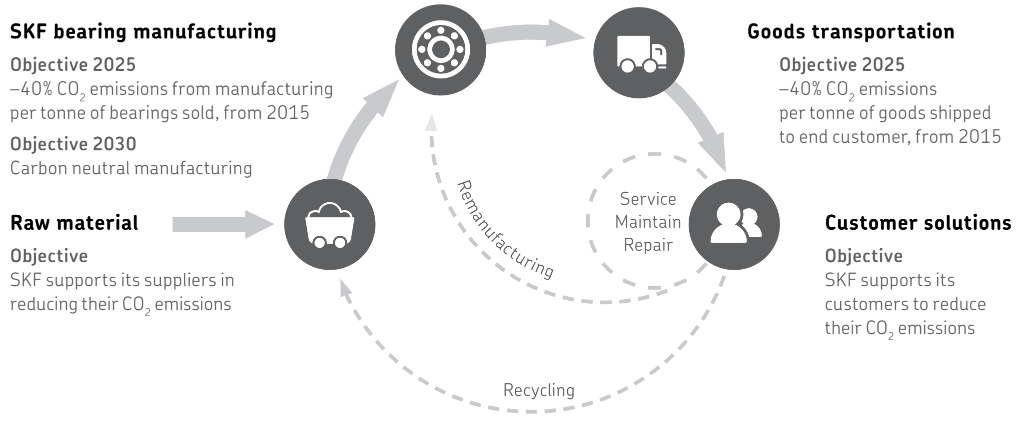
Life cycle impact

In addition to cutting climate impact in the transactional value chain, SKF also works to develop new business models to reduce environmental impact alongside cost. Firstly, the Group works to predict maintenance and enable cost effective repair and service within the customers' processes. Secondly, SKF brings back bearings and units for refurbishment or remanufacturing – a process which can cut energy and emissions by up to 90%, compared to the production of a new bearing.

Data reporting according to the Greenhouse Gas Protocol guidance

In these statements, all SKF's manufacturing sites, technical and engineering centres and logistics centres are included, including those outside the ISO 50001 scope. Joint ventures are included where SKF has management control. Energy data and related greenhouse gas (GHG) emissions are reported monthly and followed up biannually by the SKF Group Management.

SKF uses the GHG Protocol Corporate Guidance for reporting its emissions. Due to the nature of SKF's operations, only three greenhouse gases are likely to be released in significant quantities for tracking. These are CO_2, methane and nitrous acid, where CO_2 is by far the biggest contributor to SKF's emissions. Scope 1 and 2 emissions are all reported in CO_2-equivalents (CO_2e), including the above mentioned other emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.



302-1 Energy consumption within the organization

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Source, GWh	2020	2019	2018
LPG	16	19	20
Natural gas	255	288	303
Fuel oil	5	6	9
Renewable energy generated onsite	20	23	23
District heating and cooling	118	112	137
Electricity	1,146	1,248	1,318
Total energy use	**1,561**	**1,696**	**1,810**

302-3 Energy intensity

This disclosure includes all energy generating Scope 1 and 2 emissions for the SKF Group, and revenues in SEK billion for the SKF Group. In this disclosure, the data have not been adjusted for acquisitions and divestments.

GWh per SEK billion	2020	2019	2018
Total energy use within the organization (GWh)	1,561	1,696	1,810
Revenues, net sales (SEK billion)	74,852	86,013	85,713
Energy intensity (GWh/SEK billion x 1,000)	**20.85**	**19.72**	**21.11**

302-4 Reduction of energy consumption

During 2019, SKF implemented a new target and KPI to drive further reductions in electricity use at the main manufacturing sites. The KPI measures monthly electricity use in relation to a defined energy driver for each site that is ISO 50001 certified. The baseline is actual performance during the two previous years. In 2020, this KPI showed an improvement of 2.3% vs. a target of 5% – indicating an improvement in underlying energy efficiency with a saving of 21 GWh compared to the baseline.

305-1 Direct (Scope 1) GHG emissions and 305-2 Energy indirect (Scope 2) GHG emissions

During 2020, SKF purchased a small quantity of carbon offsets. These covered the last few tonnes of scope 1 emissions (for building heat) needed to make SKF's factory in Tudela, Spain, carbon neutral. During 2021, SKF aims to switch from gas fired heating to renewable electric heating at this facility, thereby eliminating the need for continued offset purchases.

In general, SKF considers carbon offsets to be a last resort in achieving its targets – only to be deployed when all other measures to avoid emissions (energy & material efficiency, fuel switching, renewable energy sourcing or generation) have been exhausted.

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Market-based emissions, tonnes	2020	2019	2018
Direct (Scope 1) GHG emissions			
CO_2e emissions	50,285	58,606	62,255
Energy indirect (Scope 2) GHG emissions			
CO_2e emissions market-based	331,509	361,960	430,033
Total CO_2e emissions, market-based	**381,794**	**420,566**	**492,288**

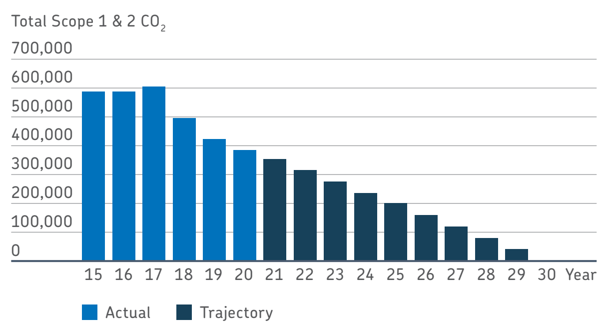
Location-based, tonnes	2020	2019	2018
Direct (Scope 1) GHG emissions			
CO_2e emissions	50,285	58,606	62,255
Energy indirect (Scope 2) GHG emissions			
CO_2e emissions, location-based	466,248	501,067	551,661
Total CO_2 emissions, location-based	**516,533**	**559,673**	**613,916**

Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2020	2019	2018
Direct (Scope 1)			
LPG (3.0 per tonne)	3,468	3,996	4,178
Fuel oil (3.2 per tonne)	1,302	1,565	2,256
Natural gas (0.002 per cubic meter)	45,515	53,045	55,822
Supplied (Scope 2), market-based			
Electricity	310,282	341,931	405,910
District heating and cooling	21,226	20,030	24,123
Total CO_2e emissions, market-based	**381,794**	**420,566**	**492,289**

Scope 1 emission factors have been gathered used from Folksam and Finanstidningen's Environmental Index 2000.
Scope 2 emission factors have been gathered from SKF's contracts with electricity and district heating and cooling suppliers.

Progress towards Carbon Neutral Goal



305-3 Other indirect (Scope 3) GHG emissions

Under Scope 3 emissions, SKF reports CO_2 emissions from the most significant direct material suppliers (steel and forgings), goods transportation and business travel.

Direct material supplier emissions

These data are based on aggregation of figures provided by the major (top 5) suppliers of steel and forgings to SKF. This scope covers 17% by volume of total direct material spend and 53% by weight of steel purchased. This is the first time SKF reports this information and should be considered as indicative rather than precise quantification of these upstream impacts. Going forward, SKF is working to increase both the scope and accuracy of the data collected and reported.

CO_2e Tonnes	2020
Scope 3 direct material supplier emissions[1)]	356,000

1) See text for description of scope.

Goods transportation data and related CO_2 emissions

	2020	2019 1)	2018 1)	2015
CO_2 emissions from transports Scope 3, (tonnes)	100,925	123,369	123,448	107,995
Transport works (tonnes shipped)	340,934	392,224	397,013	352,641

1) Due to an earlier error in the volume reporting, derived between 2017–2019, emission calculations have been restated with corrected base data. This resulted in a changed KPI result.

Shipped volumes and emissions per transport mode 2020

	Road	Sea	Air
Transport works, tonnes shipped, % of total	76.3	22.8	0.8
CO_2 emissions, % of total	30.6	38.2	31.1

Business travel

An increasing number of countries have been reported in 2020. SKF now monitors CO_2 emissions from its air travel in Europe, USA, Canada, Mexico, Brazil, Argentina, Uruguay, Chile, China and India.

	2020	2019
CO_2 emissions (tonnes) from air travel (Scope 3)	3,584	12,954

The drastic reduction in business travel and related emissions is mainly due to the travel restrictions imposed during the COVID-19 pandemic.

In August 2020, SKF announced a further objective to reduce CO_2 emissions from business travel. This new target sets the maximum allowable amount of CO_2 from business travel at 50% of the full year 2019. The target commits to stay below this ceiling each year for the coming several years.

This will be achieved by significantly increasing the use of digital collaboration in order to reduce the need for business travel.

305-4 GHG emissions intensity

All greenhouse gases are included and converted to CO_2e emissions according to the GHG Protocol for Scope 1–3.

SKF's bearing manufacturing (Scope 1 and 2)

Objective 2025

−40%

CO_2 emissions from manufacturing per tonne of bearings sold, from 2015

Status 2020

−37%

Intensity	2020	2019 1)	2018 1)	2015 1)
CO_2 emissions – bearings & units factories (tonnes)	323,750	352,376	410,258	482,956
Weight bearings and units sold 2) (tonnes)	367,532	388,679	405,958	345,686
GHG emissions intensity CO_2 emissions/tonnes sold products	0.88	0.91	1.01	1.40
Change vs 2015, %	−37	−35	−28	—

1) All data has been restated to reflect acquisitions and divestments. Missing historical data for acquisitions are estimated.
2) "Weight bearings and units sold" for 2015 restated in 2020

Goods transportation (Scope 3)

Objective 2025

−40%

CO_2 emissions per tonne of goods shipped to end customer, from 2015

Status 2020

−3%

	2020	2019 1)	2018 1)	2015 1)
GHG emissions intensity kg CO_2 emissions per tonnes shipped goods to end customer 2)	296	315	311	306
Change vs 2015, %	−3	3	2	—

1) Include express shipment
2) Data are adjusted for a significant error found in 2018 and 2019.

305-5 Reduction of GHG emissions

Scope 1 and 2

Following the good trend of recent years, absolute CO_2 emissions were again significantly reduced in 2020. This is due to a combination of factors. There was a significant reduction in production volume at several units in the early period of the COVID-19 crisis. In addition, further increases in energy efficiency, increased share of renewable energy and the consolidation and closure of a number of facilities also contributed to the positive development.

Scope 3 Goods transportation

For goods transportation, SKF's absolute emission has decreased by 7% since baseline year 2015. This is mainly explained by a reduction of airfreight usage, replaced partly by new rail freight set ups and multi-modal solutions.

The relative CO_2 emission per ton shipped to customer, has been reduced by 3%.

Absolute emissions have decreased by 18% since 2019. This have resulted from optimization of transport modes and a significant reduction in air freight. The COVID-19 pandemic reduced the need of air freight during 2020. All transport modes accounts for a reduction, but the main contributor is 28% of less airfreight tonnage. The development over the year has been heavily influenced by the pandemic circumstances, with a significant rise in airfreight demand the second half of the year.

Material, Water, Effluents and waste, Environmental compliance

Material topics – GRI 301: Material 2016, GRI 303: Water and Effluents 2018, GRI 306: Effluents and waste 2016, GRI 307: Environmental compliance 2016

103-1 Materiality and boundaries

Details can differ between the environmental topics but, overall, SKF has a similar management approach to Material, Water, Effluents and waste, and Environmental compliance. These topics are material first of all within SKF and its subsidiaries.

In 2020, the Group sourced about 459,000 tonnes of metal components. The main impact from this lies within the value chain and is associated to energy and emissions. The main way in which SKF can influence this is by focusing on material efficiency in the manufacturing processes. By avoiding wasted material at SKF, the waste associated with the embedded energy and emissions upstream are also avoided.

Although SKF operations are not considered to be water-intensive, water is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity (see table below). In other locations the nature of SKF's processes (most systems utilising water are closed loop) means that SKF typically does not represent a major water user in the local industrial context. Water is withdrawn from municipal supplies or other sources (ground and surface water) and is discharged in surface water or sewage systems after treatment, with quality levels according to local regulations and in this way, water related impacts are addressed. Sites in water scarcity areas establish specific targets for reducing water consumption (see table below). Indirect water use is relevant due to its close correlation to energy generation. Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient.

Effluents and waste are relevant from SKF's manufacturing operations. Compliance is followed up in relation to SKF's manufacturing operations and those of its suppliers.

Water efficiency performance for sites in water stressed areas

Unit	KPI 2020 vs. 2019, %
SKF Shanghai Bearings Co, Deep Groove Ball Bearings	–20
Nankou	30
Dalian. Large Size Bearings	1
Dalian, Medium Size Bearings	38
Jakarta	37
Ahmedabad	31
Bangalore, Deep Groove Ball Bearings	–21
Haridwar	–36
Mysore	–2
Puebla, Hub Units	20
Tudela	–47
Shanghai, Automotive Technologies Co	NA

KPI = water intensity – water use / production volume

103-2–103-3 Management approach, its components and evaluation (combined)

SKF has deployed an environmental management system certified according to ISO 14001:2015. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. New or recently acquired subsidiaries are provided a time frame for inclusion.

This is typically one to two years but can be extended if the company acquired is of significant size and or complexity. The overall coordination of the work is managed by a central staff function and the responsibility to drive improvements is with SKF's functional areas in the line organization.

SKF assures that environmental matters are prioritized through the line organization by integrating environmental performance delivery into the responsibilities of the factory manager, the cluster or Business Unit Manager and up through to Business Area and Group. Local support, competence (particularly for legal compliance) and coordination for the units is provided by the EHS country coordinators. Water quality, following local regulation, refers to the physical, chemical and biological characteristics.

Potential spills, incidents and fines are publicly reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to skf.com/ar2020.

Evaluation of the effectiveness of the management approach is done through internal and external audits and periodical reporting reviews governance being adjusted accordingly.

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits. Environmental performance at suppliers is further reported on page 134.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling. The most important dimension of water for SKF is the water needed to generate energy for use over the value chain.

During 2017 and 2018, and based on an impact analysis at Group level, SKF developed new KPIs to measure and drive a reduced environmental impact. The Group started to report according to the new parameters in 2018. It has been possible to define specific Group objectives for some of these KPIs (listed below). However, after reviewing the aggregated data for some of the KPIs it has been concluded that it is more effective to require that local KPIs shall be defined. Group wide targets are not suitable in these cases due to the wide variation in the types and quantities of waste produced, as well as the local related infrastructure. The KPIs where Group level objectives are defined are:

- Eliminate solvents (emitting volatile organic compounds) from washing of bearings and bearing components by 2025.
- Reach and maintain a recycling rate of grinding swarf at 80%.
- Water use targets are established at SKF sites with significant water risks. In 2020, SKF had eleven such sites.

