Annual Report 2021

When have you relied on rotation today?

Our products and services are found everywhere in society. In fact, wherever there's movement, SKF's solutions may be used. This means that we're an important part of the everyday lives of people and companies around the world.

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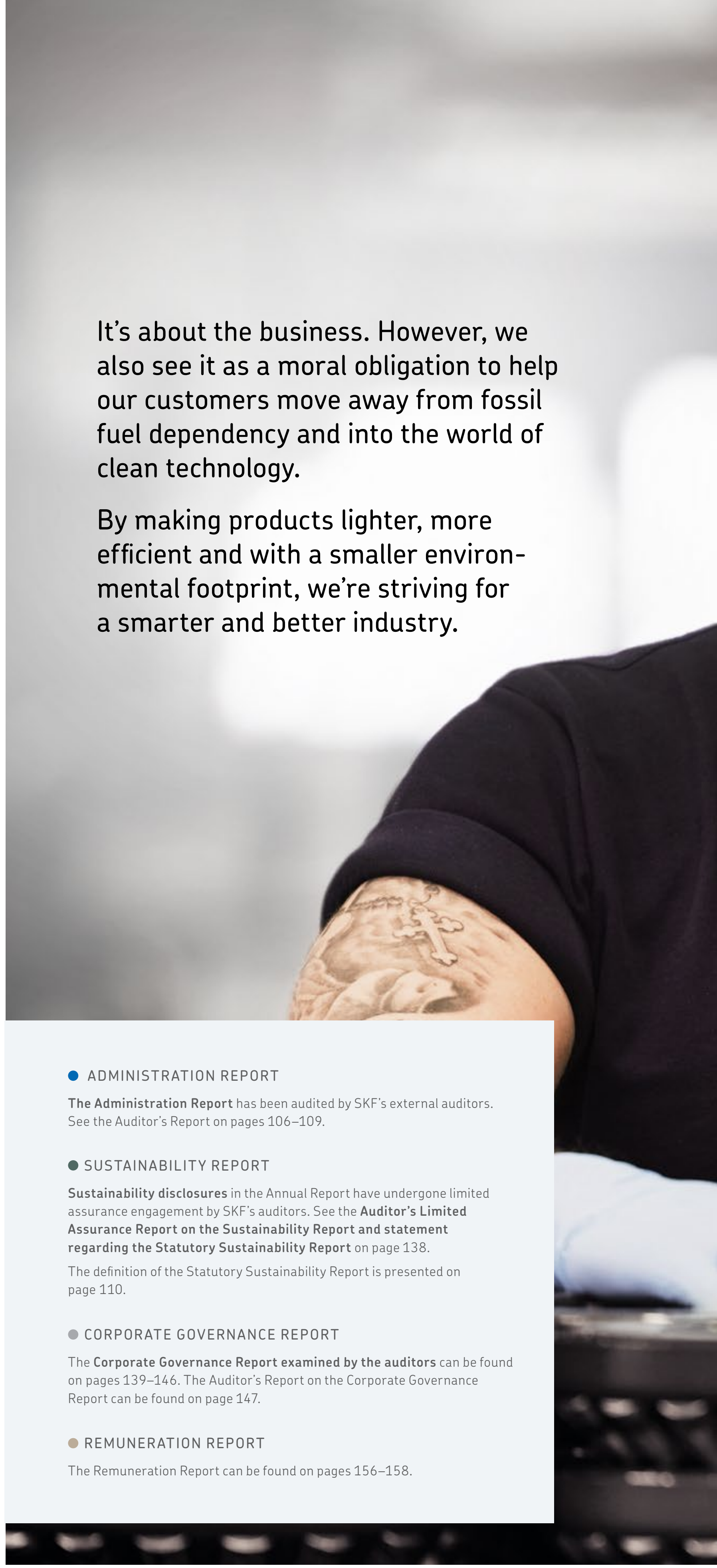


It's about the business. However, we also see it as a moral obligation to help our customers move away from fossil fuel dependency and into the world of clean technology.

By making products lighter, more efficient and with a smaller environmental footprint, we're striving for a smarter and better industry.

ADMINISTRATION REPORT

The Administration Report has been audited by SKF's external auditors. See the Auditor's Report on pages 106–109.

SUSTAINABILITY REPORT

Sustainability disclosures in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **Auditor's Limited Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report** on page 138.

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 139–146. The Auditor's Report on the Corporate Governance Report can be found on page 147.

REMUNERATION REPORT

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

2021 in brief

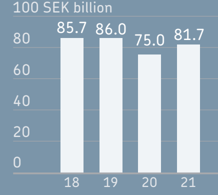
- 2021 was a strong year with solid growth and improved margins, especially during the first half of the year.
- Continued investments in world-class manufacturing with, among others, SEK 400 million invested in expanding and modernizing the manufacturing facility in Airasca, Italy.
- Rickard Gustafson joined SKF as President and CEO on 1 June 2021.
- In addition to the net zero objective for SKF's operations by 2030, we announced our commitment to have a supply chain with net zero greenhouse gas emissions by 2050.

SKF's long-term targets

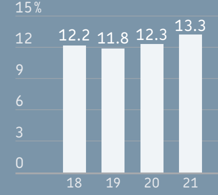
	TARGET	2021 OUTCOME
Operating margin[1]	14%	13.3%
Net debt[3]/equity	<40%	12.5%
Dividend pay-out ratio	50%	42%
Revenue growth[2]	5%	12.6%
ROCE[1]	16%	14.9%
Net zero by 2030[4]	zero	–37%[5]

The long-term targets shall be achieved over a business cycle.

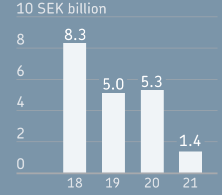
Net sales



Operating margin[1]



Cash flow[6]



1) Adjusted for items affecting comparability. 2) Including acquisitions, adjusted for divestments. 3) Excluding pension liabilities. 4) Own operations scope 1 and 2. 5) Absolute reduction in scope 1 and 2 emissions since 2015 base year. 6) Net cash flow after investments before financing.

This is the SKF Group

World-leading experts on rotation

SKF is a leading global supplier of solutions for rotating equipment. We combine hands-on industry experience with a vast product portfolio and knowledge around bearings, seals, lubrication management, condition monitoring and maintenance services.

One of our strengths is the ability to keep developing new technologies that offer competitive advantages to customers, and at the same time, contribute to a sustainable society.

SKF's products are used all over the world and in a large variety of rotating applications, ranging from renewable energy, such as wind and ocean power, to heavy industries like mining, metal, and pulp and paper. Our products are also used in cars and commercial vehicles, as well as in bicycles, skateboards and household appliances.

42,602
EMPLOYEES

40
CUSTOMER INDUSTRIES

87
MANUFACTURING UNITS

130
COUNTRIES

15
TECHNOLOGY CENTERS

>17,000
DISTRIBUTORS

A strategy for intelligent and clean growth

In the beginning of 2022, we presented a new strategic framework based on two concepts: intelligent and clean. These concepts will guide us on our journey to become an even more focused, innovative and profitable industrial player.

Our broad business reach gives us a platform to drive profitable growth, as it allows us to continuously target the most attractive opportunities. Within these growth areas, strong market demand matches our ability to differentiate and provide customer value. This means that we are well positioned to accelerate profitable growth.

Read more on pages 14–17.

A DIFFERENT SKF 2030

Intelligent and clean growth

GROWTH AREAS

- High growth segments
- New technologies
- Services & Aftermarket
- Portfolio management

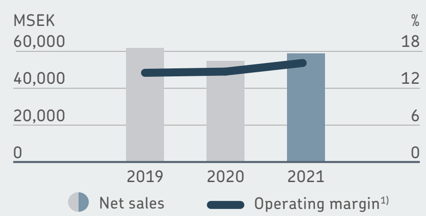
GROWTH ENABLERS

- Accelerate technology development
- Digitalize the full value chain
- Regionalized and competitive supply chain
- Operate more efficiently – closer to customers

Industrial

SHARE OF NET SALES **72%**

SHARE OF OPERATING PROFIT[1] **87%**



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 frag-mented and varies from country to country.

MAIN COMPETITORS

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

MARKET VALUE[2] SEK BILLION **275–295**

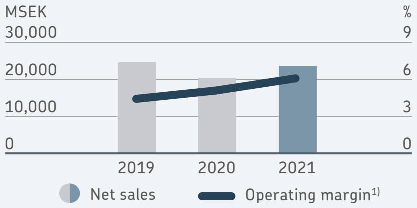
BEARINGS MARKET DEVELOPMENT 2021 **12% to 14%**

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

Automotive

SHARE OF NET SALES 28 %

SHARE OF OPERATING PROFIT[1] 13 %



SKF'S OFFERING

- Customized bearings, seals and related products for wheel-end, driveline, e-powertrain, engine, 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. the development of components for automotive electrification and wheel-end solutions.
- Strong position in application-driven powertrain solutions.
- Strong global position in the aftermarket with an extensive distribution network.

MARKET DRIVERS

- The light vehicle market: electrification, energy efficiency and reduction of emissions.
- 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 125–145

BEARINGS MARKET DEVELOPMENT 2021 5% to 7%

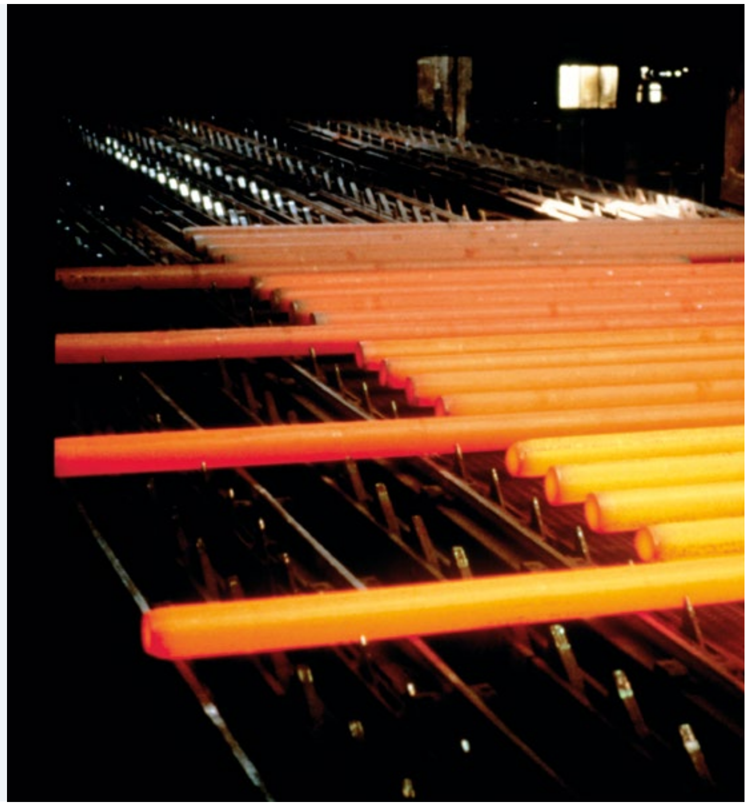
1) Adjusted for items affecting comparability 2) Total value of accessible bearings market

INDUSTRIAL

Saving millions with preventive maintenance

Preventive maintenance solutions from SKF enable the steelmaker company, Ovako, to identify problems early and fix them immediately, thereby avoiding bearing failures and machine downtime.

Constant monitoring equipment generates more data. This has led to Ovako being able to see trends and patterns that can be acted on early. The savings in maintenance have amounted to around SEK 8 million per year.



SKF RECONDOIL

SKF's oil regeneration service available in Mexico

Molecular Oil Technology is licensed to operate with a RecondOil Double Separation Technology (DST) stand-alone unit from SKF. The DST system removes particulates from industrial oil, allowing it to be regenerated rather than replaced. This will improve the environmental performance and reduce costs for industrial end-users in Mexico.

SKF REMANUFACTURING

Reduced costs and carbon emissions with remanufacturing

SKF has remanufactured more than 39,000 bearings, weighing more than 400 tonnes, for steelmaker Severstal over the last 10 years. Remanufacturing has helped the company reduce carbon emissions by more than 65 tonnes per year. In addition, the service-based partnership has helped Severstal to reduce costs and improve its equipment reliability.

AUTOMOTIVE

Meeting the tough demands of commercial vehicles

In 2021, SKF introduced the Truck Hub Unit (THU) 2nd Generation on the commercial vehicle market in China. This is the most compact and lightweight wheel end bearing technology, and it has been developed to meet the tough demands of commercial vehicles and to match vehicle service life.

Due to the compact design, there is no need for disassembling from the axle during brake maintenance. This makes the THU 2nd Generation the most reliable wheel end bearing concept on the market.

We are SKF

Daria Naboichenko

Business Services Project Manager, Moscow, Russia

"At SKF you feel like your work is an extension of who you are. Together with my colleagues all over the world we consciously produce value."

Harshali Patil

Operator in Maintenance Department, Pune, India

"SKF's strategy to focus on the future workforce by developing and involving them in the journey of lean manufacturing and digitalization is critical to create a culture of innovation."

Jakub Duszczak

Digital Deployment Champion, Poznan, Poland

"I support our factories in their digitalization journey. Making sure they understand benefits and challenges, and how to solve their pain points in the best possible way."

Jorge Yanez

R2R Chief Accountant, Madrid, Spain

"I joined SKF one year ago and I'm happy. I feel as part of a team with a lot of opportunities to continue growing within the company in the future."

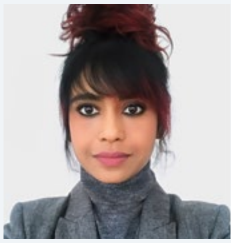
Maya Chaudhari

Cleantech Director, Lansdale, USA

"My role is to focus on Cleantech, helping our customers reduce their environmental impact and to seize business opportunities for SKF that contribute towards addressing the climate change challenge."

Malonie Guha

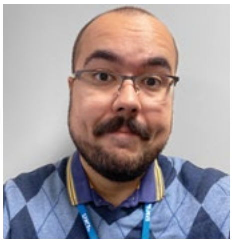
Global Quality Manager, Gothenburg, Sweden



"As a department, we're envisioned to be at the forefront of innovation. Powered by automation and modern tools, delivering future focused solutions is our main priority."

Renato Neves

Global Manager, Head of Digital Ecosystems & Partnerships, Gothenburg, Sweden



"I enjoy my work the most when learning from my colleagues. Applying this in real life and generating customer value motivates me a lot."

Yijun Zhu

Sales Manager, EV & OEM Customers, Shanghai, China

"SKF entitles employees to have self-decision power, which enables SKF's leading position in cutting-edge technology. A win-win situation for both SKF and employees."

CEO Rickard Gustafson

“Our broad knowledge and reach provide a great platform to drive profitable growth”

In 2021, we saw solid growth and improved margins. Now, we are focused on delivering on our ambitious plans, accelerating our journey to become an even more innovative, growth focused and profitable industrial player.

How would you summarize your first year as President and CEO of SKF? What are your impressions so far?
"For the business in general, it's been a year with challenges, but also a lot of opportunities. We saw continued sharp rebound in post-pandemic demand within Industrial, but also exceptional pressures throughout the supply chain, logistics constraints and significant cost inflation. The team really managed the situation in a good way, and we've been able to keep delivering to our customers. Automotive saw many of the same challenges, but also had to deal with the added uncertainty of large OEM customers cancelling orders with very short notice.

On a personal level, it's been a pleasure and joy getting to know this fantastic company. The people I've met and stakeholders I've engaged with have really reinforced the strength of SKF: leading technical capabilities, relentless customer focus and passionate people.

Personally, I'm also very pleased that we've recently announced two important milestones in our future work with regards to our own operations: achieving net zero emissions from our own operations by 2030 as well as achieving a net zero supply chain by 2050. We of course also continue to support the UN Global Compact initiative and its principles and the Global Goals for 2030."

How would you describe SKF's development in 2021?
"I think it has really been about continuing to deliver on the things we said we would do. We've continued to invest in making our factories more automated, more digitalized. We've also continued the transformation of our engineering and manufacturing capability, putting more competence closer to our customers in both Americas and Asia.

"

The people I've met and stakeholders I've engaged with have really reinforced the strength of SKF: leading technical capabilities, relentless customer focus and passionate people.

Financially, 2021 was strong for us with solid growth and improved margins. Our operating margin was 13.3% and we delivered an organic sales growth of 13%. The performance in the first half of the year was especially strong.

Externally, two of our largest challenges have been supply chain constraints and sharp cost inflation during the second half of the year. Quite simply put, we could have delivered even more to our customers, had it not been for component shortages and logistics bottle necks. On the cost inflation side of things, steel prices were the first to move, followed by logistics and energy prices. We've worked hard to compensate but the increases were higher and sharper than I believe anyone could have predicted. We'll continue to pull all available levers to compensate for the steep cost inflation."

What will be important for SKF to achieve in 2022?
"Starting to deliver on the ambitious plans set out in our new strategic framework (see pages 14–17). Putting the enablers in place and making sure that we really get the organization working in the way that we want it to. Our broad knowledge and reach provides a great platform to drive profitable growth, which we are now going to accelerate."

In what ways are SKF's products and solutions enabling a more sustainable industrial development?
"By far, our largest contribution lies in what we can do with, and for, our customers. We offer products, solutions and services that help machines run smoother, with less emissions, as well as enabling the growth of clean technologies, such as renewable energy and electric vehicles. We will continue to invest more into the development of solutions for these industries, growing hand in hand with our customers.

We can also enable significant energy and carbon savings for our customers by making our products lighter, more efficient, longer lasting and repairable. Whether it's about lubrication management, condition monitoring or bearing remanufacturing, our service offering is fundamentally about the removal of waste from customer processes and value chains.

With a combination of these approaches, we have the potential to make a profound contribution to the transition to a cleaner world, whilst driving innovation and growth for SKF."

"

We have the potential to make a profound contribution to the transition to a cleaner world, whilst driving innovation and growth for SKF.

In 2021 you launched a new target to have a net zero supply chain by 2050. How are you going to do it?
"We have a proven track record in this field and are confident that, by 2030, our own facilities will have net zero greenhouse gas emissions. This gives us the conviction that achieving a fully net zero supply chain by 2050 is possible. More challenging, but also more exciting!

Achiveing this will require focus and commitment from people not only within our own operations, but also from those working in other parts of the value chain. We're in this together: colleagues, suppliers and customers. When it comes to steel which, by far, is the biggest source of scope 3 emissions for us, we're already working with academia, suppliers and other stakeholders to speed up the development of fossil-free steel.

Everyone in SKF is committed to this change. I'm convinced that together with our partners across the entire value chain, we have the determination needed to get it done."

How would you describe the difference that the employees make at SKF?
"I think the proof lies in what we have achieved. 2021 was a tough year, with lots of external factors working against us. But this didn't deter us. So much hard work and commitment was shown across all parts of the business. People got the job done, using their passion and knowledge to serve and help our customers. They did this at the same time as they also needed to put extra care and attention towards taking care of themselves and their colleagues. For all of this, I'm extremely grateful and they deserve appreciation for all their efforts during 2021."

A strategic framework for accelerating profitable growth

Rickard Gustafson on the new strategic framework

What are you looking forward to most in 2022?
"I'm really looking forward to kicking off our work to become an even more innovative, growth focused and profitable industrial player.

We will accelerate profitable growth by targeting segments and products where we can provide significant value to our customers. This is a really exciting journey and one which will involve every single one of our colleagues around the world."

What will SKF look like in 2030?
"A successful execution of our strategy will result in a different SKF than today. By 2030, we will strive to grow faster and double the business, at improved margins. We will be more focused and efficient. We will be the technical partner of choice among our customers and lead the development of sustainable solutions."

How are you going to achieve this?
"We have defined a strategic framework based on two concepts: intelligent and clean. Intelligent means providing connected and tailored offerings for our customers, as well as using technology to make our operations more efficient. Clean reflects our ability to enable a more sustainable industry, whilst running our own business in a transparent and responsible manner.

These concepts will guide us as we embark on an exciting journey to become a more focused, innovative and profitable industrial player."

When we say **intelligent and clean** growth

Intelligent ...
- Customer offerings and solutions
- Portfolio management
- Digital value chain and processes
- Capital allocation and resource deployment

Clean ...
- Tech applications
- Industries: minimize friction and waste
- Value chain: net zero emissions and high transparency
- Business practice and high ethics

A DIFFERENT SKF 2030

Intelligent and clean growth

- Double the business at improved margins
- More focused and efficient
- Technical partner of choice among customers
- Leading development of sustainable solutions

GROWTH AREAS

- High growth segments
- New technologies
- Services & Aftermarket
- Portfolio management

GROWTH ENABLERS

- Accelerate technology development
- Digitalize the full value chain
- Regionalized and competitive supply chain
- Operate more efficiently – closer to customers

Prioritized growth areas where we add significant customer value

SKF has something that very few industrial companies have: a deep understanding of almost all industrial applications. Everywhere there is rotation, there is a good chance that SKF products, capabilities and skilled employees are providing value in the form of improved operational performance and reduced emissions.

SKF's ability to master the complexity of meeting customer needs across a wide range of industries and numerous geographies, is our greatest strength and a key to our success. Our broad business reach gives us a platform to drive profitable growth, as it allows us to continuously target the most attractive opportunities.

Key megatrends and increased investments in sustainability, digitalization, regionalization and electrification will also provide profitable growth opportunities for SKF.

All in all, SKF is well positioned to accelerate profitable growth by targeting opportunities where strong market demand matches our ability to differentiate and provide customer value.

We will accelerate profitable growth, with emphasis on:

- Targeting industries with high growth potential, where SKF has a strong market position and competitive edge, e.g. high-speed machinery, electric drives, agriculture, wind, railway, food & beverage and robotics & automation.
- Re-positioning the automotive business to profitable and growing segments where SKF has the lead, including electric vehicles, commercial vehicles and aftermarket parts.
- Developing offers for emerging industries such as hydrogen processing and carbon capture, where SKF is already well positioned through existing technologies such as magnetic bearings.
- Strengthening the foundation for recurring revenues by simplifying our service offering, addressing a wider market. New technology and partnerships will provide scale and easy access to our data analysis and machine performance competence.

Being selective in our investments also implies that we will deal with the parts of our business that are not generating sufficient returns. Here, we will either improve the performance or trim them from the portfolio.

"Condition monitoring and data collection will increase in the future. Our vision is to go towards a maintenance model where you change components only when needed and not based on a fixed interval."

Kimmo Soini
CEO, VR Fleetcare

Enablers to deliver on our growth agenda

To deliver on our growth agenda, we have identified four main enablers:

1. **Accelerate technology development**
   Focus on developing technologies and solutions that help our customers improve their operations and reduce emissions. We will use insights from connected products to speed up development of new customer offerings and solutions. Over time, we plan to increase R&D expenditure by around 50%, helping us capture more growth opportunities.
2. **Digitalize our full value chain**
   Significant progress has been made in digitalizing SKF's manufacturing operations. As part of our journey to become even more relevant for our customers, investments will be made in connecting the value chain: customers, sales, logistics, manufacturing, supply chain and R&D. This to improve ease of doing business with us and enabling more intelligent decisions in our own operations.
3. **Regionalized and competitive supply chain**
   We will continue to increase our investments in property, plant and equipment, supporting our growth ambitions. Through these investments, regionalization in Asia will grow from around 60% to more than 85%, and for Americas from around 40% to around 60%, further improving our competitiveness and ability to capture profitable growth.
   The increased investments will be funded by actions to improve our net working capital and continued cost reduction. These efforts will be supported by a new operating structure and a more regionalized value chain.
4. **Operate more efficiently – closer to customers**
   SKF's new operating model and organizational structure places end-to-end operational and financial accountability as close to our customers as possible.
   - **Four industrial regions** Americas, EMEA, India & Southeast Asia and China & Northeast Asia, further enhancing the ability of our largest and most profitable businesses to serve customers with increased speed and responsiveness.
   - **One global automotive business** Creating the accountability and transparency needed to improve profitability and re-focus the portfolio. The increased autonomy will also, over time, provide enhanced strategic flexibility.
   - **Six independent and emerging businesses** Seals, Lubrication, Aerospace, Marine, Magnetic Bearings, RecondOil, creating the focus needed for these to continue to develop profitably and seek growth opportunities also beyond the rotating shaft.
   - In addition, a lean central function, providing global support.

"Sustainability is a paramount part of our strategy, also in our supply chain, and we are working closely with our strategic partners, like SKF, to act on the challenge jointly."

Ville Rimpilä
SVP Supply Chain and Global Operations,
Kongsberg Maritime – Propulsion & Engines

Decarbonizing in progress

SKF has been working with solutions to climate issues for many years. We have a proven track record, and we are confident that we will succeed in reaching net zero greenhouse gas emissions in our production facilities. We already source or generate about half of the electricity we use from renewable sources. By 2030, this will be 100% in every location across the SKF world.

In October, merely weeks before the UN Climate Change Conference in Glasgow, we launched another challenging goal. By 2050, our entire supply chain, from raw materials to the delivered products, will be net zero. Net zero is an ambitious goal and we're approaching this task like we always do – with determination, competence and skills.

All our targets will be aligned with the Science Based Targets initiative and cover all relevant greenhouse gases (GHG). SKF's annual GHG emissions from scope 1, 2 and 3 (upstream) amounts to around 1.8 million tonnes of CO_2e.

In our upstream supply chain, steel is by far the biggest source of CO_2 emissions. Therefore, to go net zero, a massive change is needed in the current steel production process.

Reaching a goal that not only involves our own operations but concerns the full value chain will require a strong commitment and determination from everyone who is a part of this chain. One approach is working with industry partners in initiatives such as SteelZero and ResponsibleSteel, another is ensuring full traceability through the entire chain.

Decarbonizing is in strong progress; all the way from our world-class manufacturing to the millions of bearings being used every day in machines and vehicles around the world.

Accelerating the electric vehicle momentum.
More on page 31.

Accelerating the circular economy of oil.
More on page 41.

Accelerating the next industrial revolution.
More on page 51.

Why invest in SKF

An investment in SKF is an investment in intelligent and clean growth. **Intelligent** means providing connected and tailored offerings for our customers, as well as using technology to make our operations more efficient. **Clean** reflects our ability to enable a more sustainable industry, as well as to running our own business in a transparent and responsible manner.

The changes made since 2015 …

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

DIVESTED CAPITAL SINCE 2015, SEK

7.2 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.

… successfully put to the test in extraordinary times.

2021 was a strong year for us
We have managed to adapt production to meet customer demands in one of the most challenging global supply chain constraints ever. In this dynamic environment, SKF still managed to deliver very strong growth and operating margin. Another hallmark of margin resilience.

ADJUSTED OPERATING MARGIN 2021

13.3%

SALES 2021, SEK

82 billion

SKF in pole position to further scale intelligent and clean growth ...

SKF's ability to master the complexity of meeting customer needs across a wide range of industries and numerous geographies, is one of our greatest strengths and key to our success.

Key megatrends and increasing investments in electrification, digitalization and regionalization provide growth opportunities for SKF, amplifying demand for our capabilities and offerings.

All in all, SKF is well positioned to accelerate profitable growth by targeting opportunities where we see a strong market demand, matching our ability to differentiate and provide customer value.

... and we will now accelerate profitable growth ...

We will accelerate profitable growth with an increased emphasis on:

- Targeting existing industries with high growth potential.
- Re-positioning the automotive business.
- Developing offers for emerging industries such as hydrogen processing and carbon capture.
- Strengthening the foundation for recurring revenues.

TARGET
OPERATING MARGIN

14.0%

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

- Delivering both economic and environmental 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.
- Altogether, this will make SKF even stronger, a resilient high margin cleantech business.

... and make SKF a very different company in 2030.

Successful execution of our strategy will result in a different SKF than today. By 2030, we will strive to:

- Grow faster and double the business, at improved margins.
- Be more focused and efficient.
- Be the technical partner of choice among our customers.
- Lead the development of sustainable solutions.

How SKF creates value

Resources

Financial
- Assets SEK 99.6 billion
- New investments SEK 3.8 billion
- R&D investments SEK 2.8 billion

Social
- Customers in 40 industries
- More than 17,000 distributors
- 42,602 employees
- 700 application engineers
- 2,200 service engineers

Environmental
- 1,772 GWh energy
- 582,000 tonnes metal

Physical
- 87 manufacturing units
- 15 technology centres
- 29 industrial service centres
- 16 REP centres
- 13 remanufacturing centres

Trends and drivers

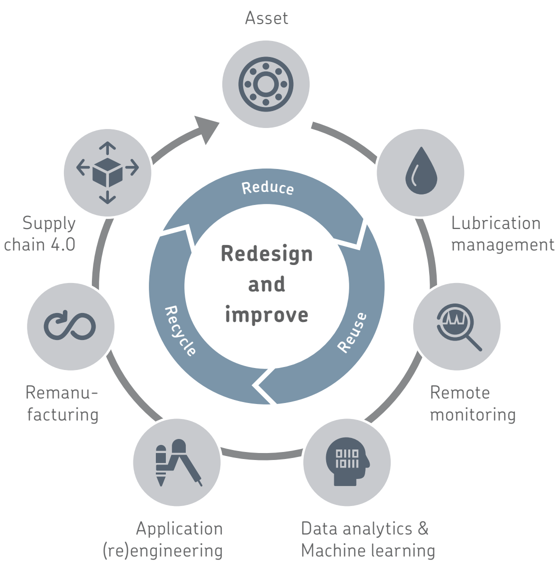
Sustainability
The climate change crises call for industries to adopt new and efficient business models, which are less dependent on physical resources. SKF helps customers move towards a circular economy by providing products and solutions, condition monitoring, Rotation as a Service, and remanufacturing services. We are also reducing CO_2 emissions from our factories and supply chain.

Electrification
Electrification is a strong trend in many industries, especially in the automotive industry. Electric vehicles can bring many benefits to societies, for example, energy security, urban air quality, greenhouse gas reductions and noise mitigation. SKF has a portfolio of innovative solutions that enable robust and efficient E-powertrain drives where bearings are essential.

Digitalization
Digital transformation affects all parts of the value chain. Shorter lead times, faster development cycles, smaller inventories and significant opportunities for resource efficiency. SKF is investing in connecting the value chain to improve ease of doing business with us and enabling more intelligent decisions in our own operations.

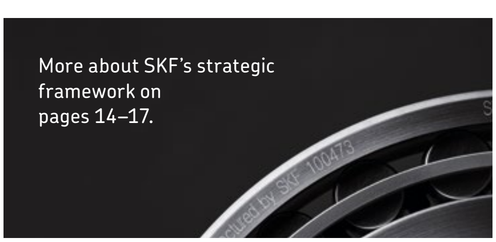
Regionalization
With global trade under pressure, connectivity and information flows rapidly increasing, and a continued shift in economic power, a region-for-region approach with manufacturing, sales and technical knowledge close to customers is needed. SKF continues to invest in automation and regionalization of our manufacturing footprint and product development to further improve our competitiveness and ability to capture profitable growth.

Reducing cost and environmental impact



SKF's business model and strategy are designed to maximize value creation for our stakeholders. Everywhere there is rotation, there is a good chance that our products, capabilities and skilled colleagues are providing value in the form of improved operational performance and reduced emissions.

Through performance-based business models with incentives based on Key Performance Indicators such as uptime and productivity, the interests of SKF and our customers are aligned to reduce cost, waste, safety risk and environmental impact.


More about SKF's strategic framework on pages 14–17.