KPIs where local objectives have been or are to be defined cover the following aspects:

- Waste recycling excluding direct material waste.
- Waste recycling including direct material waste.
- Wastewater treatment.

Data collection

All data is compiled either monthly, bi-annually or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control. Data from sites can be included in the compilation even if the site is not yet fully integrated in the management systems. Information is reported at a local operating unit level, aggregated to site, country/area, and Group level.

Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

301-1 Materials used by weight or volume

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favorable material properties and is widely available.

SKF does not report any renewable materials or recycled input material. The most significant part of the material used comes from components which have been machined and refined along the value chain. This means that SKF does not have direct influence over the source of the material but only the specified quality. In general, bearing steel is made from a significant proportion of scrap steel, however an exact percentage cannot be provided.

Non-renewable material

Tonnes	2020	2019	2018
Metal as raw material from external suppliers	459,307	484,854	516,466
Rubber as raw material from external suppliers	3,780	3,974	4,637
Oils	7,072	8,183	8,807
Greases	2,153	2,223	2,448

Group target: eliminate solvents (volatile organic compounds) from washing of bearings and bearing components by 2025

SKF halved its use of solvents between 2007 and 2016. Thereafter, newly acquired businesses resulted in an increase. In 2018, SKF set a target to eliminate the use of solvents in washing processes for bearings and bearing components, which is the main way volatile organic compounds are emitted from the Group operations.

Group target – Eliminate solvent (volatile organic compounds) from all washing processes by 2025

Tonnes	2020	2019	2018
VOC (Organic solvents) total use	968	1,102	1,255
VOC (Organic solvents) emitted to the atmosphere (washing of bearings and components in bearings manufacturing[1])	207	255	183

1) First year reporting this way was in 2018. Before only total VOC use was reported. Past data are restated for divested units.

303-1, Interactions with water as a shared resource and 303-2, Management of water discharge-related impacts

Water is used at SKF sites for processes and civil purposes (toilets, showers, cooking facilities, etc.). Focus on efficient water use is applied in various ways, for example, new factory building projects where latest technologies have been put in place also to achieve minimal impact on local resources. Practices like closed loop systems for industrial water used and rainwater harvesting are common in many SKF facilities.

Water use is metered at site level for "water from municipal supply" (the most common source) and "water from other sources". The first is the aqueducts supply and the second includes supply by wells or other surface sources (e.g. rivers, creeks) practiced according to regional regulations. There are no cases of sourcing from the sea, or local water production.

Numerous lifecycle assessments (LCAs) (according to ISO 14044:2006) have been conducted both on product and process levels, and water impacts have been identified. The main findings from these studies are that SKF's direct water use is relatively insignificant compared to upstream use in energy generation, steel production, etc. However, SKF recognizes the increased importance of water efficiency and other measures at its sites located in areas of water scarcity. SKF uses the World Resources Institute's (WRI) Water Stress Tool to identify those sites in areas of water stress or projected water stress. These sites are then required to define improvement plans and KPI's to drive reduced water use through various means.

Due to low water intensity of SKF direct operations and the measures in place to follow applicable wastewater treatment requirements, the chances of SKF water usage impacting local community water availability/quality are very low.

As part of our overall environmental approach, SKF works with upstream users of water, such as steel and energy suppliers, to reduce water use. For example, by switching to renewable electricity sources, a dramatic reduction in water needed per/KWh can be achieved compared to thermal power sources. The SKF requirements for suppliers to adopt the ISO 14001 and 50001 standards will also help increase focus on water in the direct material suppliers (e.g. steel).

303-3 Water withdrawal by source

As the clear majority of SKF's factories are located in industrial zones, water is supplied by municipalities. Other sources have not been considered material. Therefore, SKF monitors total water consumption at operating units and not per withdrawal by source. As the reporting is based on actual measurements from water suppliers or at SKF sites, no specific assumptions are referred to.

Water usage targets are established at SKF sites with significant water risks. In 2020, SKF had eleven such sites.

Water (1,000 N cubic meters)	2020[2)3)]	2019[2)]	2018[2)]
Water from municipal supply	2,044	1,842	2,047
Water use from other source[1)]	1,034	922	951
Water withdrawal total	3,078	2,764	2,998

1) "Other source" is mostly wells from which water is extracted.
2) All data has been restated to reflect acquisitions and divestments.
3) In 2020, additional 461,000 cubic meters due to an undetected leakage at Falconer US site.

303-4 Water discharge

Water discharge follows regional regulations. The flow is going to local sewage systems or to surface water flow in compliance to mentioned regulations for the quality of discharged water (suspension, temperature, etc.). Metered discharge flows are thus not reported.

306-2 Waste by type and disposal method

During 2017 and 2018, SKF updated its environmental KPIs, which is reflected in this report. The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. New local objectives have been required by Group to be established and these shall drive sites upwards in the waste hierarchy with the goal to reach zero waste.

The amounts of residual material and recycling rate are disclosed below, and in more detail in the Environmental data spreadsheet available at skf.com/ar2020. SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill.

Non-hazardous waste	2020	2019	2018[1]
Total residuals generated (tonnes)	124,511	137,374	117,255
Recycled or reused (tonnes)	101,752	113,460	103,014
Recycling rate, %	82	83	88
Incinerated with energy recovery (tonnes)	8,743	10,144	4,742
Incinerated without energy recovery (tonnes)	1,930	1,650	870
Landfill, excl. grinding swarf (tonnes)	12,086	12,118	8,630

1) 2018 was the first year of reporting according to these fractions

Group target: 80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles and abrasives mixed with emulsion. The target is to reach and maintain 80% recycling, which was achieved the first time 2015. SKF continues to depend greatly on variations in regional legislation, volatile scrap prices and other aspects which mean that this continues to be a very challenging target.

SKF is constantly working to find business partners who can use grinding swarf as input to their production, both as direct and indirect material. In 2020, the rate of recycled or reused grinding swarf decreased to 64%. This result was impacted by problems in the recycling supply chain in some regions most notably in the Ukraine. During 2021, SKF will focus on sharing good practice measures with all sites to increase the recyclability of this waste.

Hazardous waste, grinding swarf	2020	2019	2018
Grinding swarf generated (tonnes)	19,536	22,453	23,223
Recycled or reused (tonnes)	12,412	14,681	16,598
Recycling rate, %	64	65	71
Incinerated, heat recovery (tonnes)[1]	1,491	1,637	1,230
Incinerated, no recovery (tonnes)[1]	3,366	2,972	1,222
Landfill[1]	2,268	3,163	4,173

1) 2018 was the first year of reporting according to these fractions.

307-1 Non-compliance with environmental laws and regulations

SKF received no significant fines or directives from the environmental authorities in 2020.

Employment

Material topic – GRI 401: Employment 2016

103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to stay competitive and to deliver on the objectives set out by the Group. The work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage the need of future skills.

103-2–103-3 Management approach, its components and evaluation

SKF's Human Resources function (Group HR) has been centralized and is now represented in SKF's Group Management by the Senior Vice President Human Resources. Group HR's contribution to SKF's strategy is clarified by focus areas and deliverables. The deliverables are to establish a customer centric culture, borderless collaboration in the full value chain, a great employee experience, data driven decision making and a fearless leadership making change happen. The strategic initiatives are connected to the deliverables to ensure that the right steps are taken in the Human Resource activities driven on Group, business area, region, country and site levels. Guiding the work is the simple Group HR vision "People make it happen".

Group HR has a regular dialogue with the SKF World Union Council (WUC) and the European Work Council (EWC) according to the global framework agreement, which is based on the SKF Code of Conduct. Issues relating to significant changes at SKF are always handled in close collaboration between company management, the WUC, the European Work Council and local unions. As SKF Group operates under Swedish legislation and the Swedish Corporate Governance Code, employee representatives are part of the Board. Among other things, this means that employee representatives from white and blue collar unions have direct insight on board level issues and the strategic outlook for the Group.

Human Resources has a strong local presence. However, digitalization and synergies of operations and business has increased the need and enabled a more centralized approach to processes, systems and organizations. New common systems are being put in place to facilitate this work.

The top risk in the workforce area is to secure the right skills and expertise. To deliver on the SKF strategy, the company is reliant upon a workforce that is competent, engaged and flexible in all its dimensions and geographies. In many markets there is a troublesome demographic profile and, in combination with "the war for talent" and the need of a digital competence shift, there is a risk of a skills deficit in the labor market. The competition to attract and retain talented people is expected to become even fiercer, although recent events have temporarily eased the situation. SKF is also dependent upon very deep technical expertise and this expertise is held by few individuals.

To mitigate the risks, workforce planning is being combined with a structured approach to define and build critical skills for the future. SKF continues to strengthen the recruitment activity in social media, to reach a higher brand awareness among talents. Implementation of a new assessment methodology enables skills-based recruitment with less bias and increased selection precision.

To further engage the workforce in making SKF a great place to work, the company is speeding up the global reach of the employee satisfaction survey (SKF Team Pulse). In the pipeline is also how to better work with performance development having continuous alignment and feedback between managers and employees improved.

401-1 New employee hires and employee turnover

Employee retention rate by region (excluding lay offs)

%	2020 Women	2020 Men	2020 Total	2019	2018
Asia and Pacific	90.2	91.2	91.0	88	89
Middle East and Africa	94.7	93.4	93.8	96	90
North America	92.9	92.4	92.5	90	91
Latin America	87.7	89.7	89.5	93	94
Eastern and Central Europe	92.6	89.4	90.6	91	92
Western Europe	96.9	97.3	97.2	97	96
The Group	**93.6**	**94.1**	**94.0**	**93**	**93**

Retention rate as reported above is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

Employee turnover by region

%	2020 Women	2020 Men	2020 Total	2019	2018
Asia and Pacific	15.1	14.4	14.5	15	13
Middle East and Africa	20.5	26.1	24.6	13	13
North America	17.6	16.8	17.0	17	17
Latin America	22.9	19.4	19.8	18	14
Eastern and Central Europe	9.0	13.5	13.5	10	10
Western Europe	5.2	4.3	4.5	4	5
The Group	**11.1**	**10.4**	**10.6**	**10**	**10**

New hires by region

Total number	2020 Women	2020 Men	2020 Total	Women as share of total, %
Asia and Pacific	266	716	982	27
Middle East and Africa	15	59	74	20
North America	139	261	400	35
Latin America	65	524	589	11
Eastern and Central Europe	173	263	436	40
Western Europe	115	344	459	25
The Group	**773**	**2,167**	**2,940**	**26**

Labour management relations

Material topic – GRI 402: Labour management relations 2016

103-1 Materiality and boundaries
The main priority of the relationship between labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice. This is based on the SKF Code of Conduct and the work focuses on labour management relations between SKF Group and workers within SKF Group and its subsidiaries. SKF also collaborates with other companies in formal and informal networks.

103-2–103-3 Management approach, its components and evaluation
Issues relating to significant changes at SKF, such as acquiring, divesting or consolidating operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council (WUC). The precise approach must be adapted to the specific conditions of each occasion. The European Work Council (EWC) directive is a base for European related issues. SKF makes it clear in its Code of Conduct that all employees have the right to join a union and to bargain collectively. Continual dialogue is on-going to ensure that it works for both SKF, and the union members.

The WUC, which today includes 20 countries (see page 114) meets every year to discuss labour issues in an open format and to share what is currently happening in the Group. In addition to the SKF WUC meeting, an EWC meeting involving only European delegates is set up in conjunction to the WUC. All countries with major operations and fulfilling the EWC and WUC agreement requirements have the right to send appointed union officials or observers to the SKF EWC/WUC meeting. In 2020 annual EWC and WUC meeting were held – due to the pandemic – in an online format with online translations. The focus areas were employment, environment, health and safety, and digitalization. Overall, SKF's setup with the WUC is seen as a great competitive advantage for addressing and deploying global initiatives between Group management and unions.

402-1 Minimum notice periods regarding operational changes
SKF does not state a specific minimum notice period as the Group cannot overrule the centrally agreed collective bargain agreements in the countries SKF operates in. SKF holds consultations and provides information to relevant parties, which are two separate procedures. Notice regarding operational changes is always defined on a case-by-case basis but always with the local unions involved, and/or reviewed at the World Works Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

Occupational health and safety

Material topic – GRI 403: Occupational health and safety 2018

103-1 Materiality and boundaries
Health and safety are a material issue in different aspects of SKF's direct operations, as well as activities occurring along the value chain. SKF employs around 26,000 people in blue-collar work roles and the focus here is primarily on physical health and safety. This is also relevant for suppliers and is addressed as part of SKF's responsible sourcing approach, see page 134. However, traditional office tasks are increasing and, thus, psychological health and well-being are increasingly material.

103-2–103-3 Management approach, its components and evaluation
SKF's accident rate has steadily improved over the last two decades and, while the rate of improvement has slowed down in recent years, 2020 showed a small improvement of 2.5% in the recordable accident rate vs. 2019. In 2020, the accident rate was 0.75 per 200,000 worked hours. SKF strives to achieve further reductions in the accident rate by increasing the effectiveness of its management approach towards health and safety in various ways.

During 2018, a major reorganization of the overall EHS governance in SKF took place with the primary objective to improve health and safety (and environmental) performance. The change reinforced the line ownership for health and safety by appointing EHS managers in the manufacturing clusters, business units and their equivalent management teams across SKF. Working as part of the operational management teams, these individuals make sure that appropriate attention, resources and investments are given to health and safety in their respective units. They are supported in this work by the long established EHS country coordinators who provide local expertise, guidance and support to the units. This new set up was fully deployed during 2019. It is now functioning well and starting to deliver improvement in performance – particularly in the area of health and safety.

Protecting Health and Safety during the COVID-19 pandemic
During the COVID-19 pandemic, the SKF Group has worked according to the following priorities;

- Protecting the health and safety of employees and their families.
- Following all applicable guidance and requirements from relevant authorities
- Protecting SKF customers by keeping workplaces safe and maintaining production

Due to the highly dynamic and regionalised nature of the pandemic, the definition and execution of risk assessments and control measures has been largely devolved to the locally established crisis response teams which have been set up at country and site level.