Value created

Financial
- Operating profit SEK 10.8 billion
- Cash flow SEK 2.1 billion[1)]
- Corporate income taxes SEK 2.5 billion
- Dividends SEK 3 billion
- Reinvested in SKF SEK 4.4 billion[2)]

Social
- Employee benefit expenses SEK 24 billion[3)]

Environmental
- CO_2e reduction 12,000 tonnes (scope 1 and 2, 2021 v. 2020)
- Revenues from cleantech industries SEK 6.8 billion

Physical
- 275 Registered invention disclosures
- 246 First filings of patents

Customer value

- Lower environmental impact
- Safer operations
- Higher productivity
- Improved financial performance

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

Long-term targets

SKF's long-term targets shall be achieved over a business cycle.

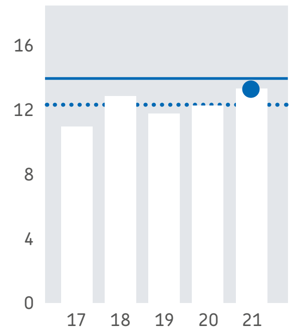
Operating margin[1]

WHY IS THIS IMPORTANT?

Improved flexibility, automation, and fixed cost leverage.

HOW TO REACH THE GOAL

- Acceleration of footprint optimizations, automation and regionalization supported by new ways of working.
- Cost competitiveness.



TARGET
>14%

2017–2021 AVERAGE
12.2%

2021 OUTCOME
13.3%

2021 TURN-OUT

The operating margin was 13.3%, an increase of 1 percentage point compared to last year.

Positive effects from higher sales and manufacturing volumes while currency and general cost inflation had a negative effect.

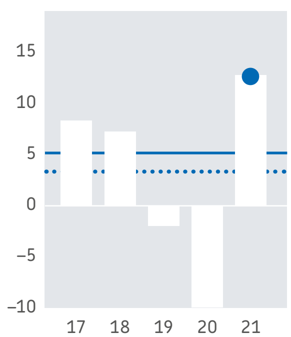
Revenue growth[2]

WHY IS THIS IMPORTANT?

Faster than market growth.

HOW TO REACH THE GOAL

- Increasing value for customer, cost competitiveness.
- New businesses: e.g. cleantech, RecondOil, electrification.
- Select acquisitions.



TARGET
>5%

2017–2021 AVERAGE
3.18%

2021 OUTCOME
12.6%

2021 TURN-OUT

Organic sales increased by 13% compared to 2020.

Strong customer demand across all geographies. Industrial sales grew by 12% and Automotive sales grew by 14%.

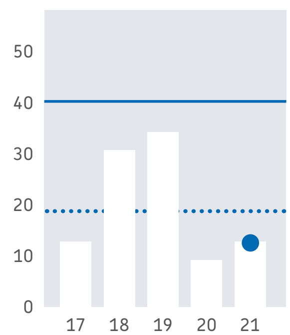
Net debt[3]/equity

WHY IS THIS IMPORTANT?

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

HOW TO REACH THE GOAL

- Strong cash generation.



TARGET
<40%

2017–2021 AVERAGE
19.8%

2021 OUTCOME
12.5%

2021 TURN-OUT

Net debt/equity increased from 9% to 13% in 2021.

Financial liabilities increased net by SEK 1 billion due to the issuance of a new EUR 300 million bond and the maturity of the EUR 200 million bond. Financial assets decreased by SEK 1 billion driven by low cash flow.

1) Adjusted for items affecting comparability. 2) Including acquisitions, adjusted for divestments. 3) Excluding pension liabilities.

Net zero by 2030[4]

WHY IS THIS IMPORTANT?

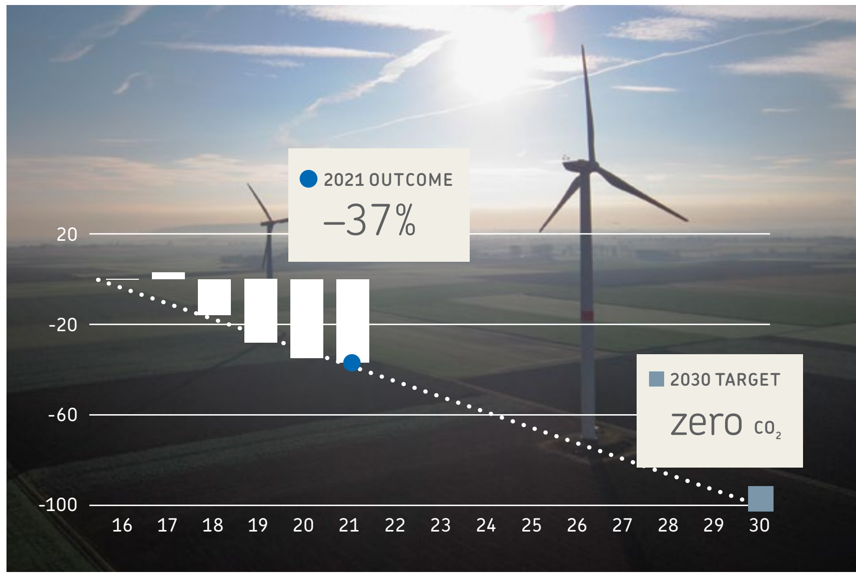
- Need to act on climate change.
- Reduces risk and increases-resilience in operations.

HOW TO REACH THE GOAL

- Process improvements
- Energy efficient machinery
- Usage of renewable energy.

2021 TURN-OUT

A continued reduction in absolute total scope 1 and 2 CO_2e emissions was achieved, keeping SKF on track for its net zero 2030 ambition. This result was delivered despite a significant upturn in production activity and has been achieved through improved energy efficiency and a significant increase in the percentage of renewable electricity use.



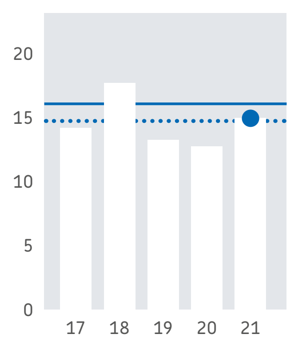
ROCE[1]

WHY IS THIS IMPORTANT?

Focus on capital efficiency as investments in competitiveness are accelerated.

HOW TO REACH THE GOAL

- Automation and increasing regionalization.
- Working capital management.



TARGET
>16%

2017–2021 AVERAGE
14.7%

2021 OUTCOME
14.9%

2021 TURN-OUT

Return on capital employed increased to 14.9% in 2021.

Capital employed was relatively unchanged while the Adjusted operating result increased by SEK 1.6 billion.

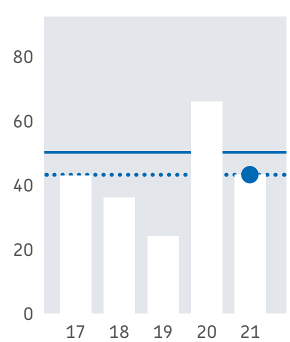
Dividend pay-out ratio

WHY IS THIS IMPORTANT?

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

HOW TO REACH THE GOAL

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



TARGET
50%

2017–2021 AVERAGE
42%

2021 OUTCOME[5]
42%

2021 TURN-OUT

The pay-out ratio in 2021 was 42% and the five-year average was also 42%.

4) In SKF's own operations scope 1 and 2, versus 2015 base year. 5) According to the Board's proposal for the year 2021.

Sustainability targets

Climate targets

Raw material

— TARGET

100%

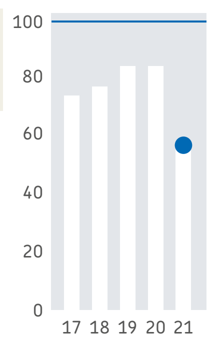
● 2021 OUTCOME[1)]

56%

% 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%

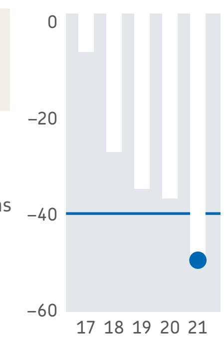
● 2021 OUTCOME

–50%

% CO_2 (scope 1 and 2) reduction per tonne of sold bearings.

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%

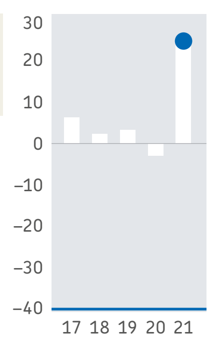
● 2021 OUTCOME[2)]

24%

% CO_2 reduction (scope 3) per tonne of transported products compared to 2015.

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

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



Customer solutions

● 2021 OUTCOME

6.8 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 target

Safety

— TARGET

zero

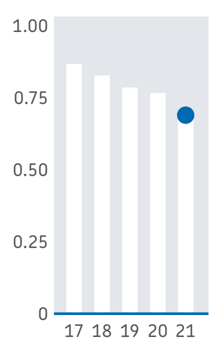
● 2021 OUTCOME

0.67

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.



For more information please visit skf.com/sustainability.

1) 2021 was reduced due to increased scope of reporting and is not comparable versus previous years.

2) More information on page 123.

Enabling circular economy through new technology

Additive manufacturing will play an important role to support our customers' future application needs. By acquiring the Belgian company Laser Cladding Venture n.v. (LCV) SKF has increased its additive manufacturing skills and capabilities. LCV is a niche engineering start-up specialized in various laser cladding technologies and processes which can be applied to support SKF's service and remanufacturing offering.

Laser cladding is one of several additive manufacturing technologies and is used to create thin metallic coatings on metallic substrates. This technology works by mixing metal powder with inert gas in a laser beam, which melts the powder and welds it onto the surface.

Laser cladding makes it possible to repair metal surfaces and to mix various types of metals for tailored surface layers. For example, the technology makes it possible to apply a stainless-steel coating, to prevent corrosion – a common cause of bearing failure in many applications. The technology will also strengthen SKF's ability to repair bearings and other products, enabling a more circular use. By repairing a damaged surface with a new metallic layer, there is no need to replace the whole bearing.

Sustainability framework

As well as being an ethical prerequisite, sustainability presents SKF with a complex set of interrelated challenges and opportunities. There are many material sustainability issues for SKF and these range from environmental issues such as climate change and resource depletion to social issues such as human rights and employee wellbeing as well as economic and governance issues.

SKF continually works to identify and understand the material issues and find integrated ways to effectively manage them – creating and protecting customer, investor, and other stakeholder value as we do so.

SKF Care is our sustainability framework and helps us to structure and communicate the various integrated ways in which we drive sustainability. Covering the business, environment, employee, and community dimensions. It provides rules, principles, and guidance on how we shall act as a global corporation over the short, medium, and long term.

For decades, SKF Care has been the foundation of who we are, and it is reflected in the SKF Care framework with its four interdependent dimensions.

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

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

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.

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

BeyondZero was first launched in 2005 and describes our ambition to reduce negative environmental impacts from our own operations, and in our supply chain, while at the same time helping our customers to improve their environmental performance through the products, solutions, and services we provide to them, here below we describe the BeyondZero approach applied to climate change.

As illustrated with several examples in this report, SKF has a sharpened strategic focus on increasing revenues from solutions which reduce energy and material use, increase circularity or enables clean technologies such as renewable energy and electrification. The growth of this part of the business, and the subsequent improvement in CO_2 performance, which it enables for our customers and society, represents the positive part of the BeyondZero approach. With this positive impact, in parallel to growing we aim to reduce and eventually eliminate the CO_2 emissions which occur as a result of our own operations and those in our extended upstream supply chain. For more information see page 19.

SKF Gothenburg
SKF's 3rd net zero factory

From 2022, SKF's manufacturing site in Gothenburg, Sweden has reached net zero status. This has been achieved through a number of actions to optimize energy efficiency and, at the same time, switching to 100% renewable energy sources. Investments in heat recovery and efficiency have led to a lower overall energy demand and the factory now runs on 100% renewable electricity and used biogas instead of fossil based gas. Even the emissions associated with the in-factory transport of materials have been eliminated by switching to full electric vehicles that runs on renewable electricity.

SKF in collaboration to speed up development of fossil-free bearing steel

SKF is supporting the development of fossil-free bearing steel through a collaboration with Luleå University of Technology's Center for Hydrogen Energy Systems Sweden (CH2ESS) initiative. As part of the collaboration, SKF will participate in and fund research within hydrogen use in industrial processes and energy systems, speeding up the development of fossil-free bearing steel. Research areas will include hybrid ceramic bearings, electric vehicles and other applications, and the development and commercialization of fossil-free bearing steel production. SKF's expertise in fluid machinery, material science, production technology and IoT solutions will actively contribute to the work.

Hydrogen is the key to a fossil-free energy system and CH2ESS is focusing on hydrogen use in industrial processes and energy systems, in close collaboration with Swedish industry.

45%

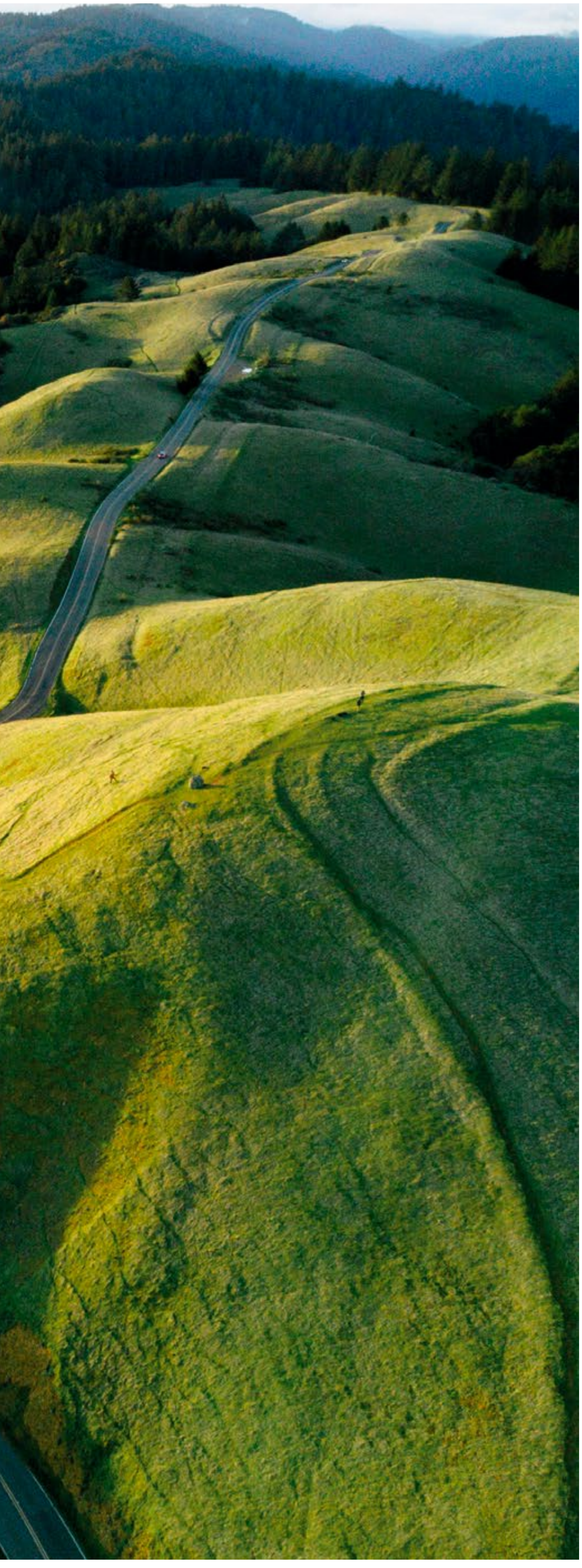
SKF has developed low-friction tapered roller bearings shown to reduce power losses by up to 45% compared with conventional bearings.

50 million

Industry analyst Bloomberg New Energy Finance expects sales to reach 8.5 million electric vehicles (EV) by 2025, and exceed 50 million before 2040.

500,000 km

Manufacturers need reliable rotation for the design-life of the vehicle; around ten years or 300,000 km today, and up to 500,000 km or more in a near future.