SKF Group has maintained an overview of the status at all units and supported local crisis teams via the Global EHS network. SKF Group EHS and Group Human Resources have held regular (bi-weekly) meetings with the World Union Council in order to discuss and address any concerns of feedback raised via the local Union delegates from around the SKF Group.

403-1 Occupational health and safety management system
SKF has established and deployed a Group-wide health and safety management system according to the OHSAS 18001 management standard. High-level requirements on health and safety are defined in the Group's EHS policy and detailed instructions and procedures are integrated within the environment, health and safety management system at Group, country and site level. The system drives compliance with legal requirements and those defined by the Group,

its customers and other stakeholders. The system also provides a framework to drive continuous improvement in health and safety performance. SKF is currently in the process to update the management system to the new ISO 45001:2018 standard, which replaced OSHAS 18001. SKF aims to be certified according to the new standard during 2021.

The scope of the management system includes physical and psychological health and safety. It covers employees at SKF sites, in commute or working for SKF off-site, such as maintenance engineers at a customer to SKF. Please refer to disclosure 403-8.

403-2 Hazard identification, risk assessment and incident investigation

SKF and its subsidiaries apply tools and processes as prescribed in the management system and according to legal requirements to prevent accidents and ill-health. Risk assessments are carried out on a regular basis at all levels from shop floor to office. The quality of risk assessments is assured by training EHS staff and other persons undertaking them. Risk assessments are a focus during internal and external audits, where typically a sample of risk assessments and corrective and preventative actions are reviewed.

Measures to mitigate or eliminate the identified risks are defined and implemented and risk assessments are reviewed and updated periodically or after any incident has occurred. Recordable accidents are reported and followed up both at the unit level and further up in the organization right up to Group level.

Thorough investigations, which result in effective corrective and preventative actions must be deployed after each recordable accident. In cases where the issue is linked to risks which may be relevant for other units, the causes of the accident and the corrective and preventative measures to avoid a repeat are shared with other relevant units. In certain cases, changes may be needed in the Group level management system as part of a preventative measure.

All employees are required to report accidents, incidents and unsafe conditions, as they are a vital source of improvements and indicate opportunities to better control the associated risk. The SKF Code of Conduct and related processes make it clear that any management reprisals against individuals making such reports are strictly forbidden. In the unlikely event that a manager acts against the Code of Conduct, the SKF Ethics and Compliance Reporting Line can be used to escalate this. Risks reported must be addressed at the local level but are not required to be reported in detail further up in the organization. Only the total number of such cases should be reported for the unit as this gives an indication of the level of safety related activity. No distinction is made between SKF employees, agency workers or other persons on site for the identification and control of risk.

SKF employs health and safety coordinators with expertise to support team leaders and managers at all levels in the organization. Periodic training is also organized on health and safety procedures, roles and responsibilities for factory managers and health and safety coordinators, as part of the SKF Improvement Academy and the SKF Manufacturing Academy.

Based on the risk assessment carried out for a specific machine, process or role, employees receive training so that they understand the risks and how to manage them by following defined procedures or wearing personal protective equipment for example. Any employees who intentionally ignore the defined safety rules will face disciplinary measures to protect themselves and their colleagues from unsafe behaviors.

When defining corrective or preventative actions in response to identified risk, SKF's management system requires that the hierarchy of control measures principles be applied. First option is hazard elimination. If this is not possible, substitution, engineering controls, administrative controls and, finally, personal protective equipment.

SKF's Group policies on environment, health, safety and quality are distributed and are highly visible on the walls of every factory and office within the SKF Group.

403-3 Occupational health services

Occupational health services are provided to workers at most units and vary from one country to another (depending on the need of the unit, the level of health service provided externally, etc.). SKF cannot report exactly how the quality of such health services are evaluated and ensured. Services are generally supplied by third parties who ensure data privacy in accordance with applicable regulations.

403-4 Worker participation, consultation and communication on occupational health and safety

Worker representatives are appointed to the health and safety committees by the employees using a voting system in line with SKF World Union Council (WUC) processes. SKF health and safety committees operate on factory or unit management level with the objective to bring together worker and management representatives to discuss and agree on needed measures to improve the health and safety performance at the factory or unit. The committees meet at least once per quarter and decisions taken shall be communicated to the workforce and acted and followed up on. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this.

During 2019, a joint project between SKF's WUC, Group EHS and Group HR was executed. The project aimed to find ways to increase the effectiveness of these committees and resulted in updated procedures, guidance materials and training and awareness, which have been partially delivered to the units during 2020. In some cases, the delivery and training has been delayed due to the COVID-19 response, however this will be addressed in 2021.

403-5 Worker training on occupational health and safety

All employees and agency workers are provided health and safety training, as well as other Code of Conduct trainings as part of induction training. More specific training is provided depending on the job description. Specific training for potentially hazardous jobs, such as working with electricity, at heights, hot work and so on is mandatory for employees working with these aspects. SKF also provides general health and safety training via mandatory e-learnings. All trainings are provided during work hours. The efficiency is assessed based on accident rates in combination with severity rates, which are expected to be reduced towards zero over time.

403-6 Promotion of worker health

The SKF Group, has for a long time, provided various health promoting activities beyond occupational safety. Close to 95% of the employees are covered by health promoting programmes, including HIV/AIDS prevention, substance abuse, obesity, healthy lifestyle, and stress management. Increasingly these programmes or initiatives take a more holistic approach to health and, in 2018, SKF formalized this process further by issuing the SKF Group Employee Well-Being policy. This is focused on three areas: psychological work safety, life-balance and healthy life choices. The confidentiality of individuals is protected in line with general data privacy laws.

403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships

As part of the SKF Code of Conduct for suppliers and sub-contractors, the Group performs on-site audits on a wide variety of sustainability topics. Health and safety are central elements of these follow-ups with suppliers. Read more about this on pages 134–135, Supplier social assessments.

SKF's employees also work at customers' sites, at suppliers or other locations outside SKF premises. As part of the process of defining such off-site activities, SKF assesses health and safety risks. Occasionally, risks not previously identified by the customer or supplier are found, and in such cases, control measures must be agreed before work commences.

Occupational safety is also a central element in courses held by SKF for customers on mounting and dismounting bearings.

403-8 Workers covered by an occupational health and safety management system

Over 88%, or some 36,000 employees are covered by the certified part of the health and safety management system. The system focuses on the manufacturing sites, workshops, logistics and technical centres. In addition, over 90% of consultants or agency workers under SKF's management control (around 3,000 people) are also covered by health and safety management system. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a period before being included in the scope of SKF certification of management systems. All units are subject to internal audit every one to three years. The data has been collected from the SKF financial reporting system using headcount data for sites and units included in the Group's OHSAS 18001 certification. Accidents reporting is divided by the total headcount, including agency workers and consultants. SKF is globally certified according to OHSAS 18001, ISO 14001, ISO 9001 and ISO 50001. SKF engages a qualified third-party audit company to audit for compliance to these management standards at Group and unit level. In addition to these external audits, a number of SKF employees are qualified as Group internal auditors and these individuals also audit units to assure compliance with the standards, the environment, health and safety policy and related Group instructions and requirements. Read more on the certification on skf.com/18001.

403-9 Work-related injuries

SKF does not separately report accidents on workers who are not employees but includes them in the total figures reported on the next page.

Health and safety data are collected on a quarterly basis using the Group's main reporting and consolidation tool.

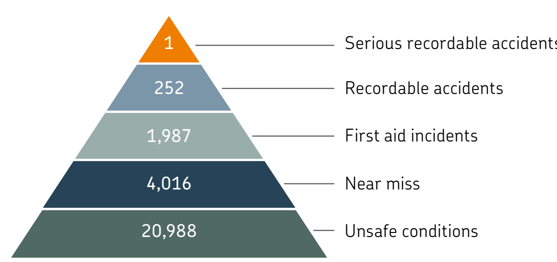
The accident rate is calculated with R × 200,000/h, where R = number of recordable accidents and h = total hours worked at the site/unit.

	2020	2019	2018	2017	2016	2015	2014	2013
Accident rate for the Group	0.75	0.77	0.81	0.85	0.87	0.99	1.13	0.99
Rate of high consequence work related injuries	0.003	0.013	0.013	0.013	—	—	—	—

	2020	2019	2018
Work related fatalities	0	0	0
High consequence work accidents	1	5	5
Recordable accidents	252	281	319
First aid incidents	1,987	2,539	2,920
Near miss incidents	4,016	7,893	5,731
Unsafe conditions	20,988	14,498	n.a.
Worked hours (x 200,000)	338	374	398

At some units, near miss and first aid incidents occur and are addressed locally but are not reported at Group level. The ambition with the pyramid is to increase the attention and reporting of near miss incidents and unsafe conditions, which would result in better risk mitigation and a reduced number of recordable and serious accidents.

Unsafe conditions are added at the base of the pyramid to increase a proactive reporting, i.e. the detection and study of events before they have a consequence for workers.



Training and Education

Material topic – GRI 404: Training and Education 2016

103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of the employees. With digitalization, globalization and new technologies come new opportunities to deliver sustainable offerings to customers, to enhance production processes and ways of working. This creates both challenges and possibilities for SKF employees to develop new skills that are of value to them as individuals, to SKF and to the customers. To succeed in the global competitive landscape, it is a necessity to develop the employees. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasing amount of performance support aimed for development of employees, customers and distributors. This lifelong learning is contributing positively to society.

103-2–103-3 Management approach, its components and evaluation

Learning and development must happen continuously to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. Increasingly important is the informal learning taking place in the daily work through knowledge sharing and collaboration, using social platforms, open forums and communities, self-studies and performance support tools. SKF supports informal and formal learning in multiple ways. To fast track the virtual learning in the organization, a new initiative was launched in spring 2020. The initiative, #SKFstronger, gives SKF employees opportunity to share and capture knowledge through open self-organizing webinars on a variety of knowledge areas. During the first three months, more than 370 sessions were delivered on 160 topics with more than 10,000 attendees, demonstrating the high ambition of employees to learn and share knowledge and experiences. #SKFstronger is here to stay and is also offered to customers and distributors.

To ensure competence development is supporting the strategic business challenges, academies are established within the business. Recent initiatives focus on virtual training deliveries in areas such as manufacturing, leadership, sales and application engineering. Local learning initiatives are also in place to meet the needs of specific units and locations.

The Group's HR function coordinates the overall strategy, methods and tools for enhanced learning in SKF. Using the centrally maintained learning and performance platform, employees can access e-learnings and formal programs, and their individual development plan (IDP). The IDP is agreed with the manager and the development can include, e.g. job rotation, shadowing, mentoring, and specific technical training. To support employee engagement, SKF Team Pulse continues to be rolled-out throughout the SKF organization, where one aspect is to capture employees' perception on learning and development. Utilizing the joint resources of Group HR, SKF Academies, learning experts, managers and employees, SKF has a solid foundation for effective competence enhancing activities.

404-2 Programmes for upgrading employee skills and transition assistance programmes

SKF offers internal programmes and funding for external education. The exact approach differs from country to country. In several entities, employees can seek scholarships from employee development foundations. These are usually open for all employees and, at times, also to children of employees. Training and skill upgrading are also done at varying depths or degrees in different parts of the organization.

In collaboration with the SKF WUC, the Group identified needs to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business. Initiatives include re-skilling from production execution to maintenance by offering theoretical and practical education in electronics and mechanics, up-skilling in automation technology, robotics and simulations, as well as possibilities to combine work with part-time university studies in production development. These initiatives are continuing in the different SKF locations.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees who find new internal demands difficult and would like to explore professions not available at SKF.

404-3 Percentage of employees receiving regular performance and career development reviews

Managers at SKF are accountable to work with their teams to define individual and team goals to create clarity on how their achievements contribute to the overall result and strategy. This process is supported by a global platform where managers and employees can agree, review and update progress and priorities throughout the year.

An overall performance rating is defined during the performance review meeting held annually. This is used as input to the salary review and talent management for white collar employees. The global platform for performance management (Cornerstone) covers about 13,000 white collar employee users in 2020.

	2020		2019	
	Women	Men	Women	Men
Users with documented performance reviews in SKF's global system, %	90	89	81	84

Diversity and Equal Opportunity

Material topic – GRI 405: Diversity and Equal Opportunity 2016

103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF to offer equal prerequisites to compete for open positions. In the ever increasing competition for talent, SKF needs to be inclusive to all. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity as a means to gaining competitive advantage.

103-2–103-3 Management approach, its components and evaluation

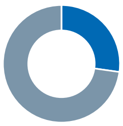
According to the International Labour Organization (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality and make sure that everyone in SKF has a fair chance to develop and compete for jobs. That competition should be based on professionalism.

To keep delivering in times of change, SKF is dependent on its people. SKF needs a truly inclusive atmosphere where differences bring people together, rather than separating them. To stay competitive and attractive, SKF has, during 2020, put continued effort into gender diversity. Succeeding to achieve gender balance means organizations don't miss out on talents and abilities – robbing themselves of creativity and innovation.

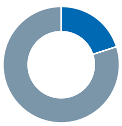
The Group works to integrate equality in people processes, such as learning, succession planning and recruitment. SKF Group's recruitment principles are based on the SKF Code of Conduct and facilitate skills-based recruitment by utilizing Assesio's Matrigma ability test, which is a scientifically robust instrument that has been reviewed and certified by Det Norske Veritas.

In 2020, activities and programs were continued to keep focus on improving equality. The virtual global programme, Elevate, targeting women with leadership ambition started in the beginning of 2020 and will continue during 2021. A mandatory E-learning was launched during spring 2020 on the topic Diversity and Inclusion. SKF has also done targeted marketing on LinkedIn to attract females and younger generations. In addition to global initiatives there are many local activities ongoing.

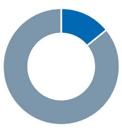
405-1 Diversity of governance bodies and employees
The graphs show the percentage of women and men at different categories within the organization. Information on age groups and minorities is not available.



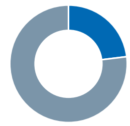
The Board
Women 27%, men 73%
The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization. Please refer to page 146.



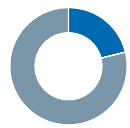
Group Management
Women 20%, men 80%
Group Management is the operational management team of the SKF Group. Please refer to page 150.



Higher management
Women 14%, men 86%
Higher management refers to the around top 500 managers in the SKF Group. The actual number in this population changes over time.



Local management teams
Women 23%, men 77%
Local management teams refers to the around 200 different legal entities in SKF around the world. SKF measures how many individuals in total are in these groups and the proportion of women and men, as well as how many of these management groups have one or more women.



Total employees
Women 21%, men 79%
Total employees refers to the average number of employees in SKF during the year.

405-2 Ratio of basic salary and remuneration of women to men
Range position (RP) is being used as a relative salary measure since it makes it possible to compare salary between positions and across countries. RP is calculated for each employee by using the SKF salary structure in each country.

RP = Annual base salary/Market salary midpoint per position class

Categorization
In SKF, salaries are set by individual position classification, job category, performance and responsibilities. The Group uses an internationally well-known position classification system (IPE) for defining positions.

The complexity of the categorization between job roles, job categories, position classification, country context and currencies makes it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2020:

- **Professionals** includes job roles such as entry, specialists, expert or team leaders.
- **Management** includes roles such as professional team leader, manager, senior manager or sub-function head.

Average ratio of salaries using range position (women/men)	Management	Professionals
Total 2020, %	–1	–2.90

Comments
On average, the data in the gender analysis indicates that the female employees on average have a salary 2.76% lower than the male employees. This measurement varies from –8.2% to –1% for the eight countries included in the analysis. There are also variations between job categories.

This gender analysis has not been able to account for factors such as age or years of experience for the employees. Such factors may explain some degree of the differences in relative salary.

Scope and data collection
The scope of the salary mapping includes a representative selection of SKF's eight biggest countries with a total of over 11,000 salaried employees (China, France, Germany, India, Italy, Sweden, UK and USA).

For comparing salaries for men and women, SKF uses relative salary for staff, i.e. the so-called range (in) position. The relative salary is calculated as base salary divided by market salary (midpoint). Using relative salary enables comparability of salaries independent of weight (i.e. PC). This is necessary as SKF normally has fewer individuals in higher position classes and also fewer women, which makes absolute comparison statistically inaccurate.

Human rights

Material topics: Non-discrimination 2016, Freedom of association and collective bargaining 2016, Child labour 2016, Forced or compulsory labour 2016, Human rights assessments 2016

This part of the report is prepared according to UN Guiding Principles on Business and Human Rights Reporting Framework as well as GRI Standards.

103-1 Materiality and boundaries

SKF owns and operates around 91 manufacturing plants across the world, with around 26,000 employees in different types of production. These facilities have local and global supply of components and raw material. On risk to people, the salient issues for SKF relate to SKF employees and people working in the supply chain. The work is continually evolving as risk assessment and due diligence processes are developing and as more knowledge is gained about how the Group's activities can have an impact on the people in proximity to the SKF's operations, its distribution, sales and end-use of products and services.

103-2–103-3 Management approach, its components and evaluation (combined)

Background and policy commitment

The SKF Code of Conduct is based on a number of international external principles and charters, such as ILO conventions, UN Guiding Principles for Human Rights, the International Chambers of Commerce Business Charter for Sustainable Development and the UN Global Compact. The SKF Code of Conduct has been used to develop many related policies on specific topics and to address business partners along the value chain. The Code is available on skf.com/code and is part of commercial agreements with suppliers, sub-contractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, backed up by adapted versions specifically addressing suppliers, sub-contractors and distributors, but they are all based on the same principles.

SKF works to integrate human rights aspects in all processes where SKF sees a risk that people could be adversely affected. This means that in screening and audit activities, such as internal ethics and compliance reviews and audits, quality audits, Code of Conduct audits at suppliers, etc., human rights are considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated to the audit committee at board level. SKF Group Management are continually updated on specific issues, such as health and safety for SKF's employees and serious incidents. The Group's EHS and responsible sourcing programmes are vital parts of managing salient human rights in SKF operations and supply chain.

Modern Slavery Act 2015

AB SKF is committed to ensure that the companies within the SKF Group do not allow slavery or human trafficking. As with other human rights, this commitment extends to the supply chains used by the SKF Group. This statement is made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015 and sets out the steps the SKF Group has taken to ensure that slavery and human trafficking are not taking place in company operations or supply chains.

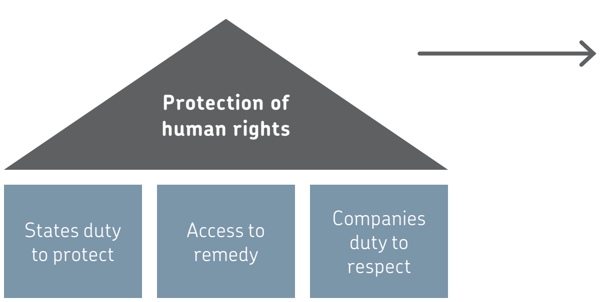
Salient human right risks

SKF perceives the salient human rights being related to freedom of association and collective bargaining, compensation, work hours, health, safety, wellbeing and discrimination. The salient risks are mainly associated to the supply chain. Lack of transparency and traceability means that the further upstream in the value chain, the more difficult it is for SKF to identify concrete human rights risks.

Other human rights issues that SKF is following closely, although not deemed salient, are related to children's rights, child labour and young workers, and forced or bonded labour. SKF follows up closely, first of all, with potential new suppliers on their risks related to these human rights. In this work, SKF focuses on geographic regions where risks are higher, where rule of law and social inequality are weaker. SKF takes in third party data to assess the overall risks on human rights.

Stakeholder collaboration

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to manage such risks. The primary stakeholder group with whom SKF has a direct relationship is the employees, and so a social dialogue is held between local management and worker representatives.



Duty of companies

- Policy commitment
- Human rights due diligence
  – Assessing impact
  – Act on findings
  – Tracking effectiveness
  – Communicate
- Stakeholder engagement
- Remediation

In addition to this ongoing dialogue on a local level, SKF Group Management meets annually with SKF World Union Council (WUC). SKF also maintains dialogues with peers and NGOs via networks such as the UN Global Compact, Transparency International and Roundtable on Sustainable Palm Oil (RSPO) as a supplier of bearings and solutions into that industry.

Trends and patterns 2020

In 2020, there has been a continued focus on preventing harassment to safeguard safe workplaces.

At the annual conference, SKF WUC and the Group focused on health, safety, decent working conditions and automation driven by digitalization.

Integrating findings and taking action

The SKF Code of Conduct implies that the different stakeholder aspects shall be taken into consideration prior to any business decisions. Should any decision be taken that may have adverse impact on human rights, meaning against the SKF Code of Conduct, the individual who records such an event is expected to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routine is not an option, SKF uses an externally hosted ethics and compliance reporting mechanism, read more on page 113.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues for SKF are related to freedom of association and collective bargaining as SKF has operations in countries where such do not exist. The Group works together with the WUC to seek pragmatic ways to bargain collectively and nominate worker representatives. This is to be in line with its global framework agreement with the union, while at the same time making sure to adhere to local laws, and not put employees at risk.

Impact from SKF's business and products

SKF works to continuously reduce any negative downstream impact relating to its business. SKF works to ensure compliance to laws and regulations, and to phase out material and substances hazardous to people and the natural environment.

With regards to SKF's business, the purpose of SKF's products and solutions is to make things work better, run faster, longer, cleaner and more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time.

The work related to human rights focuses on adhering to export control regulation and ensuring that SKF's distributors adhere to the SKF Code of Conduct. SKF has identified a few industry hotspots where the general human risks are higher, such as the extractive industries, forestry and energy, as these are associated with significant land use. No cases of systematic human rights violations linked to SKF business activities have been identified during 2020.

406-1 Incidents of discrimination and corrective actions taken

During 2020, 64 reports related to discrimination and harassment have been received through the SKF Ethics & Compliance Reporting Line. These cases are investigated locally and actions based on the findings are taken locally. The result of the investigations and actions taken are not available on a central level. SKF is working to get processes in place to ensure that this information is reported to Group HR or another relevant Group function.

407-1 Operations and suppliers in which the freedom of association and collective bargaining may be at risk

All employees are covered by collective agreement or the SKF Framework agreement. The overall approach from the state towards union membership and the level of independence of trade unions in certain countries where SKF has operations, creates challenges in this respect. SKF works pragmatically with the WUC and the appointed union representatives to try and address these challenges. Please refer to pages 114 and 127 for a description of the SKF WUC's work related to collective bargaining agreements. Information on which countries SKF has operations in is available on skf.com/locations.

408-1 Operations and suppliers at significant risk for incidents of child labour

SKF considers the risk for child labour in SKF's operations as small. The issue of child labour is nonetheless included in SKF's internal audits. The risk for use of child labour at SKF suppliers is considered higher and SKF's supplier audits have a high focus on this topic. In 2020, SKF found no actual cases of child labour at its operations or at SKF's suppliers. Two cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible sourcing programme.

409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour

The issue of forced, bonded and compulsory labour is included in SKF's Code of Conduct and internal and supplier audits. In 2020, no cases of forced or bonded labour have been identified.

SKF applies regional risk characterization from tools such as Maplecroft to help identify countries with these potential risks. (407-1, 408-1, 409-1)

412-1 Operations that have been subject to human rights reviews or impact assessments

All SKF's units are subject to human rights reviews as part of ethics and compliance reviews. These reviews include the full range of the Code of Conduct. All SKF's manufacturing units are subject to review within a three-year interval using a risk-based approach. In 2020, 11 (reduced number due to COVID-19 travel restrictions) such reviews were carried out. In addition, sites undergo risk-based, in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers. Read more on the next page.

Supplier assessments

Material topics –GRI 414: Supplier social assessment 2016 and GRI 308: Supplier environmental assessment 2016

103-1 Materiality and boundaries
SKF addresses supplier impact on the environment, human rights, labor practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers but uses a risk-based approach focusing auditing on tier one and sometimes tier two suppliers.

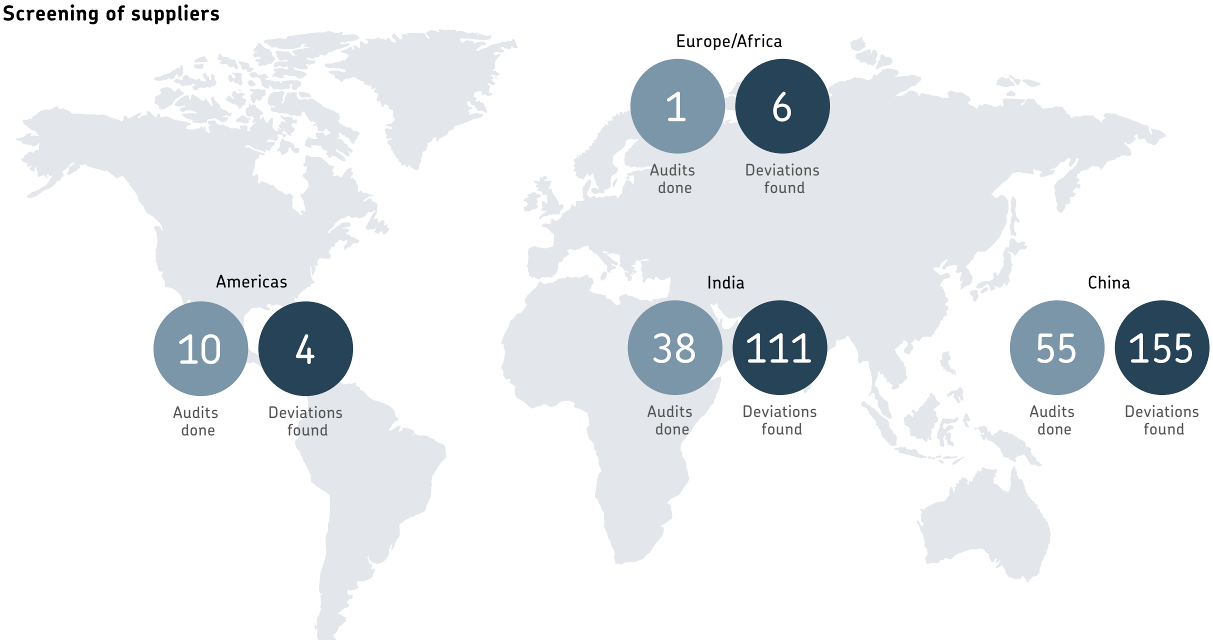
103-2–103-3 Management approach, its components and evaluation
SKF's Responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for suppliers and sub-contractors. The programme is part of supplier development, which covers areas of delivery, quality, product compliance and Code of Conduct. All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands. These must be met in order to be considered as an SKF supplier.

SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% spend are automatically subject to audits if they are located in high risk regions. These can be both tier one and tier two suppliers. In addition to these, when risks to people, the environment or business ethics are flagged, during site visits or screenings, the suppliers are escalated to be audited. This can be any type of supplier, e.g. professional services or other indirect material. Screening of suppliers is done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third-party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as during a quality review. The Code of Conduct audit procedure is based around a checklist with 62 specific questions focusing on a wide range of aspects, such as human rights and labor standards, environment, bribery, fraud, and other ethical guidance.

Most non-compliance cases are managed by SKF's regional purchasing offices. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee. First and foremost, the work focuses on establishing a strong partnership and developing targeted suppliers. However, suppliers that fail to address critical issues over time risk having their contracts with SKF terminated.

In 2020, critical deviations were found at seven suppliers in India and China. The cases were escalated to the Responsible Sourcing Committee, who decided to assign specific support to help these suppliers to improve. At the end of the year, some of the main problems have been solved and three of the seven suppliers were confirmed as business approved. Contracts were terminated with the other four suppliers, and sourcing with them has already been

Screening of suppliers



External risk maps, combined with SKF's operations and spend have resulted in a region or country focus when it comes to risk assessment audits and follow-ups.

stopped or will finish within Q1 2021. During 2020, SKF worked to closer align quality and Code of Conduct audits, striving to improve the process of escalating warning signs found during any supplier visits to a full Code of Conduct audit. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, pollution and waste control, and environmental permits. The data reported in these statements are consolidating SKF's findings into GRI's designations.

414-1, 308-1 New suppliers that were screened using social and environmental criteria

All new suppliers of direct material in high risk countries are visited on site. In other countries, all new direct material suppliers are subject to a modular quality audit, which could include or trigger a Code of Conduct audit. Major suppliers in high risk countries are subject to re-audit. Indirect material suppliers are audited when awarded strategic sourcing status.