DECARBONIZING IN PROGRESS

Accelerating the electric vehicle momentum

Around the world, the electrification of passenger transport is picking up momentum. As part of their commitments to the Paris agreement on climate change, a growing number of countries are set to phase out the production of new combustion engine vehicles over the next two decades. This also means that the global automotive industry faces its most significant transformation ever.

SKF has been helping the automotive industry to meet different challenges since the beginning of the EV revolution. For EVs to work efficiently, the motors that drive them must run at very high speeds. This places enormous strain on the bearings they employ. We are developing designs for bearings – and their associated polymer cages and lubricants – that ensure they can withstand the higher speeds, acceleration, temperatures, and electric currents generated by these motors.

Today, we are partnering with key OEM and Tier1 pioneers for the launch of full EVs, for example, by providing a complete package offering of bearings and seals featuring high speed, thin sections and electric current insulation options.

Carmakers are set to launch around 450 new battery and plug-in-hybrid vehicle models over the next two years. We have the technical, manufacturing and supply chain capabilities needed to support the sector's accelerating growth. Our leading low friction solutions for EV motors, drivetrains, and wheel bearings are a key enabler to increased vehicle range, a technology transformation towards a CO_2 neutral vehicle market.

As a long-term partner, SKF supplies GM with bearings for both E-drivetrains and chassis, including the world's first all-electric supertruck – Hummer EV.

Bearing solutions that meet electric traction motor requirements, and ceramic hybrid Deep Groove Ball Bearings for high performance EV powertrains.

A leader on the world bearing market

The global bearing market has an estimated value of between SEK 410 and 430 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, we were well-established on all five continents.

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

To maintain competitiveness, we are focused on leveraging global and regional economies of scale. The strategic direction is based on 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 grew by 10 to 12% in 2021.

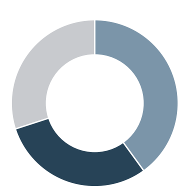
The growth was mainly seen in the industrial market, but also in the automotive market. The global market growth is partly a recovery from the large decline in 2020, when it was heavily impacted by the pandemic.

Global competition

Like most global industries, SKF's industry is exposed to fierce competition. We are 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 55% of the global rolling bearing market. The group of Chinese bearing companies, including smaller and larger ones, represents around 25%, 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)]



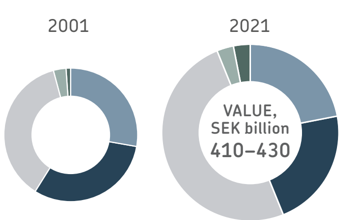
Industrial original equipment bearing markets ~40%
Including manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles.

Automotive OEM ~30%

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

1) Total world demand of bearings 2021.

Market value by region and growth



Asia's share of the world bearing market has continued to grow rapidly and now accounts for around 55%, compared with less than 40% almost 20 years ago.

Region	Approximate share of the total world bearing market	Market value, SEK billion	2021 market development
Europe	20% of which Germany accounts for ~31% of the European market.	80–90	High growth
North America	19%	75–85	High growth
Asia and Pacific	56% where China has a share of ~34% of the total world market.	220–240	High growth
Latin America	2% of which Brazil accounts for ~50% of the latinamerican market.	8–12	High growth
Middle East and Africa	3%	8–12	High growth

The bearing market

	EUROPE	NORTH AMERICA	ASIA AND PACIFIC	LATIN AMERICA	MIDDLE EAST AND AFRICA
MARKET CHARACTERISTICS	Western Europe dominates the region by size and still grows but at a slow pace. Eastern Europe has showed the highest growth.	Highly dependent on the U.S. market – the second largest bearing market in the world. Relies on key industries, e.g. light vehicles, off-highway and industrial distribution.	High growth market, driven by the development in China and India. The single most important market for electrical (China) and two-wheelers (India, Japan, Indonesia) segments, as well as for deep groove ball bearings demand. The highest global bearing demand for light vehicles, trucks, railway, lift and escalators.	Growth rates differ strongly between the countries. Brazil makes up more than 50% of regional demand. The dependency on the industrial and automotive aftermarket is large since there are few global OEMs present.	Recent decline is due to the sanctions imposed on Iran and a weaker development in Turkey. Turkey is the largest market with 1/3 of the total demand. The Middle East and Africa each represent 1/3 of the region. Large dependency on industrial and automotive aftermarkets since there are few global OEMs.
LARGEST MARKETS	Germany, France, Italy	USA	China, Japan, India	Brazil, Argentina	Turkey, South Africa
LARGEST CUSTOMER INDUSTRIES	Light vehicles, industrial distribution, vehicle aftermarket, industrial drives, renewable	Light vehicles, industrial distribution, vehicle aftermarket, off-highway	Light vehicles, industrial distribution, industrial drives, electrical	Light vehicles, industrial distribution, vehicle aftermarket, heavy industries	Industrial distribution, vehicle aftermarket, heavy industries, light vehicles
Population	**748 million**	**369 million**	**4,497 million**	**654 million**	**1,627 million**
Urbanization	**74%**	**83%**	**51%**	**82%**	**49%**
GDP growth	**5.1%**	**5.6%**	**7.0%**	**6.5%**	**Middle East 3.0%** **Africa 3.4%**
GDP/capita	**35,557 USD**	**65,630 USD**	**7,367 USD**	**9,312 USD**	**Middle East 12,430 USD** **Africa 2,212 USD**

Source: United Nations, World Bank and IMF, World Economic Outlook October 2021

EUROPE

12,000 bearings to 1,500 rail carriages for 32 years

In 2021, SKF signed an agreement with Stadler Rail to equip and service rolling stock for the Berlin underground (U-Bahn) in Germany. The service contract aims to help improve the reliability and uptime of trains on the U-Bahn.

The 32-year contract includes several SKF solutions ranging from the design of new wheel set bearings to axle boxes and lubrication systems. The contract is covered by a performance agreement, which is measured against a set of KPIs to ensure high customer confidence.

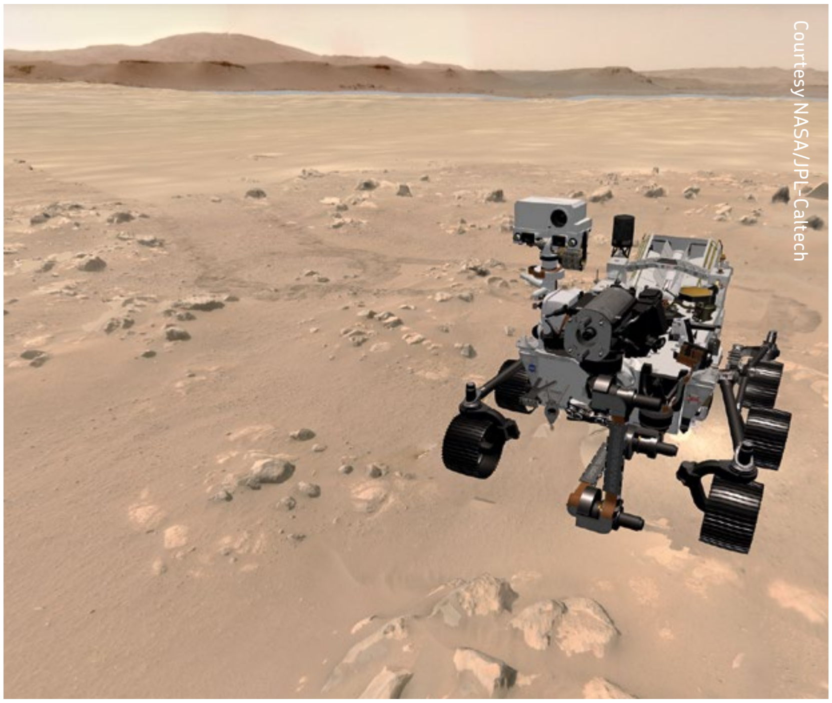
Under the agreement, SKF will service more than 600 rail carriages, which may be extended to a total of 1,500 carriages. The contract will involve the supply and servicing of more than 12,000 wheelset bearings, among other services.

NORTH AMERICA

SKF bearings help NASA collect samples on Mars

NASA's Mars Perseverance rover is collecting or handling rock and regolith samples during its multiple-year mission on the surface of the red planet. Kaydon Reali-Slim thin-section ball bearings are the key components from SKF that will ensure that those core operations in the harsh environment on Mars take place successfully.

The bearings are designed and manufactured at SKF's global, thin-section bearing engineering center in Muskegon, MI, and our recently expanded manufacturing hub in Sumter, SC. These highly engineered components ensure that the rover's main robotic arm, sample collecting turret, tool bit carousel and sample handling assembly survive a months-long trip through space and function on the surface of Mars.


Courtesy NASA/JPL-Caltech

ASIA & PACIFIC

Powerful cooperation enables market leadership

SKF and SF Holding, the largest integrated logistics service provider in China, formed a strategic partnership to construct a green supply chain. Taking advantage of both companies' strengths, the partnership will explore ecological cooperation to reduce waste and improve operation efficiency. SF provides SKF with smart supply chain and logistic services.

With leading edge know-how on rotation equipment performance, we will contribute to SF's operating asset performance, such as condition monitoring of Unmanned Aerial Vehicles, wheel-end solutions to avoid unplanned stops of vehicles and lubrication management to ensure logistic equipment efficiency. The cooperation will further contribute to an upgrade of the supply chain ecosystem.

LATIN AMERICA

Supporting clean energy production

To avoid and eliminate potential failure on the bearings in a new wind turbine generator platform, WEG, the global electric-electronic equipment company, demanded a reliable technology. SKF offered a complete hardware solution, including condition monitoring through SKF REP Center and main shaft seals for all new wind turbines, to validate a new pitch bearing design to this platform.

Together with local steel producers, we devoted more than a thousand engineering hours on the project. By integrating condition monitoring and sealing solutions, we reinforced our presence and proved to be a credible partner for the delivery of pitch bearings, condition monitoring and seals, supporting the production of clean energy.

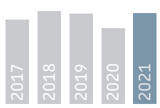
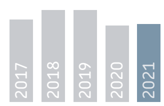
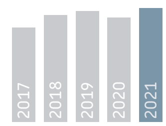
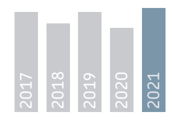
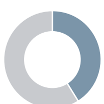
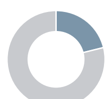
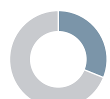
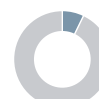
MIDDLE EAST & AFRICA

Turnkey solutions improve uptime

Housings support bearings and protect them from contaminants while keeping in lubricant. This helps maximize the performance, service life and cost-efficient maintenance of the incorporated bearing. SKF was approached to assist with the design and supply of housing assemblies by one of the most important project houses in Africa servicing a gold mine in West Africa.

We delivered a turnkey solution of bearings, housings with upgraded sealing arrangements and services. This improved the customer's bearing and sealing arrangements resulting in extended mean-time between failure, as well as simplified and better controlled installation procedures. By delivering reconditioned housings, cost and environmental savings were achieved.

SKF in the markets

	EUROPE, MIDDLE EAST AND AFRICA	NORTH AMERICA	ASIA AND PACIFIC	LATIN AMERICA
NET SALES				
	2021 33,603 MSEK Change +10.9%	**2021** 17,377 MSEK Change +1.3%	**2021** 25,416 MSEK Change +8.2%	**2021** 5,336 MSEK Change +9.2%
SHARE OF GROUP NET SALES	 41%	 21%	 31%	 7%
EMPLOYEES[1]	20,816	5,518	11,224	3,303
	Men 70% / Women 30%	Men 73% / Women 27%	Men 78% / Women 22%	Men 88% / Women 12%
MANUFACTURING UNITS	47	16	21	3
SKF'S POSITION	A leading position with strong presence in all industry segments, especially in industrial distribution, railway, off-highway, heavy industries.	Strong position in most industry segments; industrial distribution, vehicle aftermarket, industrial drives, aerospace, renewable energy, off-highway.	Strong position with a strong presence in most industry segments, especially in industrial distribution, renewable energy, railway, heavy industries, trucks and two-wheelers.	A leading position in the larger industry segments, especially in industrial distribution, renewable energy, heavy industries, off-highway, light vehicles, vehicle aftermarket and trucks.

1) Average, full time employees.

Important activities 2021

EUROPE

- Several lubrication solutions introduced, for example, the launch of a customer self-service portal, to improve customer experience.
- Commercialization of the sensor roller bearing offer, which gathers load data from wind turbines, under real conditions, to lower levelized cost of energy.
- Innovation and integration of high-end designed thin section ball bearings for Presezzi, a worldwide leader for extrusion metal processing.

NORTH AMERICA

- General Motors names SKF Supplier of the Year for the ninth time. Hummer EV utilizes SKF hybrid ceramic wheel bearings, and a majority of the powertrain bearings.
- By committing to quality and sustainability for customers, we are expanding our market share of bearings in the US battery EV market at a rapid pace.
- An SEK 935 million investment in North American manufacturing, technology, and engineering expertise brings SKF closer to industrial and automotive customers, providing reduced lead times, lower transportation and logistics costs for a more efficient supply chain. Together, this results in a reduced carbon footprint.

ASIA AND PACIFIC

- Accelerated competency build-up including online digitalized technologies merging offline service to simplify interaction with distributors, as well as production capacity and R&D footprint activities in Dalian and Xinchang.
- Launch of newly innovated, high-speed and hybrid ceramic ball bearings for EVs to enable industry breakthrough in ever rising motor speed, while resolving currency leakage problems.
- Accelerated REP business growth across Asia. RecondOil technologies installed in SKF factories and at customers.

LATIN AMERICA

- 3.7 million bearings monitored and 15,000 wireless sensors connected to SKF REP Center. Strong demand from customers aligned with their Industry 4.0 journey.
- Introduction of RecondOil business across countries and industries as an innovational and environmental business with contracts running at customers in chemical, pulp and paper and mining.
- More than 300 tons of bearings remanufactured, thus saving more than 500 tons of CO_2 and 13 million liters of water.

MIDDLE EAST AND AFRICA

- Reduced CO_2 emissions through bearing remanufacturing and installation of solar panels in our new premises in South Africa.
- Solutions within digitalization capabilities in industrial maintenance increased uptime for Stevens Lumber Mills.
- First railway bearings refurbishment center for SKF in Africa opened in South Africa.
- Investment in bearing remanufacturing service at the SKF Competence Service Center in Turkey supporting customers in carbon footprint reduction, performance optimization and cost reductions.

3 tonnes

SKF's early stage life-cycle assessments estimate that every tonne of reused oil can reduce CO_2e emissions by up to 3 tonnes.

19 million tonnes

An estimated 19 million tonnes of industrial lubricants are used globally every year.

57 million tonnes

Based on the industrial life-cycle assessment, reusing all the industrial oil could potentially reduce CO_2e-emissions by around 57 million tonnes per year.

DECARBONIZING IN PROGRESS

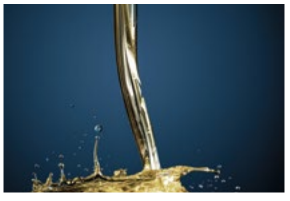
Accelerating the circular economy of oil

In 2019, SKF added a clean and smart technology that strengthens our decarbonization efforts. Under the brand name, SKF RecondOil, SKF delivers an innovation to turn the environmentally harmful use of industrial oil into an asset that can be used repeatedly with maintained performance.

When machines break down it is usually because of dirt. With SKF RecondOil we can purify oil down to a nano level while retaining all the original properties. No downtime, and a cleaner and safer production environment. The same oil can be regenerated over and over again – a truly circular economy of oil.

SKF RecondOil is changing the business model for the use of industrial oils. As well as reducing customers' environmental footprint, our performance-based contracts reduce customers' total oil related costs. Up to 40% of maintenance costs are lubricant related. The downtime associated with replacing oil – and disposing of it – is expensive and unsustainable. SKF RecondOil enables a financially and environmentally sound lubrication management with multiple benefits.