In 2020 (heavily impacted by the COVID-19 pandemic and major travel restrictions), 104 suppliers have been physically audited. The total number of suppliers assessed in other ways cannot be disclosed. 16 out of 104 have been audited without negative impact identified (no critical deviations). With the 88 other suppliers, 84 have confirmed improvements. 40 new suppliers were audited on site using environmental and social criteria, and one of these was disqualified to supply to SKF.

414-2 Negative social impacts in the supply chain and actions taken

In 2020, 220 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations. The most common deviations are related to occupational health and safety, work hours, compensation and employment contract procedures. Seven suppliers with major deviations have been escalated to the Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency.

308-2 Negative environmental impacts in the supply chain and actions taken

In 2020, 56 environmental deviations related to pollution control and waste handling have been identified and actions are ongoing at the suppliers to resolve them. SKF has the management systems, skills and experience to do this which is a competitive advantage in the local supplier development. Specific training programmes about Code of Conduct, as well as social and environmental matters, have been conducted in India and China with particular focus on suppliers having social and environmental issues, including direct and indirect material suppliers and sub-contractors, and service providers. Around 180 suppliers attended the training in India. To strengthen these supplier follow-ups, local purchasing staff also have to be trained.

With the intent to continuously monitor suppliers to convert negative impacts to positive, a pilot on a mobile app, "Connect@CoC4S" has been launched in India and is now in use. The corrective and preventive actions are captured in real-time by SKF employees visiting the suppliers to measure the growth.

Socioeconomic compliance

Material topic – GRI 419: Socioeconomic compliance 2016

103-1 Materiality and boundaries

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance programmes across the full value chain. Within this report, the focus is on SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, treaties and local regulation is one of the most important tasks a multinational enterprise can manage to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

103-2–103-3 Management approach, its components and evaluation

There is a Group-wide programme of short online training courses, which are mandatory for all employees having an SKF email address, with content about issues such as IT Fraud awareness (76%), Corruption at SKF (82%), Diversity & Inclusion (86%), Anti-trust risks in relation to competitors (70%), Avoid anti-trust risks in sales (80%) and Ethical leadership (84%). The numbers in brackets represents the % of the total number of the employees who have completed the training as per January 2021.

One important compliance area for SKF is data privacy. The General Data Protection Regulation (GDPR) came into force within the EU in 2018 and puts clearer responsibility and higher accountability on companies handling personal data. As SKF shares information globally, these rules affect SKF also outside the EU. SKF meets this increased responsibility and has, for example, established a data privacy policy, appointed data protection officers, assessed and registered IT applications and reviewed supplier contracts.

SKF monitors and follows the development and recommendations from the OECD as regards tax transparency. In line with these recommendations, Sweden has introduced rules on country by country reporting, and a report including, e.g. income, profit, taxes paid, employees and economic activity in each country, needs to be filed with the Swedish Tax Authority. SKF has filed such information but does not report publicly due to sensitive competitive information. Tax is an important sustainability topic and SKF makes its tax policy public on skf.com. The global bearing market, which is the main business of the SKF Group is made up of a small number of large enterprises. This is explained more on pages 6–7 and 40. This means that publicly disclosing earnings and tax per country, or even by region, would provide competitors with information on exactly where SKF does business and the size of it. This information would be highly valuable for any competitor. For this reason, SKF will not disclose tax or earnings by country publicly.

In addition to the above topics and other socioeconomic areas reported within these statements, SKF works closely to ensure compliance to topics such as corruption, money laundering, export control and human rights.

419-1 Non-compliance with laws and regulations in the social and economic area

No cases of non-compliance related to these topics have been identified.

Auditor's Limited Assurance Report on Sustainability Report and statement on the Statutory Sustainability Report

To the annual general meeting of AB SKF (publ), corporate identity number 556007-3495

Introduction
We have been engaged by the Board of Directors of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2020 in the sections "Sustainability Statements" and "Objectives and results – climate and social", as well as "GRI-content Index 2020" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 110.

Responsibilities of the Board and Group Management
The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report, including the statutory sustainability report, in accordance with the applicable criteria and the Annual Accounts Act. The criteria are described on page 110 of the Sustainability Report, and consists of the parts of the GRI Sustainability Reporting Standards which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed. This responsibility also includes the internal control which is deemed necessary to establish a sustainability report that does not contain material misstatement, whether due to fraud or error.

Responsibilities of the auditor
Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to provide a statement on the statutory sustainability report. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report and applying analytical and other limited assurance procedures. We have conducted our examination regarding the statutory sustainability report in accordance with FAR's recommendation RevR 12, the Auditor's Opinion on the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to AB SKF (publ) according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and an examination according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The conclusion based on a limited assurance engagement and an examination in accordance with RevR 12, therefore, does not provide the same level of assurance as a conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion
Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

A Statutory Sustainability Report has been prepared.

Gothenburg, 2 March 2021
Öhrlings PricewaterhouseCoopers AB

Johan Rippe
Authorised Public Accountant

Karin Juslin
Expert Member of FAR

Appendix
Our limited assurance engagement has, based on an assessment of materiality and risk, included the following procedures:

a. Update of our knowledge and understanding of SKF's organization and activities,
b. Assessment of suitability and application of the criteria regarding the stakeholders' need for information,
c. Assessment of the outcome of the company's materiality analysis and stakeholder dialogue
d. Interviews with management at group level and remote visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
e. Examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
f. Evaluation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
g. Analytical procedures of the information stated in the Sustainability Report,
h. Assessment of the company's declared "in accordance" option according to the GRI Standards,
i. Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.

Auditor's report

To the general meeting of the shareholders of AB SKF (publ), corporate identity number 556007-3495

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 16–109 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

SKF is a process-oriented company and the business is highly transactional operating on a number of systems and databases that initiate and process transactions. The SKF's IT infrastructure is complex and the group is currently undergoing a significant change process including implementation of a new ERP system.

SKF has a defined Internal Controls framework, SICS. SKF has developed a set of controls for IT applications within the SICS framework being relevant for financial reporting. The group audit team together with IT specialists, have identified and assessed those processes, applications and databases that has an impact to significant transaction flows and consequently are critical for the financial reporting and our audit.

Our audit strategy included local audits for those entities and countries that together represent larger operations and markets for the group. We included those operations that were viewed to have a particular relevance including the group's treasury unit. In addition to the local audits, we have performed testing to group consolidation together with consolidated analytical assessments in order to have a reasonable basis for our group audit. For those entities being in scope for group audit procedures we have issued detailed instructions and received reporting and reviewed procedures performed through discussions and meetings with local teams to confirm that we have satisfactory basis for our group audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of intangible assets	
Refer to note 10 of the consolidated accounts for the related disclosures As of 31 December 2020, intangible assets amount to SEK 16,242 million for the group. Out of this total, an amount of SEK 10,117 million relate to goodwill and SEK 2,052 million to tradenames and trademarks with an indefinite life. According to IFRS, the company is required, at least annually, to test these assets for impairment. Impairment testing involves assumptions with a significant degree of judgment, in particular for those assumptions that relate to the company's applied discount rates and expectations on market development and the future cash flow generation of the business. Valuation of intangible assets and impairment testing represent a key audit matter for our audit in light of the significant values of the group's intangible assets and the inherent uncertainties of assumptions and estimates involved.	Our audit procedures and testing of the valuation and impairment tests of intangible assets include areas and tests described below, however are not limited to these. We have evaluated models for impairment testing used by the company together with valuation and accounting specialists and have assessed these to be in line with common valuation techniques used. We have assessed assumptions used in the calculations and that are further described in note 10. Our procedures to assess assumptions used included to compare company's future cash flow forecasts to available business plans and other information relevant for the estimated development of the business. We have assessed the group's sensitivity analyses of impairment tests to changes in significant assumptions and the risk that negative changes could lead to an impairment. We have further performed independent sensitivity analyses and performed back testing to a relevant selection of prior year assumptions to under build the quality of forecasting process and assess assumptions for reasonableness and consistency.
Recognition of provisions and contingent liabilities for lawsuits and claims	
Refer to note 19 Other provisions and contingent liabilities of the consolidated accounts for the related disclosures SKF together with other companies in the bearing industry are part of investigations from competition authorities in different territories. Civil claims have been initiated from purchases of bearing to SKF together with the other companies affected by the EU ruling and fine for violation of EU competition rules in 2014. There have been a risk for further civil claims from direct and indirect purchasers of bearings. Risks and uncertainties from such investigations and potential claims need to be carefully assessed and analyzed. The assessment of outcome from legal proceedings, settlement agreements and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. These considerations make the area one of the key audit matters in our audit.	Our independent evaluation of management's descriptions and assessments of legal proceedings and claims include areas described below, however are not limited to these. We have performed inquiries to local management as well as to group management and parent company. Our procedures further involve reading of minutes and the group's internal documentation of legal proceedings, negotiations and settlements of claims to assess the accuracy and completeness of the disclosures and accounting treatment in the consolidated accounts. In specific cases, we have collected statements from external legal advisors to risks and assessments made.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–15, 110–135 and 150–158. Other information further includes those documents listed in “Topics related to SKF’s annual report” The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Director’s and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company’s and the group’s ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director’s responsibilities and tasks in general, among other things oversee the company’s financial reporting process.

Auditor’s responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen’s website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director’s and the Managing Director of AB SKF (publ) for the year 2020 and the proposed appropriations of the company’s profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director’s and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company´s organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB was appointed auditor of AB SKF (publ) by the general meeting of the shareholders on the 29 March 2017 and has been the company's auditor since the 26 April 2013.

Göteborg 2 March 2021
PricewaterhouseCoopers AB

Johan Rippe
Authorized Public Accountant
Auditor in Charge

Karin Olsson
Authorized Public Accountant

Corporate Governance Report

Introduction

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and clear rules for delegation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship.

The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act and the Swedish Annual Accounts Act, and the regulatory system of NASDAQ Stockholm AB (Stockholm Stock Exchange).

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–4, are found at page 52 of the Administration Report for the Group in the Annual Report 2020.

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July, 2005. The Code has been revised several times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2020 was also held in accordance with the Code rules. The auditor of the company has read and performed a statutory examination of the Corporate Governance Report.

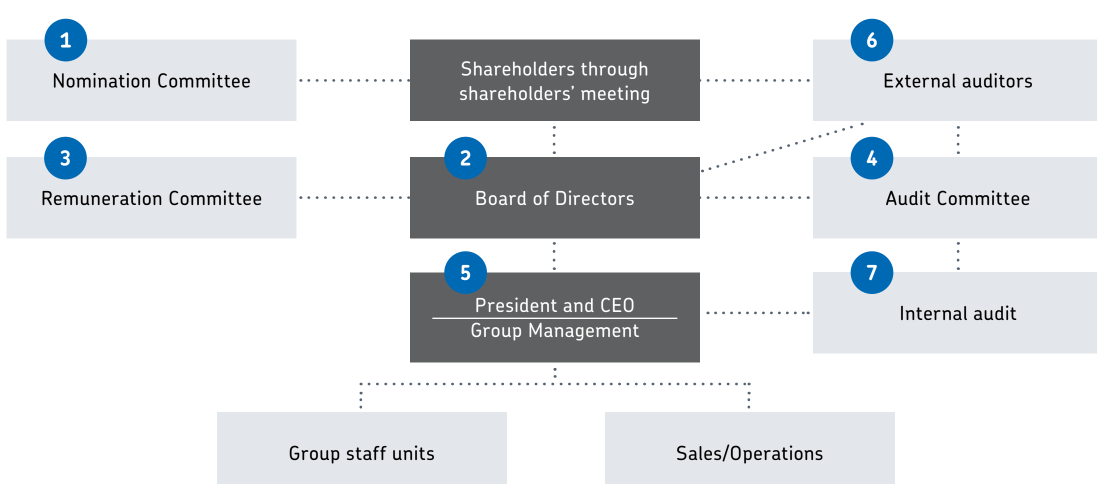
General information about how the company is managed

The shareholders' meeting is the company's highest decision-making body. The Annual General Meeting of shareholders shall be held within six months after the end of the financial year. At the Annual General Meeting the shareholders exercise their voting rights for e.g. the composition of the Board of Directors, adoption of principles of remuneration for Group Management and election of external auditors. SKF has issued A and B shares. An A share entitles the shareholder to one vote and a B share to one-tenth of a vote.

The Board of Directors has a responsibility for the company's organisation and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continuously monitoring SKF's vision, mission, values and drivers. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board annually adopts written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF is organized in the following business areas; Industrial Sales Americas, Industrial Sales Europe, Middle East and Africa, Industrial Sales Asia, Automotive, SKF Technology and Industrial Technologies. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are three Group staff units; Group Finance, IT,



Marketing & Communication, Group Human Resources and Group Legal, Reinsurance, Brand Protection and Real Estate & Facility Management, see pages 150–151 in the Annual Report 2020. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area. The Director of Group Sustainability, reports, from 4 February 2020, directly to the Chief Executive Officer and has the task to assure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group. Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.

1 Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2020, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August each year would determine which shareholders are the largest with regard to the number of votes held. The names of the four shareholder representatives were to be published as soon as they had been elected, however not later than six months before the next Annual General Meeting. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 25 September 2020, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2021:

- Marcus Wallenberg, FAM
- Anders Jonsson, Skandia
- Anders Algotsson, AFA Försäkring
- Evert Carlsson, Swedbank Robur Fonder

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2021:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the auditor
- proposal for auditor
- to the extent deemed necessary, proposal for new instructions for the Nomination Committee.

The proposals of the Nomination Committee were published in connection with the notice to the Annual General Meeting 2021.

2 The Board of Directors

Composition and remuneration of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of twelve Board members, with a maximum of five deputies. The Board members are elected each year at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The Nomination Committee proposes decisions to the Annual General Meeting regarding electoral and remuneration issues, including proposals for the composition and remuneration of the Board. As reflected in the Nomination Committee's statement regarding the composition of the proposed Board and the proposed remuneration presented to the Annual General Meeting 2020, the Nomination Committee has applied the provisions in the Code as diversity policy. The objectives of the diversity policy is for the Board to have a composition appropriate to the company's operations, phase of development and other relevant circumstances; that the Board members elected by the shareholders' meeting collectively are to exhibit diversity and breadth of qualifications, experience and background; and that the company is to strive for gender balance on the Board. The Annual General Meeting 2020 resolved to appoint Board members in accordance with the Nomination Committee's proposal.