After tremendous improvement on KPIs at our production sites in Italy, the global roll-out across SKF's world-class manufacturing sites is progressing rapidly. With such showcases, we are also making the technology available to customers around the world – both as part of its offer around the rotating shaft, as well as via licensed partners in selected markets.



RecondOil increases bearing performance in terms of noise and vibration, critical parameters for food processing applications (Cassino, Italy).

No more oil changes, saving 10 cubic metres per year and increasing productivity by 25% (Zapp Precision Metals, Sweden).

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. The risk impact includes 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 2021 Group ERM process. The main areas of opportunity are described on page 22.

As with other risks, SKF applies an integrated approach to the identification and management of risks related to sustainability. The table on page 44 provides a summary of the main sustainability risks and SKF's approach to managing them.

For information about financial risks including currency risks, interest risks, liquidity risks and credit risks, see Note 26 on pages 90–93.

For Information about ongoing compliance related investigations, see Note 19 on pages 82–83.

Main risks	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

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

Risk and opportunity consolidation

Group Risk Manager receives and consolidates the assessments.

Group Management review

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.

Main risks	Trend	Mitigation
Workforce There is a fierce competition in the labor market, where the success of companies are dependent on the ability to attract, develop and retain critical competences and capabilities for the future.	↗	SKF takes a holistic approach in strengthening the Group as the employer of choice, by putting the employee experience at the center. Employee engagement, leadership, competence and way of working are all key building blocks in this 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 SKF's manufacturing footprint and supplier base. 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 and 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.

Sustainability risks	Trend	Mitigation
A major incident at an SKF facility causing environmental damage leading to fines and loss of reputation.	↘	SKF's Environmental management systems, certified to ISO 14001, work to assure that all such material risks are identified and that effective countermeasures are implemented to mitigate them.
Water scarcity in the supply chain or at SKF facilities leads to reduced production.	↗	SKF facilities which are in areas of water scarcity are required to drive strong water reduction programs. SKF requires that suppliers follow environmental norms and implement certified management systems.
Extreme weather events.	↗	Requirements for emergency response plans at all sites include flood risks etc. For more information, see SKF TCFD report available at skf.com/ar2021.
Increased energy and other environmental costs due to legislation.	↗	SKF focuses on energy efficiency at its own facilities and suppliers - reducing energy demand and therefore related risks. For more information, see SKF TCFD report available at skf.com/ar2021.
SKF employees or employees working in the supply chain, are hurt or killed by an accident at work.	↘	SKF's Health and Safety management system is certified to ISO 45001. The Group's zero accident program, supported by proactive near miss reporting, aims to avoid all workplace accidents. Within the code of conduct for suppliers, SKF has defined specific requirements for the assurance of health and safety for the employees of suppliers and sub suppliers.
A person or persons are hurt or injured because of SKF product failure, malfunction or defect.	↘	SKF follows strict design and validation rules for all products, and fully adheres to industry specific requirements for safety critical applications. SKF provides detailed instruction on the correct use, fitting and application of products. SKF's overall approach to quality management assures product conformity and performance to the highest level.
Human rights of employees working at SKF or within the supply chain are not respected.	↘	SKF adheres to international standards and guidelines and enforces the SKF Code of Conduct policy in all its operations. Periodic Code of Conduct compliance audits are performed and a whistleblowing process is available at local and global levels.
SKF employees act in a fraudulent or corrupt manner leading to financial penalties and reputation damage.	↘	SKF takes a proactive approach to assure awareness of demanded ethical standards, including anti-corruption, antifraud and antitrust. The work to follow up adherence is facilitated by the whistleblower function and a risk and incident based audit system.

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 2021, the share price increased by 2.5% for the SKF A share and 0.14% for the SKF B share. The total number of SKF shares traded on Nasdaq Stockholm was 392,339,062. 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 2021 was 98,095,339. 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 2021, 867,122 shares were converted. As of 31 December 2021, A shares were 6.7% (6.9) 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 7.00 per share be paid for 2021. The total return from investing in the SKF A share over the past three years was 82.1% and for the SKF B share 77.8%.

Ownership structure

SKF had 69,453 shareholders on 31 December 2021. Around 52.4% of the share capital was owned by foreign investors, around 37.1% by Swedish companies, institutions and mutual funds and around 8.2% 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 Wallenberg Investments AB, in its turn 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

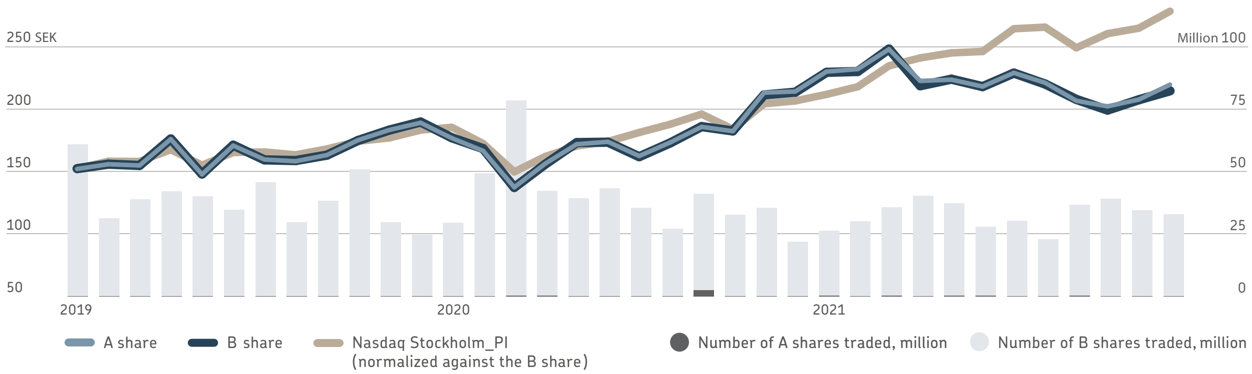
Based on the 2021 submission, SKF has been rated B within the Carbon Disclosure Project rating system which signifies that the company is taking coordinated action on climate issues.

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 Group's 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 2019–2021

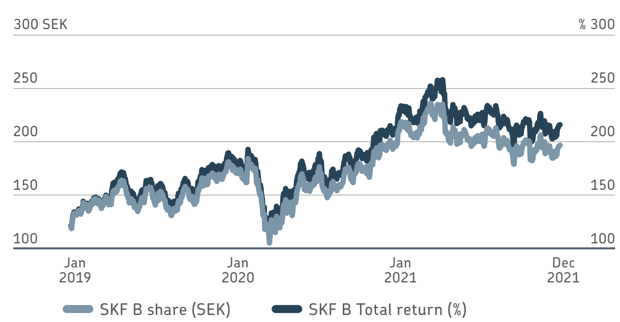


Data per share

SEK per share unless otherwise stated	2021	2020
Earnings per share	16.10	9.44
Dividend per A and B share	7.00[1)]	6.50
Total dividends, MSEK	3,188[1)]	2,960
Purchase price of B shares at year-end on NASDAQ Stockholm	214.50	213.40
Equity per share	96	75
Yield (B), %	3.3[1)]	3.0
P/E ratio, B (share price/earnings per share)	13.3	22.6
Cash flow from operations, per share	11.5	18.2
Cash flow, after investments before financing, per share	4.6	11.6

1) According to the Board's proposal for the year 2021.

Total return 2019–2021

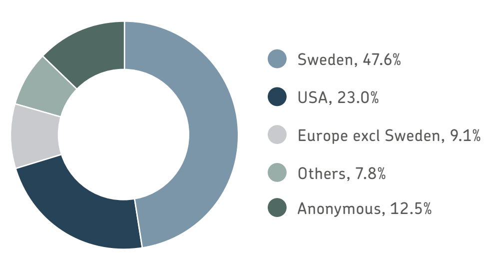


The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	63,749,150	14.0	29.3
Harris Associates	23,039,843	5.1	3.2
Swedbank Robur Fonder	15,502,350	3.4	2.1
BlackRock	13,868,126	3.0	1.9
Vanguard	11,604,257	2.5	1.6
Handelsbanken Fonder	10,125,631	2.2	1.4
ODDO BHF Asset Management	9,805,977	2.2	1.3
Didner & Gerge Fonder	9,688,538	2.1	1.3
Invesco	8,673,181	1.9	1.2
Norges Bank	7,395,190	1.6	1.0

Source: Monitor, Modular Finance as of 31 December 2021.

Geographic ownership 2021



The Board of Directors' proposal for a resolution on principles of remuneration for Group Management

Introduction

The Board of Directors of AB SKF has decided to submit the following principles of remuneration for SKF's Group Management to the Annual General Meeting. Group Management is defined as the President and the other members of the management team. The principles shall apply to remuneration agreed and amendments to remuneration already agreed, after the adoption of the principles by the Annual General Meeting 2022, 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. 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. For further information on SKF Group's strategy, please refer to skf.com and the Annual Report.

Since 2008 SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees. Each year, the Board of Directors will evaluate if SKF's Performance Share Programme, which includes Group Management, shall be proposed to the Annual General Meeting. Remuneration resolved by the Annual General Meeting is excluded from the principles. SKF Performance Share Programme shall have the aim to continue to link the long-term interests of the participants and the shareholders. The performance criteria used to assess the outcome of the proposed performance share programme shall be linked to the business strategy and thereby to SKF Group's long-term value creation, including its sustainability. For further information on said 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.

Types of remuneration

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.

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, financial and sustainability 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 which can be both financial and non-financial and which contribute to the company's long-term and sustainable development. The criteria shall primarily be based on the annual financial performance of the SKF Group, such as financial result, growth and capital efficiency and shall promote sustainability targets of the SKF Group.

The satisfaction of criteria for awarding variable salary shall be measured over a period of one year. To which extent the criteria for awarding variable salary has been satisfied shall be determined when the measurement period has ended. The Board of Directors is responsible for the evaluation so far as it concerns variable salary to the President. For variable salary to other executives, the President is responsible for the evaluation. For financial targets, the evaluation shall be based on financial information made public by the SKF Group. Variable salary shall qualify for pension benefits to the extent required by mandatory collective agreement provisions. The maximum variable salary shall vary between 50 to 70 percent 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. Other benefits can for instance be a company car or health and medical insurance. 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 per cent of the accumulated annual fixed salary of the members of Group Management.

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 shall normally be 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 percent of the accumulated annual fixed 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 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 processes and resolves 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.

Description of material changes to the principles and how the views of shareholders' have been taken into consideration

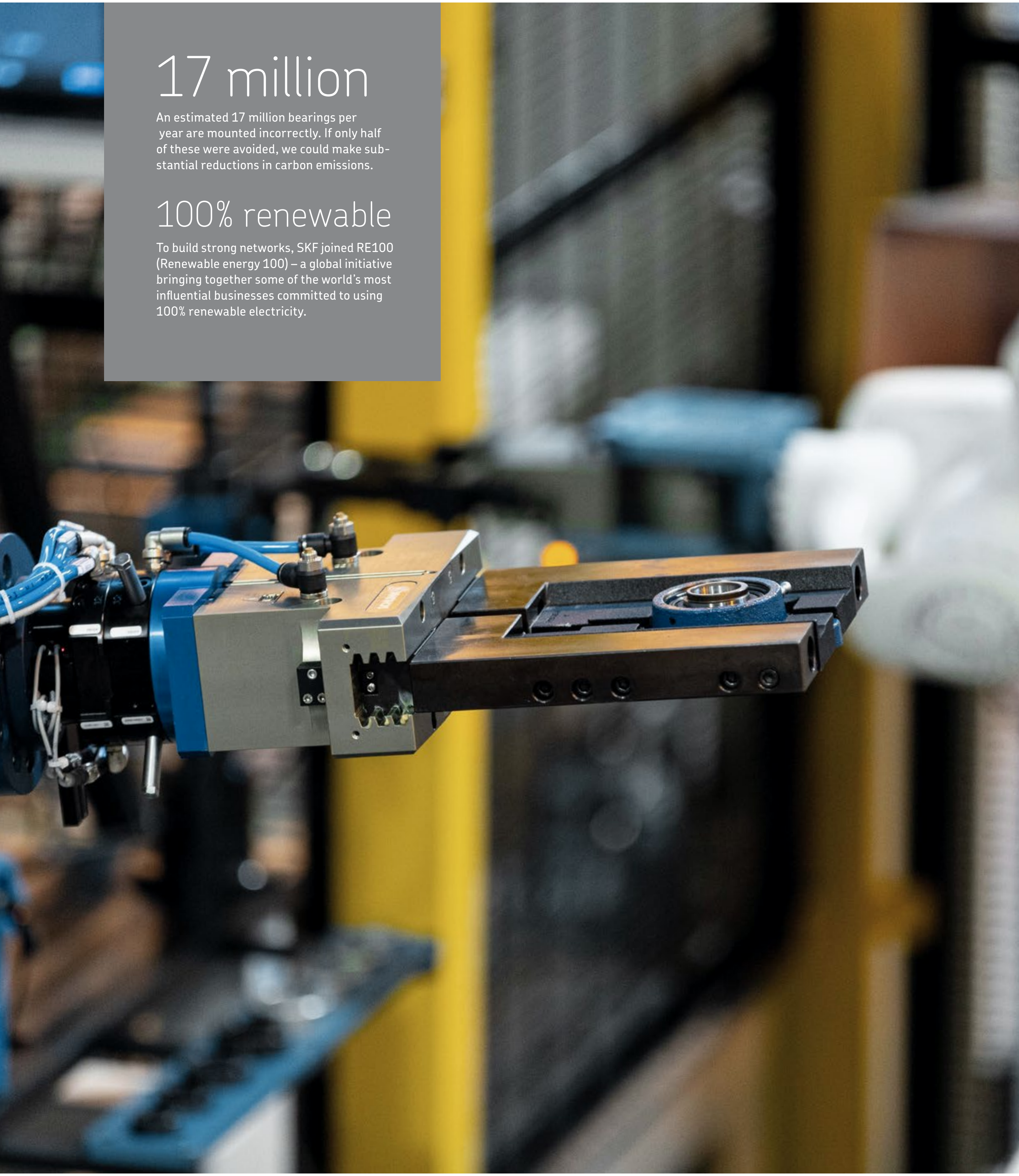
The principles of remuneration are substantially similar to the previous version with a clarification of the criteria for variable salary. For the variable salary, examples of financial parameters have been revised from TVA, cash flow and individual goals to financial result, growth and capital efficiency. Furthermore, a criterion promoting the SKF Group's sustainability targets, which can be independent of the financial performance of the SKF Group, have been added. The shareholders have not expressed any specific views on the principles of remuneration. The Board of Directors considers the revisions, with clear criteria for variable salary and further promotion of sustainability targets, to reflect the general interest of the shareholders.

17 million

An estimated 17 million bearings per year are mounted incorrectly. If only half of these were avoided, we could make substantial reductions in carbon emissions.

100% renewable

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.



DECARBONIZING IN PROGRESS

Accelerating the next industrial revolution

To remain a leader in the bearing business, we need world-class customer service. In fact, that is our aim with world-class manufacturing: products developed, produced and delivered exactly according to what, when, how and where the customer needs them.

This is a journey we started more than seven years ago and one that we will keep pursuing with continuous step-ups. The ambition is to have a fast, flexible, cost-efficient and fully connected organization close to our customers. By 2025, we will have fewer, but automated, factories, with higher flexibility and an increased proportion of region-for-region manufacturing. So far, we have invested SEK 9.5 billion, in a total of 112 ongoing and approved projects. By 2025 the estimated business benefits are expected to reach SEK 5 billion.

In 2020, we announced our commitment for our sites to become net zero in 2030. Having made significant decarbonizing progress with the introduction of SKF RecondOil system, remanufacturing technologies and digitalization, the entire manufacturing flow at our world-class manufacturing sites is now fully automated, offering precise adjustments.

The strategic decision to pursue ever more demanding climate targets, such as net zero supply chain by 2050, is valuable in SKF's customer relations. Today, an ever increasing number of customers demand products and solutions with a low carbon footprint. Ensuring traceability throughout the entire value chain is therefore the next big challenge. As we see it, this is the next industrial revolution, Industry 5.0, relying on full digitalization.

Less carbon emissions with technology step-up.

Less waste with remanufacturing technologies.

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.

Capital structure, financing, credit rating and dividend policy

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 2021, the gearing was 40.5% (48.0), the equity/assets ratio 45.5% (39.4) and the net debt/equity ratio, excluding pension liabilities 12.5% (9.3).

Financing

SKF's policy is to have long-term financing of its operations.

As of 31 December 2021, the average maturity of SKF's loans was five years. SKF has four notes issued on the European bond market. EUR 296 million per 2022, EUR 300 million per 2025, EUR 300 million per 2029, and one with an outstanding amount of EUR 300 million, due 2031. 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 one bilateral loan 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 2021, 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 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 7.00 (6.50) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2022, see page 105, Proposed distribution of surplus.

Financial statements

CONTENTS

Amounts in MSEK unless otherwise stated. Amounts in parentheses refer to comparable figures for 2020.

The Administration Report is presented on pages 14–105. It has been audited by SKF's external auditors. See the **Auditor's Report** on pages 106–109. According to the Swedish Annual Accounts 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 2021	2020
Net sales	2	81,732	74,852
Cost of goods sold	6	–58,457	–55,348
Gross profit		**23,275**	**19,504**
Research and development expenses	5	–2,751	–2,515
Selling expenses	6	–9,736	–9,732
Administrative expenses	6	–514	–521
Other operating income	7	1,188	1,019
Other operating expenses	7	–725	–702
Income from associated companies	7	21	16
Operating profit		**10,758**	**7,069**
Financial income	8	102	72
Financial expenses	8	–797	–841
Profit before taxes		**10,063**	**6,300**
Income tax	9	–2,484	–1,826
Net profit		**7,579**	**4,474**
Net profit attributable to:			
Shareholders of AB SKF		7,331	4,298
Non-controlling interests		248	176
Basic earnings per share (SEK)	17	16.10	9.44

Consolidated statements of comprehensive income

MSEK	Note	January–December 2021	2020
Net profit		**7,579**	**4,474**
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	18	2,751	–850
Income tax	9	–694	203
		2,057	**–647**
Items that may be reclassified to the income statement			
Currency translation adjustments		2,759	–3,726
Assets at fair value through other comprehensive income	14	96	–39
Income tax	9	2	8
		2,857	**–3,757**
Other comprehensive income, net of tax		**4,914**	**–4,404**
Total comprehensive income		**12,493**	**70**
Total comprehensive income attributable to			
Shareholders of AB SKF		12,127	111
Non-controlling interests		366	–41

Comments on the consolidated income statements

General
The Group's income statement for 2021 included the result of two smaller acquired businesses in Sweden for the period 1 September –31 December. It also included the result from a real estate business for the period 1 January–30 November.

Net sales
In 2021, net sales amounted to MSEK 81,732 (74,852) corresponding to an increase of 9.2% compared to 2020. The change of the Swedish krona towards other currencies had a negative impact in 2021 of –3.4%. Structural changes accounted for 0%. Net sales in local currencies increased with 12.6%, driven by higher sales volumes in all regions.

Sales development y-o-y, %	Q1	Q2	Q3	Q4	Full year
Organic	8.6	33.2	7.7	3.8	12.6
Structure	—	—	—	—	—
Currency	–9.7	–8.3	0.6	3.4	–3.4
Total	**–1.1**	**24.9**	**8.3**	**7.7**	**9.2**

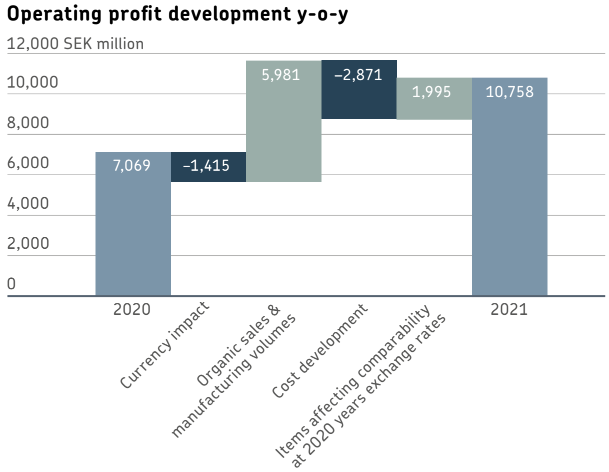
Operating profit
Operating profit for the year was MSEK 10,758 (7,069). Operating profit was positively impacted by sales volumes, price and customer mix. Operating profit was negatively impacted by currency effects and cost increases related to material, logistics and energy. Operating profit included items affecting comparability of MSEK –81 (– 2,124) whereof MSEK –466 (–1,683) related to the restructuring and cost reduction program and MSEK +385, net (–442) related to gain on sales of assets and impairments in 2021 and settlements and impairments offset by a VAT credit in 2020.

Financial income and expenses, net
The financial income and expenses, net for 2021 was MSEK –695 (–769). For more information about the changes year-over-year, see Note 8.

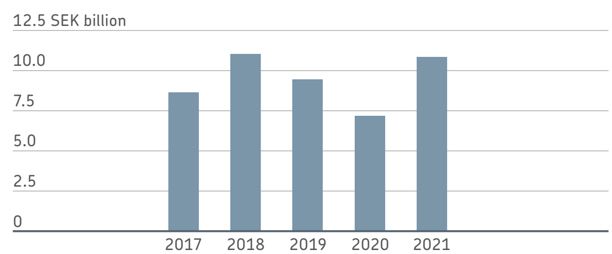
Taxes
The effective tax rate for the year was 25% (29). The tax rate in 2020 was negatively impacted by withholding tax on intra-group dividends of MSEK –128. Adjusted for this the tax rate would have been 27%. For more information, see Note 9.

Values by quarter MSEK	Q1	Q2	Q3	Q4	Full year
Net sales	19,865	20,735	20,146	20,986	81,732
Operating profit	2,699	2,878	2,588	2,594	10,758
Profit before taxes	2,495	2,801	2,440	2,328	10,063
Basic earnings per share (SEK)	3.91	4.59	3.86	3.74	16.10

Operating profit development y-o-y



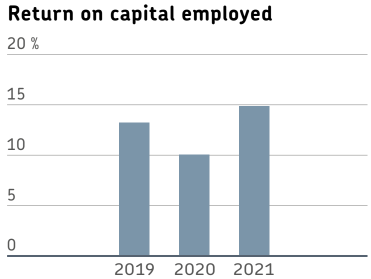
Operating profit



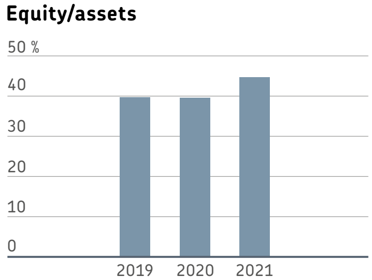
Consolidated balance sheets

MSEK	Note	As of 31 December 2021	2020
ASSETS			
Non-current assets			
Goodwill	10	10,924	10,117
Other intangible assets	10	6,018	6,125
Property, plant and equipment	11	20,723	18,161
Right-of-use assets	12	2,661	2,517
Long-term financial assets	14	1,213	1,306
Deferred tax assets	9	3,839	4,800
Other long-term assets		461	633
		45,839	**43,659**
Current assets			
Inventories	13	20,997	15,733
Trade receivables	14	13,972	12,286
Other short-term assets	15	5,163	4,242
Other short-term financial assets	14	438	587
Cash and cash equivalents	14	13,219	14,050
		53,789	**46,898**
Total assets		**99,628**	**90,557**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		43,645	34,309
Equity attributable to non-controlling interests	27	1,720	1,403
		45,365	**35,712**
Non-current liabilities			
Long-term financial liabilities	20	13,293	13,065
Long-term lease liabilities	12, 20	2,179	2,024
Provisions for post-employment benefits	18	11,781	15,170
Deferred tax provisions	9	1,040	792
Other long-term provisions	19	1,412	2,073
Other long-term liabilities		33	77
		29,738	**33,201**
Current liabilities			
Trade payables	20	9,881	8,459
Short-term provisions	19	1,105	1,409
Short-term lease liabilities	12, 20	579	560
Other short-term financial liabilities	20	3,285	2,700
Other short-term liabilities	21	9,675	8,516
		24,525	**21,644**
Total equity and liabilities		**99,628**	**90,557**

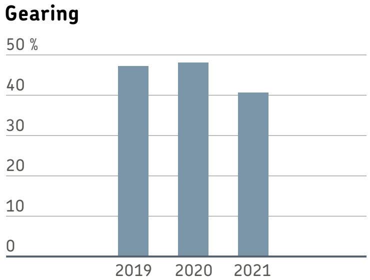
Return on capital employed



Equity/assets



Gearing



Comments on the consolidated balance sheets

Net working capital
On 31 December 2021, net working capital as percentage of sales was 30.7 % (26.1) consisting of the following components:

- Inventories amounted to MSEK 20,997 (15,733) being 25.7% (21.0) of annual sales. The increase in inventories was attributed to currencies by MSEK 957 and to volumes by MSEK 4,307 net of divestments and acquisitions.
- Trade receivables amounted to MSEK 13,972 (12,286) which is 17.1% (16.4) of annual sales. The change in trade receivables was attributable to currencies with MSEK 752 and to volume increase with MSEK 934, net of divestments and acquisitions. The average days of outstanding trade receivables were 64 days (64).
- Trade payables amounted to MSEK 9,881 (8,459) corresponding to 12.1% (11.3) of annual sales. The change attributable to currencies was MSEK 450 and the remaining MSEK 972 was due to volume increase, net of divestments and acquisitions.

Plant and property
On 31 December 2021, plant and property amounted to MSEK 20,997 (18,161). This was as 25.7% (24.3) of annual sales. The change attributable to currencies was MSEK 1,075.

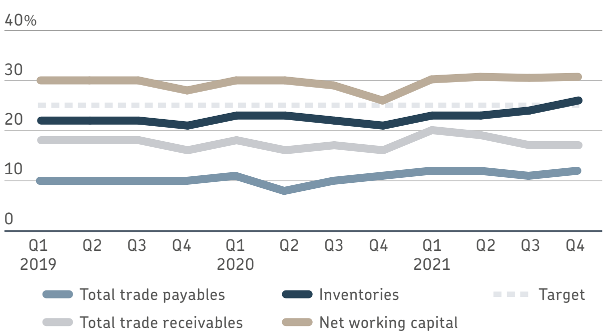
Net debt
Net debt amounted to MSEK 17,360 (18,460) at the end of 2021.
Post-employment benefit provisions totalled MSEK 11,711 (15,136) at year-end, representing a net decrease of MSEK 3,425 (net decrease of 177), which was attributable to:

- Cash payments of MSEK –1,740 (–888)
- Actuarial gains and losses of MSEK +2,751 (–850)
- Expenses of MSEK 574 (757)
- Acquired/divested businesses of MSEK 0 (0)
- The remainder was attributable to currency translation differences.

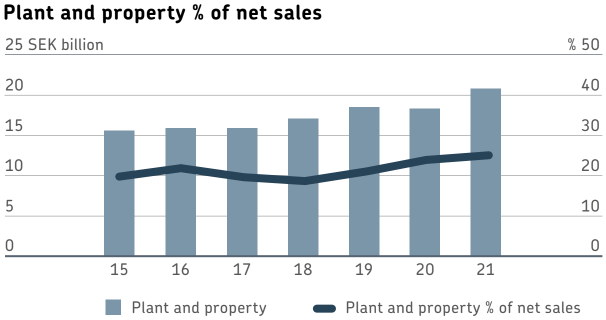
Loans totalled MSEK 16,454 (15,240), at the end of 2021, representing an increase of MSEK 1,217. The change was primarily attributable to a net increase between the repayment of a bond due and a new bond issued during the year of MSEK 1,022 and positive currency translation effects of MSEK 243.

Equity
During the year, equity increased from MSEK 35,712 to MSEK 45,365. Net profit amounted to MSEK 7,579 (4,474) and dividends paid were MSEK 3,012 (1,778). Currency translation had a negative effect of MSEK –2,759 (–3,726). Remeasurements had a net of tax effect of MSEK 2,059 (–639). 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 2021, the gearing was 40.5% (48.0), the equity/assets ratio 45.5% (39.4) and the net debt/equity ratio, excluding pension liabilities 12.5 % (9.3).

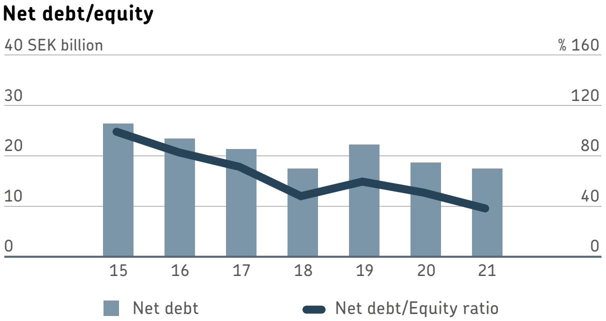
Net working capital in % of annual sales



Plant and property % of net sales



Net debt/equity



Consolidated statements of cash flow

MSEK	Note	January–December 2021	2020
Operating activities			
Operating profit		10,758	7,069
Adjustments for			
Depreciation, amortization and impairment	6	3,305	3,401
Net gain on sales of businesses and property, plant and equipment		–436	–245
Other non-cash items		–758	806
Income taxes paid		–2,250	–2,240
Contributions to and payments under post-employment defined benefit plans	18	–810	–888
Associated companies		66	–51
Changes in working capital			
Inventories		–4,308	1,542
Trade receivables		–931	1,102
Trade payables		970	396
Other operating assets and liabilities, net		322	–1,810
Interest and other financial items		–680	–817
Net cash flow from operating activities		**5,248**	**8,265**
Investing activities			
Additions to intangible assets	10	–68	–39
Additions to property, plant and equipment	11	–3,822	–3,332
Sales of property, plant, equipment, and intangible assets	10, 11	52	354
Acquisitions of businesses, net of cash and cash equivalents	3	–40	–4
Divestments of businesses, net of cash and cash equivalents	4	733	20
Investment in/sale of equity securities		–3	–5
Net cash flow used in investing activities		**–3,148**	**–3,006**
Net cash flow after investments before financing		**2,100**	**5,259**
Financing activities			
Proceeds from medium- and long-term loans		3,148	3,303
Repayments of medium- and long-term loans		–2,126	–2,455
Payments of leases		–738	–799
Cash dividends to shareholders of AB SKF and non-controlling interests		–3,012	–1,778
Funding of post-employment benefits		–930	—
Investments in financial assets		–33	–409
Sales of financial assets		178	4,829
Net cash flow used in/from financing activities		**–3,513**	**2,691**
Net cash flow		**–1,413**	**7,950**
Cash and cash equivalents at 1 January		14,050	6,430
Cash effect excluding acquired/sold businesses		–1,386	7,953
Cash effect from acquired/sold businesses		–27	–3
Translation effect		582	–330
Cash and cash equivalents on 31 December		**13,219**	**14,050**

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.

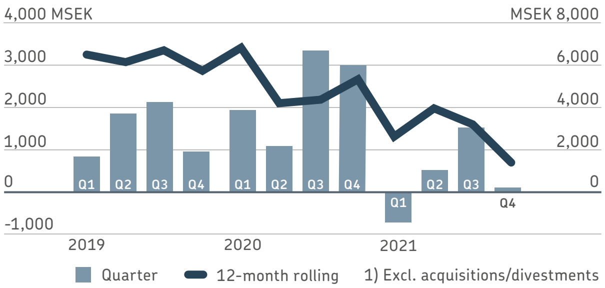
Cash and cash equivalents comprise of cash on hand, bank deposits, debt securities and other liquid investments that have a maturity of three months or less at the time of the investment.