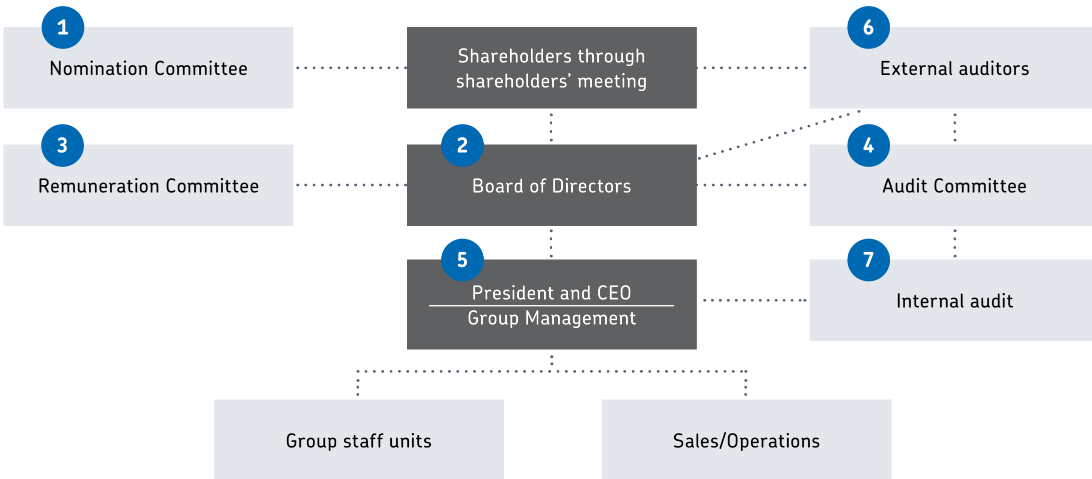
Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2020. Lars Wedenborn retired from the Board. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the President, is included in the management of the company.

Information on the composition and remuneration of the Board members decided upon by the Annual General Meeting 2020 can be found in the Annual Report 2020, Consolidated Financial Statements, Note 23.

Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Code. The table below shows the Board member's independence according to the requirements of the Code in relation to the company and major shareholders.

Name of the Board members elected by the Annual General Meeting	Independence in relation to the company/senior management	Independence in relation to the major shareholders of the company
Hans Stråberg	•	•
Hock Goh	•	•
Alrik Danielson		•
Ronnie Leten	•	
Barb Samardzich	•	•
Colleen Repplier	•	•
Geert Follens	•	•
Håkan Buskhe	•	
Susanna Schneeberger	•	•



Activities of the Board of Directors

The Board held ten meetings in 2020. The Board members were present at the Board meetings as described in the table below.

Name of the Board member	Presence/Total number of meetings
Hans Stråberg (chairman)	10/10
Lars Wedenborn (resigned in March 2020)	2/2
Hock Goh	10/10
Alrik Danielson	8/10
Ronnie Leten	10/10
Barb Samardzich	10/10
Colleen Repplier	10/10
Geert Follens	10/10
Håkan Buskhe (elected in March 2020)	8/8
Susanna Schneeberger (elected in March 2020)	8/8
Jonny Hilbert	10/10
Zarko Djurovic	9/10
Kennet Carlsson	10/10
Claes Palm	10/10

The Board adopts written rules of procedure annually for its internal work. These rules prescribe i.a.:

- the number of Board meetings and when they are to be held,
- the items normally included in the Board agenda, and
- the presentation to the Board of reports from the external auditors.

The Board has also issued written instructions on:

- when and how information required for the Board's assessment of the company's and the Group's financial position shall be collected and reported to the Board, and
- the allocation of the tasks between the Board and the President.

Issues dealt with by the Board in 2020 include i.a. market outlook and the impacts of the COVID-19 pandemic, financial reporting, capital structure, acquisitions and divestments of companies, the strategic direction and business plan of the Group and management issues as well as management of the search process for a new President and Chief Executive Officer.

The Board continuously evaluates economic, environmental and social aspects for the Group's performance and reviews specific issues such as accident rates, greenhouse gas emissions and Code of Conduct adherence.

Each new Board member has to go through a general introduction training about the SKF Group. The Board visits on a regular basis different SKF sites in order to enhance knowledge about the SKF Group.

3 Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Hans Stråberg as chairman, and the Board members Ronnie Leten and Håkan Buskhe.

The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President. The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval at least every fourth year. The employment conditions for the President shall be approved by the Board.

The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than three weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the Swedish Companies Act and the principles in the Code, a remuneration report.

The Remuneration Committee held three meetings in 2020. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/ Total no. of meetings
Hans Stråberg (chairman)	3/3
Lars Wedenborn (resigned in March 2020)	1/1
Ronnie Leten	3/3
Håkan Buskhe (elected in March 2020)	2/2

4 Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of the Board member Håkan Buskhe, as chairman, the Chairman of the Board, Hans Stråberg and the Board member Ronnie Leten.

The Audit Committee oversees and ensures the quality and reliability of the accounting and financial reporting processes and reports, monitors the effectiveness of the Group's internal control over financial reporting, audit and risk management processes and the adequacy of the Group's controls for compliance with laws and regulations. The Audit Committee also reviews and monitors the work of external auditors as well as make preparations in relation to the nomination of external auditors.

The Audit Committee held six meetings in 2020. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/Total number of meetings
Hans Stråberg	6/6
Håkan Buskhe (Chairman, elected in March (2020)	5/5
Lars Wedenborn (resigned in March 2020)	1/1
Ronnie Leten	6/6

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

5 President and Chief Executive Officer

Alrik Danielson

Alrik Danielson, President and CEO of AB SKF since 2015.
Board member of AB SKF's Board since 2015. On the 16 November 2020 it was announced that Alrik Danielson will step down as President and CEO during 2021.
Born 1962.

Education and job experience

Bachelor of Science in Business Administration and International Economics, School of Business Economics and Law, University of Gothenburg. Several positions within the SKF Group 1987–2005 and President and CEO of Höganäs AB 2005–2014.

Other assignments

Board member of the Association of Swedish Engineering Industries since 2015.

Shareholding (own and/or held by related parties) as of 31 December 2020

54,227 SKF B

Material shareholdings or other holdings

(own and/or held by related parties) in companies with which the company has important business relationships: 0

6 The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2017, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2021. Johan Rippe is the auditor in charge and Karin Olsson is co-signing auditor.

Johan Rippe has many years of experience as auditor in a number of other listed companies, such as AB Volvo, Getinge and Handelsbanken. Karin Olsson has extensive experience from working with listed companies, such as AB Volvo and international groups. She is the lead auditor of Förvaltnings AB Framtiden and various subsidiaries to listed companies.

The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.

PwC has during 2020 been involved in matters besides the audit assignment. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2020 amount to MSEK 11.

The Nomination Committee's proposal for auditor for the coming period was published in connection with the notice to the Annual General Meeting 2021.

Financial reporting

The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2020 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with four Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

The Board of Directors as of 31 December 2020

1 Hans Stråberg

Chairman, Board member since 2018
Born 1957

Education and job experience
Master of Science in Engineering from Chalmers University of Technology, Gothenburg. President and CEO of Electrolux AB 2002–2010. Several leading positions within the Electrolux Group in Sweden and USA since 1983. Former EU Co-Chair TABD, Trans-Atlantic Business Dialogue.

Other assignments
Chairman of Atlas Copco AB, Roxtec AB and CTEK AB. Board member of Investor AB, Mellby Gård AB and Anocca AB.

Shareholding (own and/or held by related parties) 15,000 SKF B

2 Hock Goh

Board member since 2014
Born 1955

Education and job experience
Bachelor's degree (honours) in Mechanical Engineering from Monash University, Australia, completed the Advanced Management Program at INSEAD. Operating Partner of Baird Capital Partners Asia, 2005–2012. Several senior management positions in Schlumberger Limited, 1995–2005, President of Network and Infrastructure Solutions division in London, President Asia and Vice President and General Manager China.

Other assignments
Member of the Board of Stora Enso Oyj, Santos Australia and Vesuvius PLC.

Shareholding (own and/or held by related parties) 0

3 Alrik Danielson

President and Chief Executive Officer of AB SKF. For more details, see page 151.

4 Ronnie Leten

Board member since 2017
Born 1956

Education and job experience
Master of Science in Applied Economics, University of Hasselt, Belgium. CEO and Board member of Atlas Copco AB between 2009-2017.

Other assignments
Chairman of Ericsson, Epiroc AB and Piab AB.

Shareholding (own and/or held by related parties) 10,000 SKF B

5 Barb Samardzich

Board member since 2017
Born 1958

Education and job experience
Bachelor of Science in Mechanical Engineering, University of Florida, Master of Science in Mechanical Engineering, Carnegie Mellon University, Master of Science in Engineering Management, Wayne State University. Various management positions at Ford Motor Company, 1990–2016, the latest as COO of Ford Europe, 2013–2016. Engineer in the Commercial Nuclear Fuel Division at Westinghouse Electric Corporation, 1981–1990.

Other assignments
Board member of Adient plc, Velodyne LidDAR and Bombardier Recreational Products. Board of Trustee member of Lawerence Technological University.

Shareholding (own and/or held by related parties) 0

6 Colleen Repplier

Board member since 2018
Born 1960

Education and job experience
Bachelor's degree in Electrical Engineering, University of Pittsburgh and MBA from the University of Central Florida. Vice president and general manager of Johnson Controls 2016–2018. Several leading positions within Tyco 2007–2016 and Home Depot 2005–2007, and in the energy industry within GE Energy 1994–2003, Bechtel Corporation 1992–1994 and Westinghouse 1983–1992.

Other assignments
Board member of Kimball Electronics and Triumph Group.

Shareholding (own and/or held by related parties) 0

7 Geert Follens

Board member since 2019
Born 1959

Education and job experience
Master of Science in Electromechanical Engineering and a post graduate degree in Business Economics from the university of Leuven, Belgium. Senior Executive Vice President and Business Area President Vacuum Technique at Atlas Copco AB. Several leading positions within the Atlas Copco Group in Sweden, Belgium and the U.K. since 1995, including General Manager of Atlas Copco Compressor Technique customer center, President of the Portable Energy division and President of the Industrial Air division.

Shareholding (own and/or held by related parties) 1,500 SKF B

8 Håkan Buskhe

Board member since 2020
Born 1963

Education and job experience
Master of Science, Licentiate of Engineering, Chalmers University of Technology. CEO of FAM AB, owned by the Wallenberg Foundations. CEO of E.ON Nordic AB, 2008–2010, and CEO of Saab AB, 2010–2019.

Other assignments
Chairman of IPCO AB, board member of FAM AB, Munters Group, Stora Enso Oyj and Kopparfors Skogar AB

Shareholding (own and/or held by related parties) 0

9 Susanna Schneeberger

Board member since 2020
Born 1973

Education and job experience
Master of European Affairs (MBA) and Master of Science in International Business, Lund University. Senior advisor and several leading positions including CEO of Demag Cranes & Components, 2015–2018, various positions in the Trelleborg Group 2007–2014 and as Chief Digital Officer and executive board member of the KION Group, 2018–2020.

Other assignments
Board member of Concentric AB and Hempel A/S.

Shareholding (own and/or held by related parties) 1,000 SKF B

EMPLOYEE REPRESENTATIVES

10 Jonny Hilbert

Board member since 2015. Born 1981

Education and job experience
Employed in the SKF Group since 2005.

Other assignments
Chairman Unionen, SKF, Gothenburg.

Shareholding (own and/or held by related parties) 0

11 Zarko Djurovic

Board member since 2015. Born 1977

Education and job experience
Employed in the SKF Group since 2006.

Other assignments
Chairman Metalworker's Union, SKF, Gothenburg.

Shareholding (own and/or held by related parties) 0

12 Kennet Carlsson

Deputy Board member since 2015. Born 1962

Education and job experience
Employed in the SKF Group since 1979. Board member 2008–2015 and deputy board member 2001–2008.

Other assignments
Chairman SKF World Union Council and chairman SKF European Works Council.

Shareholding (own and/or held by related parties) 100 SKF A and 500 SKF B

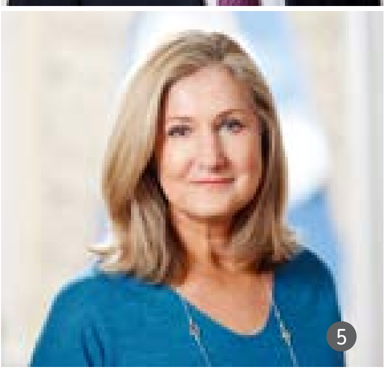
13 Claes Palm

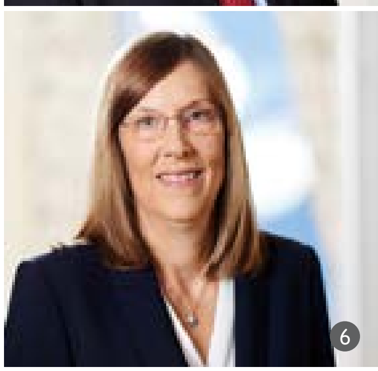
Deputy Board member since 2016. Born 1971

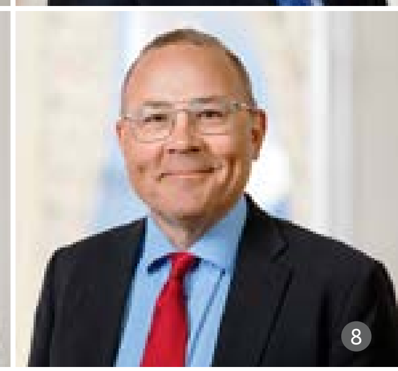
Education and job experience
Employed in the SKF Group since 1989.

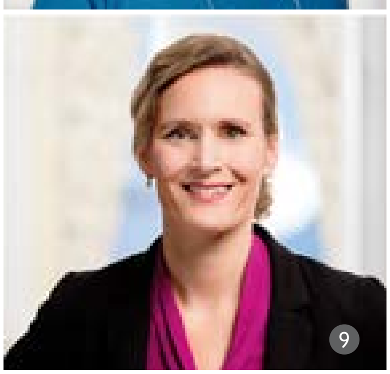
Other assignments
Board member of Unionen at SKF in Gothenburg.