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 2,100 (5,259) in 2021. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to MSEK 1,407 (5,243). 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.

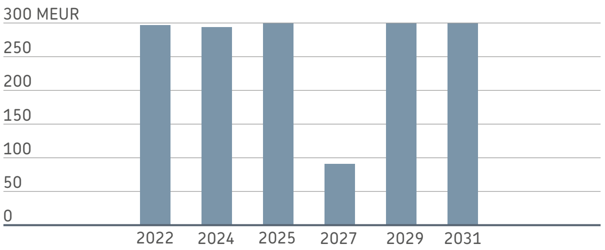
Interest and other financial items included interest paid of MSEK –239 (–431), interest received of MSEK 24 (116), and the remainder related primarily to realized derivatives on commercial flows between Group companies. During the year, the Group acquired two smaller businesses which generated a net cash outflow of MSEK –40. The Group also executed a real estate sale which resulted in a cash inflow of MSEK +733.

Cash flow used in financing activities
The Group's debt structure improved in 2021, by net of repayment of a EUR bond due during the year and with the issuing of a new SEK bond with maturity 2031. Cash flow used in financing activities included a payment of MSEK –930 (0), net of taxes, related to contributions to the defined benefit retirement plans in the US and in Germany.

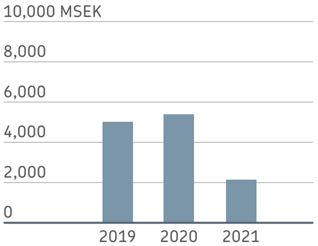
Cash flow after investments before financing[1)]



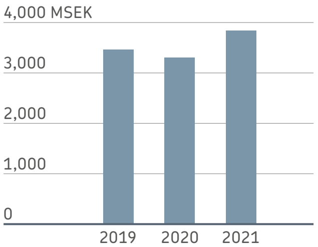
Debt structure



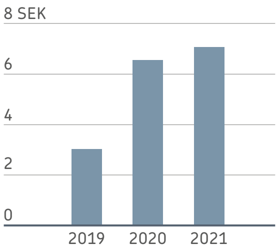
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2021, which is subject to approval at the Annual General Meeting in March 2022, includes an ordinary dividend of SEK 7 per share, see Note 16.

Cont. Comments on the consolidated statements of cash flow

Change in net debt

MSEK	2021 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2021 Opening balance
Loans[1)]	16,454	1,022	—	–51	243	15,240
Post-employment benefits, net[2)]	11,711	–1,740	—	–2,183	498	15,136
Lease liabilities	2,758	–738	—	756	156	2,584
Other short-term financial assets[3)]	–344	113	—	15	–22	–450
Cash and cash equivalents	–13,219	1,386	27	—	–582	–14,050
Net debt	**17,360**	**43**	**27**	**–1,463**	**293**	**18,460**
Derivatives[4)] included in Other financing items	—	—	—	—	—	—

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

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 113 (4,225) is explained by investment in financial assets of MSEK –14 (–396) and sale of financial assets of MSEK 127 (4,621).
4) Financing activities to hedge short- and long-term loans. Other financing items in cash flow include cash flow from derivatives as stated in the table and interest premium for the repayment of loans.

Consolidated statements of changes in equity

MSEK	Equity attributable to owners of AB SKF: Share capital	Share premium	FV OCI reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests[1]	Total
Opening balance 1 January 2020	**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**
Net profit	—	—	—	—	7,331	7,331	248	7,579
Hyperinflation adjustment[3]	—	—	—	—	146	146	—	146
Components of other comprehensive income								
Currency translation adjustments	—	—	—	2,637	—	2,637	122	2,759
Change in FV OCI assets and cash flow hedges	—	—	96	—	—	96	—	96
Remeasurements	—	—	—	—	2,751	2,751	—	2,751
Income taxes	—	—	—	1	–693	–692	—	–692
Transactions with shareholders								
Non-controlling interests	—	—	—	—	—	—	—	—
Cost for Performance Share Programmes, net[2]	—	—	—	—	25	25	—	25
Dividends	—	—	—	—	–2,959	–2,959	–52	–3,011
Closing balance 31 December 2021	**1,138**	**564**	**187**	**1,370**	**40,386**	**43,645**	**1,720**	**45,365**

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 2022. 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 24 March 2022.

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 SEK 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	**2021**	2020	**2021**	2020
Argentina	1	ARS	0.10	0.15	0.09	0.10
China	1	CNY	1.43	1.44	1.42	1.25
EMU countries	1	EUR	10.99	11.38	10.23	10.02
India	100	INR	12.53	13.55	12.16	11.16
Brazil	1	BRL	1.72	2.00	1.59	1.57
United Kingdom	1	GBP	12.71	12.85	12.18	11.09
USA	1	USD	9.25	10.00	9.05	8.18

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 are; 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 is 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 is 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).
- Climate risks are taken into consideration in investing decisions and impairment testing.

New accounting principles

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

New accounting principles 2022
IASB issued several amended accounting standards that were endorsed by EU, effective date 1 January 2022. None of these are expected to have a material effect on the SKF Group's financial statements.

The amendments to IFRS 7, IFRS 9 and IFRS 16 are attributable to the reform for reference interest rates - Phase 2 and provide guidance on how the effects of the reform are to be reported. In short, the changes in Phase 2 mean that it enables companies to reflect the effects of changing from reference rates such as "STIBOR" to other reference rates without giving rise to accounting effects in reported amounts that would not provide useful information to users of financial reports. The Group assesses that Phase 2 has no significant impact as the use of hedge accounting is very limited.

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 as well as supply chain challenges which have led SKF to perform several initiatives to reduce costs.

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 makes 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 consists 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 consists 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.

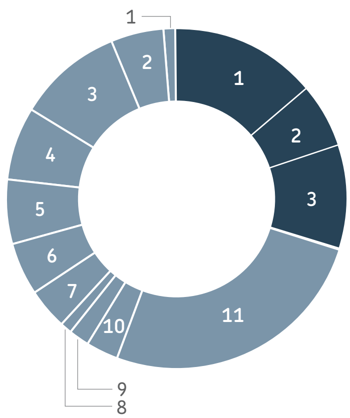
Automotive sells to customers in the global automotive market, directly or indirectly through SKF's distributor network. Key customers are manufacturers of cars, light and heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

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

Previously published segment figures for 2020 have been restated to reflect a change in classification of smaller customers.

Cont. Note 2

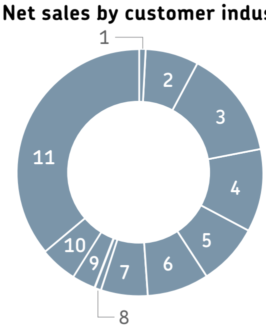
Net sales – Total



1 Electrical, 1%
2 Aerospace, 5%
3 Industrial drives, 10%
4 Energy, 7%
5 Off-Highway, 6%
6 Heavy industries, 5%
7 Railway, 4%
8 Agriculture, food and beverage 1%
9 Marine, 2%
10 Other industrial, 3%
11 Industrial distribution, 26%

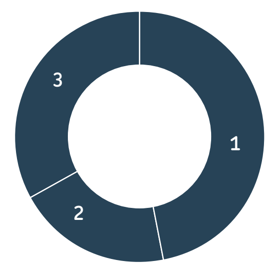
1 Light vehicles, 14%
2 Trucks, 6%
3 Vehicle aftermarket, 10%

Net sales by customer industry – Industrial



1 Electrical, 1%
2 Aerospace, 7%
3 Industrial drives, 14%
4 Energy, 11%
5 Off-highway, 8%
6 Heavy industries, 8%
7 Railway, 6%
8 Agriculture, food and beverage, 1%
9 Marine, 3%
10 Other industrial, 5%
11 Industrial distribution, 36%

Net sales by customer industry – Automotive



1 Light vehicles, 47%
2 Trucks, 20%
3 Vehicle aftermarket, 33%

	Net sales		Contribution to profit before tax	
MSEK	2021	2020	2021	2020
Industrial	58,559	53,912	9,308	6,691
Automotive	23,173	20,940	1,450	378
Subtotal operating segments	**81,732**	**74,852**	**10,758**	**7,069**
Financial net	—	—	–695	–769
Total	**81,732**	**74,852**	**10,063**	**6,300**

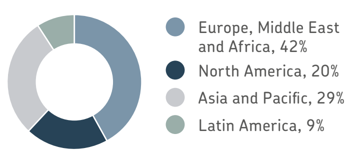
	Depreciation and amortization		Impairments		Additions to property, plant and equipment, intangible assets and right-of-use assets	
MSEK	2021	2020	2021	2020	2021	2020
Industrial	2,691	2,752	33	23	3,798	3,413
Automotive	581	618	—	8	650	472
Total	**3,272**	**3,370**	**33**	**31**	**4,448**	**3,885**

	Assets		Liabilities	
MSEK	2021	2020	2021	2020
Industrial	54,518	48,360	11,906	9,852
Automotive	16,856	15,364	6,087	6,006
Subtotal operating segments	**71,374**	**63,724**	**17,993**	**15,858**
Financial and tax items	19,717	21,518	31,511	33,874
Eliminations and other unallocated items	8,537	5,315	4,759	5,113
Total	**99,628**	**90,557**	**54,263**	**54,845**

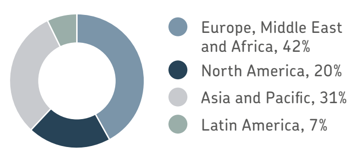
Geographic disclosure MSEK	Net sales by customer location		Non-current assets	
	2021	2020	**2021**	2020
Sweden	1,871	1,680	4,013	4,270
Europe excl. Sweden	31,732	28,616	15,217	14,467
North America (incl. Mexico)	17,377	17,148	12,308	11,358
Asia-Pacific	25,416	23,486	6,820	5,422
Latin America	5,336	3,922	1,773	1,485
Eliminations	—	—	585	517
Total	**81,732**	**74,852**	**40,716**	**37,519**

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 19% (20) were located in China, 18% (19) in USA and 9% (9) 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, 30% (28) were located in USA, 15% (15) in Germany, and 13% (10) in China.

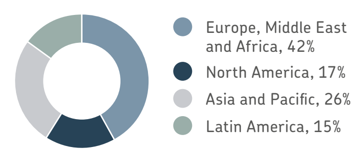
Net sales by geographic area



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	**2021**	2020
Total fair value of net assets acquired		
Intangible assets, excluding goodwill	—	4
Property, plant and equipment	1	—
Current assets	7	—
Non-current liabilities	—	—
Current liabilities	–3	—
Fair value net assets acquired	**5**	**4**
Goodwill	36	—
Total acquisition cost	**41**	**4**
Deferred consideration	—	—
Cash and cash equivalents acquired	–1	—
Cash outflow	**40**	**4**

In 2021, SKF had a cash outflow of MSEK 40 for the acquisition of two smaller businesses, Edge AB, an industrial consultancy firm based in Lulea, Sweden and EFOLEX AB, a Gothenburg-based manufacturer of the Europafilter-branded industrial lubrication and oil filtration systems.

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

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

4 Divestment of businesses

MSEK	2021	2020
Goodwill	—	—
Other intangible assets	—	—
Property, plant and equipment	343	1
Deferred tax assets	—	—
Other non-current assets	—	5
Current assets	32	8
Deferred tax provisions	—	—
Non-current liabilities	—	–1
Current liabilities	–10	–1
Non-controlling interest	—	—
Net assets disposed of	**365**	**12**
Profit/loss	397	11
Total consideration	**762**	**23**
Cash and cash equivalents divested	–29	–3
Cash outflow for previous years divestments	—	—
Total cashflow	**733**	**20**

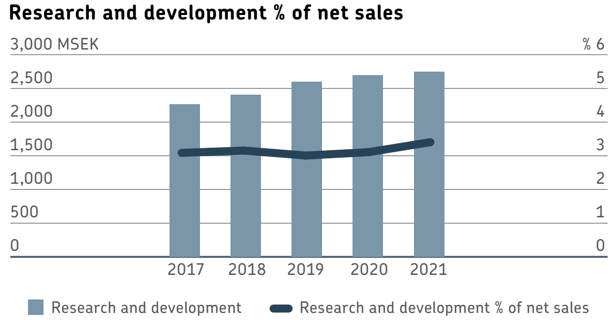
During 2021, the Group executed a real estate sale, resulting in a total cash inflow of MSEK 733 and a net gain of MSEK 397.

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.

5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled MSEK 2,751 (2,515), corresponding to 3.4% (3.4) of annual sales.

Research and development % of net sales



6 Expenses by nature

MSEK	2021	2020
Employee benefit expenses including social charges	24,270	23,000
Raw material and components consumed, including traded products	27,426	24,361
Change in work in process and finished goods	2,809	–578
Depreciation, amortization and impairments	3,305	3,401
Other expenses, primarily purchased services, shop supplies and utilities	13,648	17,932
Total operating expenses	**71,458**	**68,116**

Depreciation, amortization and impairments were accounted for as (MSEK)	2021				2020			
	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	2,318	98	33	2,449	2,304	99	20	2,423
Selling expenses	372	484	—	856	454	513	11	978
Total	**2,690**	**582**	**33**	**3,305**	**2,758**	**612**	**31**	**3,401**

7 Other operating income and expenses

MSEK	2021	2020
Other operating income		
Exchange gains on trade receivables/payables	512	392
Profit from sale of property, plant and equipment	74	247
Profit from associated companies	21	16
Profit from divestment of businesses	397	11
Other	205	369[1)]
Total	**1,209**	**1,035**
Other operating expenses		
Exchange losses on trade receivables/payables	–545	–529
Loss from sale of property, plant and equipment	–19	–37
Other	–161	–136
Total	**–725**	**–702**
Other operating income and expenses, net	**484**	**333**

1) Includes VAT credit.

8 Financial income and financial expenses

MSEK	2021	2020
Interest income	35	68
Interest expense	–308	–289
Net gains/losses:		
Net interest cost on post-employment benefits	–146	–239
Exchange differences, net	–193	–179
Other financial income including dividends	50	4
Other financial expense	–133	–134
Financial net	**–695**	**–769**

Other financial expense includes 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.

	2021			2020		
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	1	—	—	2	—	—
Derivatives held for trading	1	–6	–12	1	–65	420
Derivatives held for hedge accounting	—	—	—	—	—	—
Financial assets classified as amortized cost	33	—	–118	65	—	–23
Financial assets classified as fair value through other comprehensive income	—	—	1	—	—	10
Other financial liabilities, primarily loans	—	–302	–22	—	–224	–582
Other liabilities including post-employment benefits	—	—	–271	—	—	–373
Total	**35**	**–308**	**–422**	**68**	**–289**	**–548**

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.

	2021			2020		
Tax expense (MSEK)	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	–1,951	—	–1,951	–2,222	—	–2,222
Deferred taxes	–533	–692	–1,225	396	211	608
Total	**–2,484**	**–692**	**–3,176**	**–1,826**	**211**	**–1,614**

Taxes charged to other comprehensive income included MSEK -694 (203) related to remeasurements of post-employment benefits, MSEK 1 (0) related to cash flow hedges and MSEK 1 (8) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (MSEK)	2021	2020
Tax calculated using statutory tax rate in Sweden	–2,073	–1,348
Difference between statutory tax rate in Sweden and foreign subsidiaries	–340	–180
Other taxes	–55	–72
Tax credits and similar items	28	59
Non-deductible/non-taxable profit items	–48	–319
Tax loss carry-forwards	–56	27
Current tax referring to previous years	10	–14
Other	50	21
Tax expense Income Statement	**–2,484**	**–1,826**

The corporate statutory income tax rate in Sweden was 20.6% (21.4). The actual tax rate on profit before taxes was 24.7% (29.0).