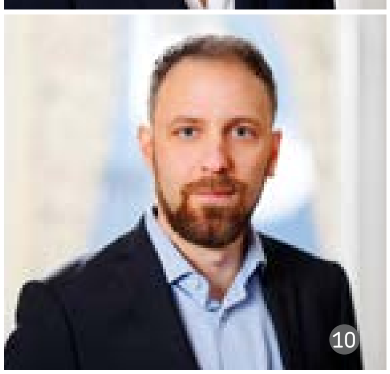
Shareholding (own and/or held by related parties) 0

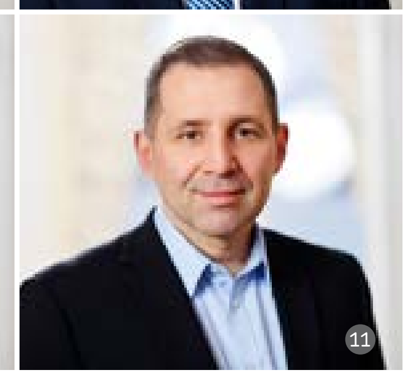


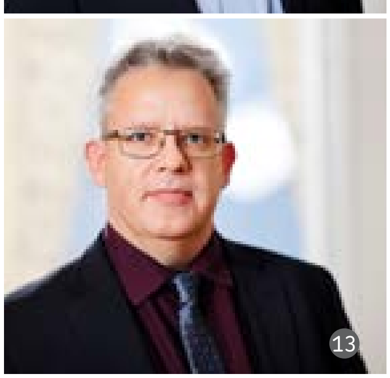








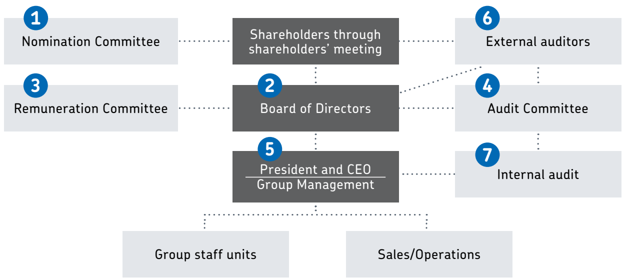




AUDITORS

Johan Rippe
Authorized Public Accountant
Auditor in charge
PricewaterhouseCoopers AB

Karin Olsson
Authorized Public Accountant
PricewaterhouseCoopers AB



7 Internal control and risk management regarding financial reporting

SKF applies the Internal Control Integrated Framework launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In 2013 COSO launched an updated version of the framework. SKF's internal control framework is aligned with the 17 fundamental principles of COSO 2013. SKF applies ISF's Standard of Good Practice for Information Security and CIS controls for cyber security. The COSO framework consists of five interrelated components.

The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and subsidiary companies. SKF has implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified, action plans are created to remediate control gaps. A selection of defined control activities are tested annually. SKF has a risk approach to controls, control testing and actions to remediate control gaps. During 2020 the control test activities have been limited due to the COVID-19 pandemic and been performed primarily through remote testing regarding newly established Finance Operations Centers and through self assessments.

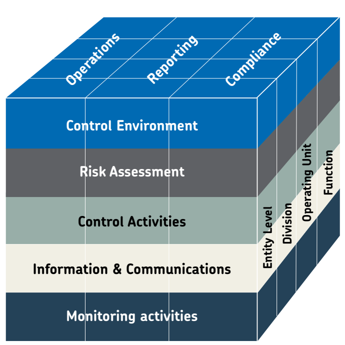
SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary. These instructions are available to all relevant employees together with training programmes. Changes to accounting and reporting instructions are communicated regularly.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually.

SKF has an internal control function, within SKF Group Compliance & Assurance, with the main responsibility to support the business to implement and maintain good internal control as well as to perform control testing to evaluate adherence with the framework and identify control weaknesses. The internal audit department, within Group Compliance & Assurance conduct high level risk-based audits within prioritized areas. Group Compliance & Accurance report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 2 March 2021
The Board of Directors



Auditor's report on the Corporate Governance Report

To the general meeting of the shareholders in AB SKF (publ), corporate identity number 556007-3495

Engagement and responsibility
It is the board of directors who is responsible for the corporate governance statement for the year 2020 on pages 141–148 and that it has been prepared in accordance with the Annual Accounts Act.

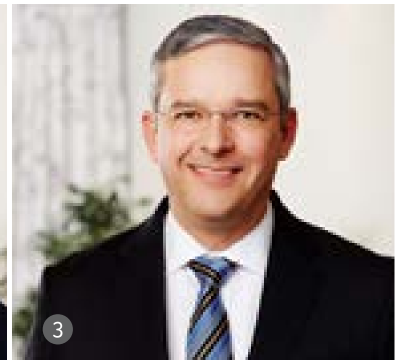
The scope of the audit
Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

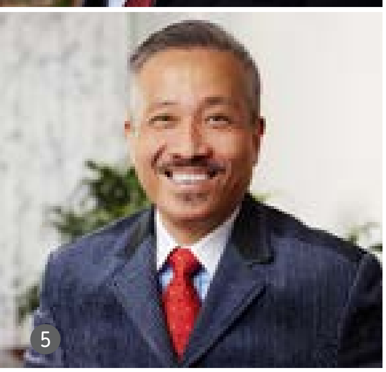
Opinions
A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

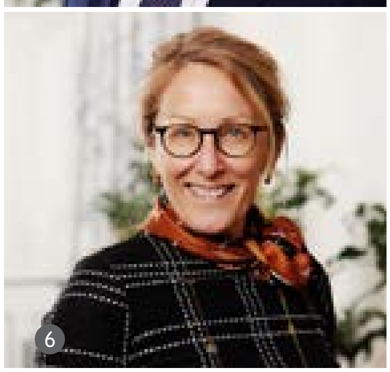
Gothenburg, 2 March 2021
PricewaterhouseCoopers AB

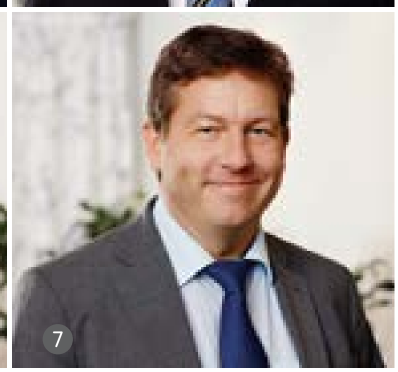
Johan Rippe
Authorised Public Accountant
Auditor in charge

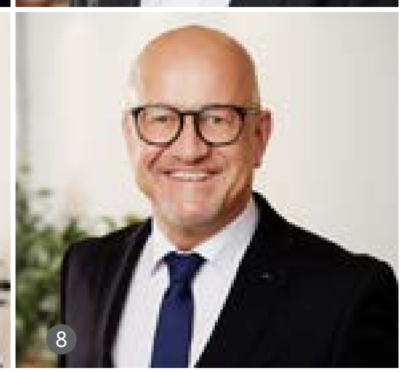
Karin Olsson
Authorised Public Accountant

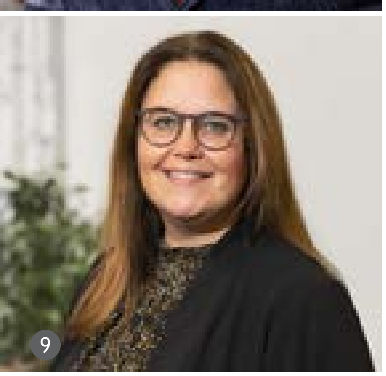












Changes to Group Management in 2020

Bernd Stephan, President, Automotive and Aerospace, stepped down from his role in Group Management on 30 June. Carina Bergfelt, General Counsel and Senior Vice President, Group People, Communication and Legal, stepped down from her role in Group Management on 31 August. On 16 November it was announced that Alrik Danielson will leave his role as President and CEO in 2021.

Announced changes in Group Management 2021

On 11 January 2021 it was announced that Rickard Gustafson has been appointed new President and CEO of the SKF Group. Rickard Gustafson comes from SAS Group where he has been President & CEO since 2011. Before joining SAS, he was the CEO of the insurance company Codan/Trygg Hansa and he has held several positions within General Electric. He is born 1964 and holds an MSc from the Institute of Technology at Linköping University, Sweden.

Group Management as of 31 December 2020

1 Alrik Danielson

President and CEO
Born 1962

Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 2014 and 1987–2005

Previous positions
President and CEO of Höganäs AB 2005–2014, President SKF Industrial Division and several other positions within SKF.

Board member
Association of Swedish Engineering Industries

Shareholding in SKF
54,227 SKF B

2 Niclas Rosenlew

Chief Financial Officer and Senior Vice President
Born 1972

Master of Science in Finance, Hanken, Swedish School of Economics. Employed since 17 June 2019

Previous positions
CFO of Basware and senior positions within Microsoft, Nokia and Deutsche Bank.

Shareholding in SKF
8,640 SKF B

3 John Schmidt

President, Industrial Sales Americas
Born 1969

Bachelor of Science, Mechanical Engineering from the Pennsylvania State University. Employed since 2001 and 1993–1998

Previous positions
President and CEO SKF USA Inc, Vice President Industrial Market NAM and several other positions within SKF.

Shareholding in SKF
17,724 SKF B

4 Erik Nelander

President, Industrial Sales Europe and Middle East and Africa
Born 1963

Master of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 1987

Previous positions
Vice President SKF Industrial Market, President SKF China, Business Unit Director SKF Aerospace, and several other positions within SKF.

Shareholding in SKF
16,668 SKF B

5 Patrick Tong

President, Industrial Sales Asia
Born 1962

Executive Master's Degree of Business Administration, Hong Kong University of Science and Technology. Employed since 1989

Previous positions
President Specialty Business, President SKF Second Brands Bearings, as well as several other positions within SKF.

Shareholding in SKF
19,003 SKF B

6 Victoria Van Camp

CTO and President, SKF Technology
Born 1966

Master of Science in Mechanical Engineering, PhD in Machine Elements; Luleå University of Technology, Sweden.
Employed since 1996

Previous positions
President Business and Product Development, Director Industrial Market Technology and Solutions, Director of Product Innovation Lubrication BU, as well as several other positions within SKF.

Board member
BillerudKorsnäs AB, Amexci AB and SKF India Ltd.

Shareholding in SKF
14,223 SKF B

7 Kent Viitanen

President, Bearing Operations
Born 1965

Business and Economics, School of Business, Economics and Law, University of Gothenburg.
Employed since 1988

Previous positions
Senior Vice President People, Communication and Quality, Director Renewable Energy and several other positions within SKF.

Board member
Chalmers University of Technology

Shareholding in SKF
140 SKF A and 15,365 SKF B

8 Thomas Fröst

President, Industrial Technologies
Born 1962

Degree in Industrial Economics from Chalmers University of Technology. Employed since 1988

Previous positions
Director Industrial Units, Head of Industrial Marketing, and several other positions within SKF.

Shareholding in SKF
0 SKF B

9 Ann-Sofie Zaks

Senior Vice President, Human Resources
Born 1976

Bachelor's degree, Innovation Program with special focus on Behavioural Science from University college of Mälardalen. Employed since 2001

Previous positions within SKF
HR Director Bearing Operations, Program manager, Group People Transformation initiative and several other positions.

Shareholding in SKF
3,690 SKF B

10 Mathias Lyon

General Counsel and Senior Vice President, Group Legal, Reinsurance, Brand Protection and Real Estate & Facility Management
Born 1975

Master of Laws, Faculty of Law at Lund University.
Employed since 2012

Previous positions
SKF Deputy General Counsel and several other positions at Volvo, AstraZeneca, Mannheimer Swartling and Rosengrens.

Shareholding in SKF
800 SKF B

Seven-year review

MSEK unless otherwise stated	2020	2019	2018	2017	2016	2015	2014
Income statements							
Net sales	74,852	86,013	85,713	77,938	72,589	75,788	70,778
Operating expenses incl. associated comp.	–67,783	–76,618	–74,664	–69,346	–65,062	–68,820	–62,977
Operating profit	7,069	9,395	11,049	8,592	7,527	6,968	7,801
Financial income and expense, net	–769	–926	–861	–934	–788	–1,134	–1,133
Profit before taxes	6,300	8,469	10,188	7,658	6,739	5,834	6,668
Taxes	–1,826	–2,677	–2,603	–1,898	–2,530	–1,760	–1,918
Net profit	4,474	5,792	7,585	5,760	4,209	4,074	4,750
Balance sheets							
Intangible assets	16,242	18,397	17,722	17,360	19,568	21,485	22,138
Deferred tax assets	4,800	4,437	3,563	3,633	3,806	3,185	3,350
Property, plant and equipment	18,161	18,420	16,688	15,762	15,746	15,303	15,482
Right of use assets	2,517	2,991	—	—	—	—	—
Non-current financial and other assets	1,939	2,019	1,964	1,627	1,688	1,607	1,862
Inventories	15,733	18,051	17,826	17,122	15,418	14,519	15,066
Trade receivables	12,286	14,006	13,842	13,416	13,462	11,777	12,595
Other current assets	18,879	15,787	15,568	12,283	14,219	11,857	11,146
Total assets	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**	**81,639**
Equity	35,712	37,366	35,452	29,823	27,683	26,282	24,404
Provisions for post-employment benefits	15,170	15,366	12,894	12,309	13,945	13,062	13,978
Deferred tax provisions	792	960	1,118	1,100	1,380	1,373	1,717
Other provisions	3,482	2,474	2,541	2,275	2,224	2,095	2,083
Financial liabilities	18,349	19,017	17,157	18,508	23,650	23,825	26,105
Trade payables	8,459	8,266	7,831	7,899	7,100	5,671	5,938
Other liabilities	8,593	10,659	10,180	9,289	7,925	7,425	7,414
Total equity and liabilities	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**	**81,639**
Key figures[1] (in % unless otherwise stated)							
Operating margin	9.4	10.9	12.9	11.0	10.4	9.2	11.0
EBITA, MSEK	7,681	10,008	11,541	9,064	8,016	7,522	8,289
EBITDA, MSEK	10,470	12,892	13,522	10,916	9,895	9,826	10,192
Return on capital employed	9.8	13.2	17.6	14.2	11.9	10.9	13.9
Return on equity	12.1	15.7	22.8	20.4	16.5	15.7	21.4
Net working capital, % of sales	26.1	27.7	27.8	29.0	30.0	27.2	30.7
Net debt/equity	51.7	59.3	49.1	71.3	84.4	99.9	126.6
Turnover of total assets, times	0.79	0.90	1.00	0.96	0.89	0.92	0.95
Gearing	48.0	47.1	45.0	49.9	55.3	56.7	60.5
Equity/assets	39.4	39.7	40.7	36.7	33.0	33.0	29.9
Net cash flow after investments before financing, MSEK	5,259	4,953	8,326	4,753	7,717	6,416	2,137
Investments and employees							
Additions to property, plant and equipment, MSEK	3,332	3,461	2,647	2,243	1,869	2,063	1,852
Research and development expenses, MSEK	2,515	2,691	2,591	2,395	2,246	2,372	2,078
Patents – number of first filings	200	201	202	192	191	461	488
Average number of employees	38,385	41,559	42,565	43,814	43,508	44,305	46,509
Number of employees registered at 31 December	40,963	43,360	44,428	45,678	44,868	46,635	48,593

1) See page 154 for definitions. SKF has applied the guidelines issued by ESMA (European Securities and Markets Authority) on APMs (Alternative Performance Measures). These key figures are not defined or specified in IFRS but provides complementary information to investors and other stakeholders on the company's performance. For the reconciliation of each APM against the most reconcilable line item in the financial statements, see skf.com/group/investors/.

Three-year review

MSEK unless otherwise stated	2020	2019 1)	2018 1)
Industrial			
Net sales	54,463	61,597	60,773
Operating profit	6,773	8,686	9,498
Operating margin, %	12.4	14.1	15.6
Assets and liabilities, net	38,511	43,601	38,328
Registered number of employees	33,157	35,834	36,571
Automotive			
Net sales	20,389	24,416	24,940
Operating profit	296	709	1,551
Operating margin, %	1.5	2.9	6.2
Assets and liabilities, net	9,355	11,302	10,652
Registered number of employees	6,351	6,855	7,227

1) Previously published amounts have been restated to conform to the current Group structure. For more information refer to Note 2 in the consolidated financial statements.

Per-share data[1)]

SEK per share unless otherwise stated	2020	2019	2018	2017	2016	2015	2014
Earnings per share	9.44	12.20	16.0	12.02	8.75	8.52	10.10
Dividend per A and B share	6.50 2)	3.00	6.00	5.50	5.50	5.50	5.50
Total dividends, MSEK	2,960 2)	1,366	2,732	2,504	2,504	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	213.4	189.4	134.5	182.2	167.6	137.2	164.9
Equity per share	75	78	74	62	57	54	51
Yield in percent (B)	3.0 2)	1.6	4.5	3.0	3.3	4.0	3.3
P/E ratio, B (share price/earnings per share)	22.6	15.5	8.4	15.2	19.2	16.1	16.3
Cash flow from operations, per share	18.15	20.7	18.3	14.1	15.7	17.0	10.5
Cash flow, after investments and before financing, per share	11.55	10.9	18.3	10.4	17.0	14.1	4.7

1) See page 154 for definitions.
2) According to the Board's proposal for the year 2020.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1–1,000	50,476	86.8	12,322,893	2.7
1,001–10,000	6,927	11.9	18,221,575	4.0
10,001–100,000	552	1.0	15,065,321	3.3
100,001–	213	0.3	347,065,032	76.2
Anonymous ownership	—	—	62,676,247	13.8
	58,168	**100**	**455,351,068**	**100**

Source: Monitor, Modular Finance as of 31 December 2020.

Definitions

Adjusted operating profit
Operating profit excluding items affecting comparability.

Average number of employees
Total number of working hours of registered employees, divided by the normal total working time for the period.

Basic earnings per share
Net profit less non-controlling interests divided by the ordinary number of shares.

Currency impact on operating profit
The effects of both translation and transaction flows based on current assumptions and exchange rates compared to the corresponding period last year.

Debt
Loans plus provisions for post-employment benefits, net.

Diluted earnings per share
Calculated by using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares.

Dividends pay-out ratio
Dividends paid in relation to net income for the year the dividend relates to.

EBITA (Earnings before interest, taxes and amortization)
Operating profit before amortizations.

EBITDA (Earnings before interest, taxes, depreciation and amortization)
Operating profit before depreciations, amortizations, and impairments.

Equity/assets ratio
Equity as a percentage of total assets.

Equity per share
Equity excluding non-controlling interests divided by the ordinary number of shares.

Gearing
Debt as a percentage of the sum of debt and equity.

Items affecting comparability
Significant income/expenses that affects comparability between accounting periods. This includes, but is not limited to, restructuring costs, impairments and write-offs, currency exchange rate effects caused by devaluations and gains and losses on divestments of businesses.

Net debt
Debt less short-term financial assets excluding derivatives.

Net debt/EBITDA
Net debt, as a percentage of twelve months rolling EBITDA.

Net debt/equity
Net debt, as a percentage of equity.

Net working capital as % of annual sales (NWC)
Trade receivables plus inventory minus trade payables as a percentage of twelve months rolling net sales.

Net worth per share (Equity per share)
Equity excluding non-controlling interests divided by the ordinary number of shares.

Operating margin
Operating profit, as a percentage of net sales.

Operational performance
Includes the effects on operating profit related to changes in organic sales, manufacturing volumes and manufacturing cost and changes in selling and administrative expenses.

Revenue growth
Sales excluding effects of currency and divested businesses.

P/E ratio
Share price at year end divided by basic earnings per share.

Registered number of employees
Total number of employees included in SKF's payroll at the end of the period.

Return on capital employed (ROCE)
Operating profit plus interest income, as a percentage of twelve months rolling average of total assets less the average of non-interest bearing liabilities.

Return on equity (ROE)
Net income as a percentage of twelve months rolling average of equity.

Turnover of total assets
Net sales in relation to twelve-month rolling average of total assets.

Total value added (TVA)
TVA is the operating profit, less the pre-tax cost of capital. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 6% above the risk-free interest rate.

General information

Annual General Meeting
The Annual General Meeting will be held on Thursday, 25 March 2021.

Due to the contagious covid-19 and the authorities' regulations/guidance on avoiding gatherings of people, the Board of Directors has decided that the general meeting should be held without physical presence by inviting the shareholders to exercise their voting rights only by postal voting. There will be no meeting with a possibility to attend physically or by proxy; hence, the meeting will be held without physical presence.

Information on the resolutions adopted by the general meeting will be published on 25 March 2021 as soon as the results of the postal vote has been finalized. For further information, see the heading "Postal voting" below.

An address from the Chairman of the Board, the President and the incoming President will be available at the company's website, www.skf.com, latest by 22 March 2021. Further, an address from the auditor will be available at the company's website.

Preconditions for participation
For the right to participate at the Annual General Meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Wednesday, 17 March 2021 and must notify its intention to participate to the company at the latest on 24 March 2021 by casting its postal vote in accordance with the instructions under the heading "Postal voting" below so that the postal voting is received by the company through Computershare AB no later than 24 March 2021. Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the Annual General Meeting. Any such re-registration for the purpose of establishing voting rights made by the trustee latest by 19 March 2021 are taken into account in the production of the share register. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee well in advance, in accordance with the trustee's procedures.

Postal voting
Shareholders may exercise their voting rights at the Annual General Meeting only by voting in advance, so-called postal voting in accordance with section 22 of the Act (2020:198) on temporary exceptions to facilitate the execution of general meetings in companies and other associations.

A special form shall be used for postal voting. The form is available on www.skf.com. The postal voting form is considered as the notification of participation.

The completed voting form must be received by SKF through Computershare AB no later than 24 March 2021. The form may be submitted by post to Computershare AB, "AGM 2021 of AB SKF", Box 5267, 102 46 Stockholm or via e-mail to info@computershare.se. Shareholders who are natural persons may also cast their postal votes electronically through Swedish BankID verification via SKF's website www.skf.com. Shareholders who are represented by a proxy holder shall submit a proxy form enclosed to the voting form. If the shareholder is a legal entity, a certificate of incorporation or a corresponding document shall be enclosed to the form.

Shareholders are not permitted to add special instructions or conditions to their postal votes. If this is done, the vote (i.e. the postal vote in its entirety) will be invalid. Further instructions and conditions can be found in the notice of Annual General Meeting and on the postal voting form.

Payment of dividend

The Board of Directors proposes a dividend of SEK 6.50 per share for 2020. Monday, 29 March 2021 is proposed as the record date for shareholders to be entitled to receive dividends for 2020. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday 1 April 2021.

Financial information and reporting

Publishing dates for financial reports in 2021:

Annual Report 2020	3 March
Q1 report	22 April
Q2 report	20 July
Q3 report	26 October

The reports are available in Swedish and English on skf.com/Investors. A subscription service for press releases and interim reports, sent via e-mail or SMS, is available on the website.

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Remuneration Report 2020

Introduction

This remuneration report provides an outline of how AB SKF's principles for remuneration for Group Management (the "remuneration principles"), adopted by the Annual General Meeting 2020, have been implemented in 2020. The report also provides details on the remuneration of AB SKF's CEO. In addition, the report contains a summary of AB SKF's outstanding share and share-price related incentive programs. The report has been prepared in compliance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551) and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Information required by Chapter 5, Sections 40–44 of the Annual Accounts Act (1995:1554) is available in note 23 on pages 90–93 in the company's annual report for 2020 (the "annual report 2020"). Information on the work of the Remuneration Committee in 2020 is set out in the corporate governance report, which is available on pages 141–148 in the annual report 2020.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in note 23 on pages 90–93 in the annual report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on pages 10–13 in the annual report 2020.

Overview of the application of the remuneration principles in 2020

The objective of the remuneration principles is to ensure that the SKF Group can attract and retain the best people in order to contribute to the SKF Group's mission and business strategy, its long-term interests and sustainability. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests. Variable salary covered by the principles shall be linked to predetermined and measurable criteria, aiming to promote the SKF Group's business strategy and long-term interests, including its sustainability.

The total remuneration package for a Group Management member shall consist of the following components: fixed salary, variable salary, 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. The Annual General Meeting may also – irrespective of the principles – resolve on other remuneration components, e.g. SKF's Performance Share Programme.

The principles are found at www.skf.com. The remuneration principles, adopted by the Annual General Meeting 2020, have been fully implemented.

No deviations from the principles have been decided and no derogations from the procedure for implementation of the principles have been made. The auditor's report regarding the company's compliance with the principles is available on www.skf.com. No remuneration has been reclaimed.

In addition to remuneration covered by the remuneration principles, the Annual General Meetings of the company have resolved to implement SKF Performance Share Programme for senior managers and key employees.

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives, sustainability, short-term and long-term business priorities for 2020 have been taken into account.

The performance measures for the CEO's variable cash remuneration have been divided equally between Total Value Added (TVA)[4] and cash flow. To determine the range for the parameters, the final result of the year before is the baseline. During 2020, the criteria for TVA and the criteria for cash flow were partly met. The outcome was therefore that 27% of the maximum variable cash remuneration was earned by the CEO during the year; 9% relating to TVA and 18% relating to cash flow.

Table 1 – Total CEO remuneration in 2020 (kSEK)

Table 1 below sets out total remuneration earned by AB SKF's CEO during 2020[1].

	Fixed remuneration		Variable remuneration					
Total remuneration	Base salary	Other benefits	One-year variable	Multi-year variable[3]	Extraordinary items[2]	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
Alrik Danielson CEO	13,500	71	2,552	—	—	5,270	21,393	84%/16%

1) Disbursements may or may not have been made during the year.
2) The current CEO's employment will seize during 2021. The maximum severance payment is eighteen months' fixed salary. The severance payments are subject to certain conditions. Any other income that the CEO may have after six months from the last employment date will reduce the severance payment. Therefore, the severance payment cannot be determined until the severance payment period has ended. However, the severance payment will be in the range of 6,812 KSEK and 20,438 KSEK.
3) Allotment of shares under the SKF Performance Share Programme are not covered by the remuneration principles and are reported separately under share based remuneration below.
4) 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.

Comparative information on the change of remuneration and company performance

2020 will be the first reference year and therefore no year over year changes for the previously reported financial years (RFY) will be presented. Coming years will be added so that the annual change over the last five years will be visible.

Table 2 – Remuneration and company performance during 2020 (kSEK)

	2020 RFY-0
Directors remuneration (SEK)	
Alrik Danielson, President & CEO	21,393
Company's performance	
Adjusted operating profit[5)]	9,194,000
Cash flow[6)]	8,265,000
Average remuneration on a full-time equivalent basis of employees (SEK)	
Employees of AB SKF	1,030

Share-based remuneration

Outstanding share-related incentive plans

Since 2008 the Annual General Meeting has resolved each year upon the SKF Performance Share Programme for senior managers and key employees. The SKF Performance Share Programmes for 2018–2020 have been ongoing during 2020.

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 during a three-year calculation period. The performance criteria used to assess the outcome of the proposed SKF Performance Share Programme is distinctively linked to the business strategy and thereby to SKF Group's long-term value creation, including its sustainability. These performance criteria include a clear link to the SKF Group's yearly growth, long-term financial targets and capital efficiency. For further information on said SKF Performance Share Programme, including the criteria which the outcome depends on, please refer to the Board of Directors' proposal on SKF's Performance Share Programme 2021 which can be found on www.skf.com.

At the end of 2019, the SKF Performance Share Programme 2017 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2017–2019, compared to the financial year 2016. Since the target level of the TVA increase, defined by the Board, was fully achieved, the participants of the programme were awarded 100% allotment of shares under the programme. Consequently, during 2020, the CEO was awarded 100% allotment of shares free of charge under the SKF Performance Share Programme 2017 amounting to 30,000 SKF B shares. In total, around 639,400 SKF B shares were allotted under the programme, corresponding to approximately 0.14% of the total number of outstanding shares.

At the end of 2020, the SKF Performance Share Programme 2018 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2018–2020, compared to the financial year 2017. Since the threshold level of the TVA was met and the TVA target was partly met, as decided by the Board, the participants of the programme were awarded 64% allotment of shares under the programme. Consequently, in the beginning of 2021, the CEO was awarded 64% allotment of shares free of charge under the SKF Performance Share Programme 2018 amounting to 19,200 SKF B shares. In total, around 393,000 SKF B shares were allotted under the programme, corresponding to approximately 0.09% of the total number of outstanding shares.

Allotment of shares requires that the persons covered by the programme are employed in the SKF Group during the entire calculation period. The current CEO Alrik Danielson's employment will seize during 2021 and his participation in the Performance Share Programmes 2019 and 2020 will therefore lapse.

5) Operating profit excluding items affecting comparability.
6) Net cash flow after investments before financing.

CAUTIONARY STATEMENT

This report contains forward-looking statements that are based on the current expectations of the management of SKF. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in the Administration Report in this Annual Report.

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