	2021		2020	
Gross deferred taxes per type (MSEK)	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangibles and other assets	27	1,377	25	1,236
Property, plant and equipment	52	932	66	874
Inventories	555	409	544	322
Trade receivables	57	1	49	1
Provisions for post-employment benefits	2,643	62	3,324	47
Other accruals and liabilities	1,018	1	956	49
Tax loss carry-forwards	835	—	1,178	—
Tax credit carry-forwards	185	—	179	—
Other	286	77	322	106
Gross deferred taxes	**5,658**	**2,859**	**6,643**	**2,635**
Net deferred taxes presented in the Consolidated balance sheet	3,839	1,040	4,800	792

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 (183), whereof MSEK 101 (107) related to tax loss carry-forwards and MSEK 82 (77) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of MSEK 0 (7) related to tax losses and will expire during the period 2022 to 2026. The remaining unrecognized assets will expire after 2026 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was MSEK 11 (1) 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 -11 (51) 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 2021, the Group had tax loss carry-forwards amounting to MSEK 4,426 (6,042), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2022–2026	74
2027 and thereafter	333
Never	4,019

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. 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) is a straight-line amortization for the rest of the useful life, with an amortization rate of 10%.

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, 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

Cont. Note 10

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-year 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	2021 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1)]	Translation effects	2021 Opening balance
Acquisition cost								
Goodwill	11,493	—	36	—	—	–44	611	10,890
Patents, tradenames and similar rights	2,942	15	—	—	—	–3	225	2,705
Internally developed software	2,666	45	—	—	—	—	4	2,617
Customer relationships	4,700	—	—	—	—	2	320	4,378
Leaseholds	279	—	—	—	—	—	33	246
Product development	361	1	—	—	—	—	13	347
Technology	1,214	—	—	—	—	—	84	1,130
Other intangible assets	232	7	—	—	—	–6	4	227
Total	**23,887**	**68**	**36**	—	—	**–51**	**1,294**	**22,540**

MSEK	2021 Closing balance	Amortizations	Businesses acquired/ sold	Disposals	Impairments	Other[1)]	Translation effects	2021 Opening balance
Accumulated amortization and impairments								
Goodwill	569	—	—	—	—	–46	–158	773
Patents, tradenames and similar rights	529	29	—	—	2	14	–1	485
Internally developed software	1,376	184	—	—	—	—	5	1,187
Customer relationships	3,283	274	—	—	—	1	191	2,817
Leaseholds	110	5	—	—	—	—	12	93
Product development	197	12	—	—	—	—	7	178
Technology	796	74	—	—	—	—	55	667
Other intangible assets	85	4	—	—	—	–18	1	98
Total	**6,945**	**582**	—	—	**2**	**–49**	**112**	**6,298**
Net book value	**16,942**							**16,242**

1) Includes reclassification between categories.

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	Amorti-zations	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.

Impairment losses

Impairments amounted to MSEK –2 (0) in 2021.

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 1,195 (1,080), Kaydon Friction MSEK 702 (536), PEER MSEK 195 (178), GBC MSEK 206 (187) and others MSEK 95 (71).

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 1,240 (1,411), including amortizations of MSEK –174 (–174) made during 2021. Remaining useful life is seven years.

Other individual intangible assets that are material for the Group include the customer relationships for Lincoln amounting to MSEK 521 (603) having a remaining useful life of four years, and for Kaydon amounting to MSEK 654 (622) having a remaining useful life of seven 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.

	2021		2020	
	Industrial	Automotive	Industrial	Automotive
Goodwill, MSEK	10,535	389	9,902	215
Tradenames, MSEK	2,092	206	2,077	187
Average revenue growth rate, %	6.5	4.6	6.1	5.9
Discount rate, pre tax, %	9.2	9.7	10.5	10.7
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.

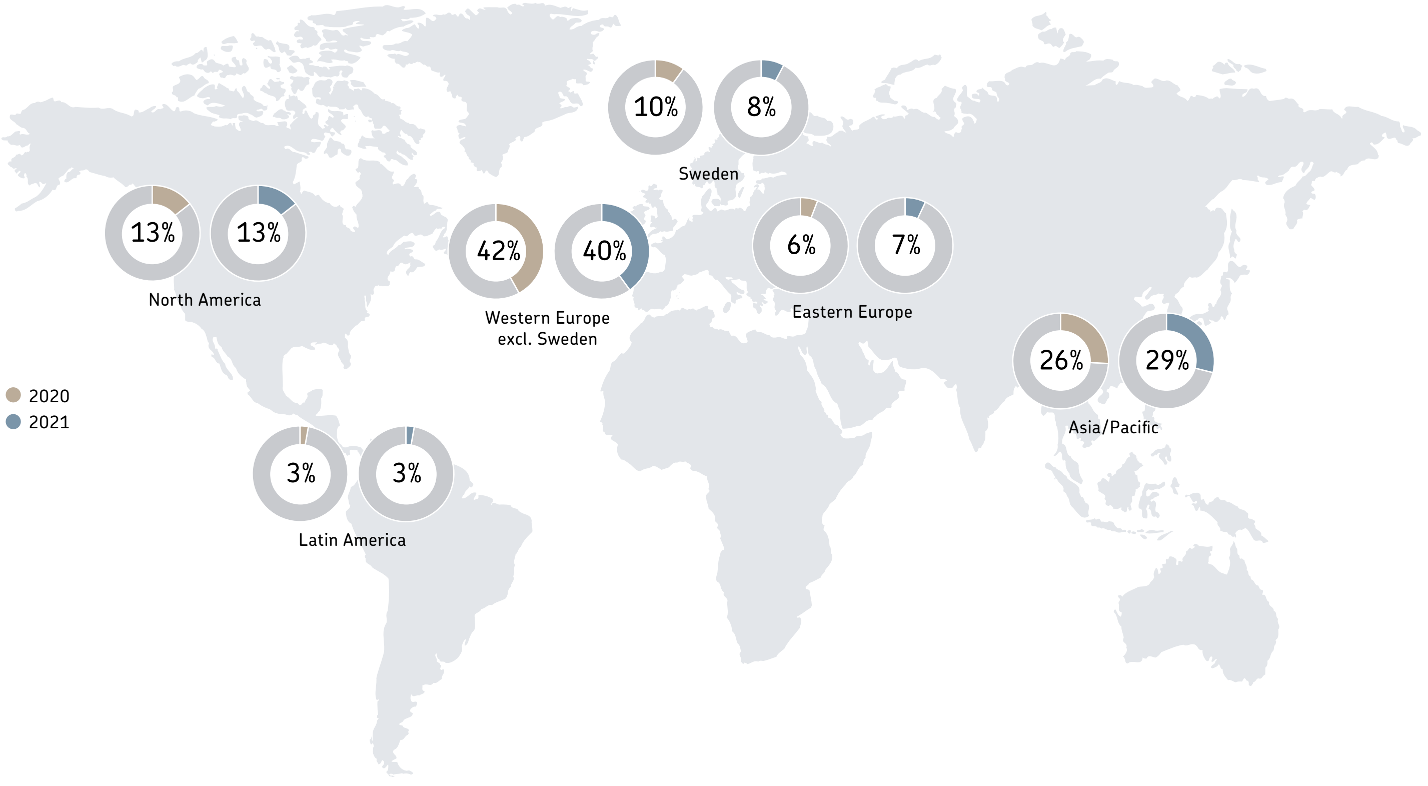
The useful lives are:
- 33 years for buildings and installations.
- 10–20 years for machinery and supply systems.
- 10 years for control systems within machinery and supply systems.
- 4–5 years for tools, office equipment and vehicles.

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 2020–2021



MSEK	2021 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1)]	Translation effects	2021 Opening balance
Acquisition cost								
Buildings	10,060	272	–352	–17	—	100	493	9,564
Land and land improvements	1,008	3	—	–7	—	–5	28	989
Machinery and supply systems	34,868	1,259	—	–250	—	190	1,645	32,024
Machine tooling and factory fittings	4,631	345	1	–114	—	21	217	4,161
Assets under construction including advances[2)]	3,812	1,943	—	–64	—	–565	143	2,355
Total	**54,379**	**3,822**	**–351**	**–452**	**—**	**–259**	**2,526**	**49,093**

MSEK	2021 Closing balance	Depre-ciation	Businesses sold	Disposals	Impairments	Other[1)]	Translation effects	2021 Opening balance
Accumulated depreciation and impairments								
Buildings	4,947	273	–9	–12	1	2	193	4,499
Land improvements	297	6	—	–7	—	3	18	277
Machinery and supply systems	25,081	1,456	—	–308	21	–307	1,124	23,095
Machine tooling and factory fittings	3,331	273	—	–113	7	–15	118	3,061
Total	**33,656**	**2,008**	**–9**	**–440**	**29**	**–317**	**1,453**	**30,932**
Net book value	**20,723**							**18,161**

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**

1) Includes reclassification between categories.
2) Contractual commitments for acquisition of PPE not yet booked amounted to MSEK 0 (89).

12 Right-of-use assets

Accounting policy
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 277 (290). The lease expenses correspond in all material aspects to the cash flow for those leases.

Interest expenses related to leases amount to MSEK 106 (103).

MSEK	2021	2020
Short-term lease expenses	198	195
Low-value asset lease expenses	61	66
Variable lease payments not included in lease liability	15	19
Other	3	10
Total	**277**	**290**

MSEK	2021 Closing balance	Additions	Modifications	Impairments	Translation effects	2021 Opening balance
Acquisition cost						
Premises	3,738	401	2	—	216	3,119
Vehicles	682	118	9	—	14	541
Forklifts	247	37	2	—	6	202
Machinery	30	—	–4	—	1	33
Office equipment	20	2	–4	—	2	20
Other	7	—	2	—	–1	6
Total	**4,724**	**558**	**7**	**—**	**238**	**3,921**

MSEK	2021 Closing balance	Depreciation	Modifications	Impairments	Translation effects	2021 Opening balance
Accumulated depreciation and impairments						
Premises	1,388	441	–60	2	73	932
Vehicles	463	169	–44	—	15	323
Forklifts	150	42	–4	—	4	108
Machinery	40	22	–5	—	1	22
Office equipment	16	4	–1	—	1	12
Other	6	4	–4	—	–1	7
Total	**2,063**	**682**	**–118**	**2**	**93**	**1,404**
Net book value	**2,661**					**2,517**

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**

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	**2021**	2020
Finished goods	11,686	9,188
Raw materials and supplies	6,901	5,202
Work in process	2,410	1,343
Total	**20,997**	**15,733**

Inventory values are stated net of a provision for net realizable value of MSEK 1,353 (1,498). The amount charged to expense for net realizable provisions during the year was MSEK 70 (269). Reversals of net realizable provisions during the year were MSEK 47 (70).

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. 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 taken 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 2021

			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	13,972	—	—	—	13,972	13,972
Cash and cash equivalents	6,320	—	6,899	—	13,219	13,219
Equity securities	—	402	—	—	402	—
Marketable securities	—	—	—	736	736	—
Hedging derivatives	—	—	—	—	0	—
Trading derivatives	—	—	—	94	94	94
Debt securities	—	21	6	—	27	6
Other loans and receivables	392	—	—	—	392	338
Carrying amount	**20,684**	**423**	**6,905**	**830**	**28,842**	**27,629**
Fair value	**20,684**	**423**	**6,905**	**830**		

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 categorized as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include 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	2021	Level 1	Level 2	Level 3	2020
Fair value through other comprehensive income								
Equity securities	349	—	—	349	253	—	—	253
Debt securities	21	—	—	21	22	—	—	22
Fair value through profit or loss								
Trading securities	680	—	62	742	558	—	55	613
Cash and cash equivalents	6,899	—	—	6,899	5,098	—	—	5,098
Hedging derivatives	—	—	—	—	—	295	—	295
Trading derivatives	—	94	—	94	—	137	—	137
Total	**7,949**	**94**	**62**	**8,105**	**5,931**	**432**	**55**	**6,418**

Financial assets recorded at fair value, which include 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 53 (48) 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
2021	13,972	12,284	1,201	254	127	106
2020	12,286	10,824	1,096	236	85	45

The average days outstanding of trade receivables in 2021 were 64 days (64). Trade receivables as a percentage of annual net sales totalled 17.1% (16.4). Trade receivables included receivables sold with recourse amounting to MSEK 89 (69). 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)	2021	2020
Opening balance 1 January	**395**	**413**
Additions	117	121
Reversals	–95	–82
Changes through the income statement	**22**	**39**
Allowances used to cover write-offs	–22	–24
Currency translation adjustments	29	–33
Closing balance 31 December	**424**	**395**

15 Other short-term assets

MSEK	2021	2020
Value added tax receivables, net	2,421	2,145
Income tax receivables	1,009	775
Prepaid expenses	637	514
Accrued income	120	138
Advances to suppliers	119	95
Other current receivables	857	575
Total	**5,163**	**4,242**

16 Share capital

	Number of shares authorized and outstanding			
	A Shares	B Shares	Total	Share capital (MSEK)
Opening balance 1 January 2020	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**
Conversion of A shares to B shares	–867,122	867,122	—	—
Closing balance 31 December 2021	**30,503,933**	**424,847,135**	**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, 196,432,814 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 23,627 (23,646), see page 105. The Board has decided to propose to the Annual General Meeting, on 24 March 2022, a dividend of SEK 7.00 per share to be paid to the shareholders. The proposed dividend for 2021 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 28 March 2022. The total proposed dividend to be paid is MSEK 3,187 (2,960). 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 1 April 2021, a dividend of SEK 6.50 per share was paid to the shareholders.

17 Earnings per share

	2021	2020
Net profit attributable to owners of AB SKF (MSEK)	7,331	4,298
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	**16.10**	**9.44**
Dilutive shares from Performance Share Programmes	—	—
Weighted average diluted number of shares	455,351,068	455,351,068
Diluted earnings per share (SEK)	**16.10**	**9.44**

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.

Shares from the Performance Share Programme are not considered dilutive.

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)	2021 USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	416	649	728	—	317	868	2,978
Present value of funded defined benefit obligation	8,638	—	10,206	4,838	2,777	1,722	28,181
Less: Fair value of plan assets	–7,836	—	–4,737	–4,510	–794	–1,571	–19,448
Total	**1,218**	**649**	**6,197**	**328**	**2,300**	**1,019**	**11,711**
Reflected as							
Other long-term assets	—	—	—	—	—	–71	–71
Provisions for post-employment benefits	1,218	649	6,197	328	2,300	1,090	11,782
Total	**1,218**	**649**	**6,197**	**328**	**2,300**	**1,019**	**11,711**

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	—	11,428	4,456	2,890	1,752	28,849
Less: Fair value of plan assets	–7,180	—	–3,491	–3,905	–728	–1,465	–16,769
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**

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 89% 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 and in 2021 the remaining active accruing plans were frozen, 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 2021, this reimbursement right totalled MSEK 1 (5).

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 defined contributions are made, and the value of the contributions is guaranteed to the participants as required by German law. Thus, this plan also qualifies as a defined benefit plan even if the benefit for the participants is equal to the contributions made into the plan.

United Kingdom

The major plans in the U.K. represent around 92% 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	2021 Present value of obligation	2021 Fair value of plan assets	2021 Total	2020 Present value of obligation	2020 Fair value of plan assets	2020 Total
Opening balance 1 January	**31,905**	**–16,769**	**15,136**	**32,438**	**–17,125**	**15,313**
Interest expense/(income)	432	–286	146	626	–387	239
Current service cost	533	—	533	513	—	513
Past service cost	–4	—	–4	17	—	17
Settlements	–13	2	–11	–80	5	–75
Other	19	1	20	167	7	174
Subtotal expenses	**967**	**–283**	**684**	**1,243**	**–375**	**868**
Difference between actual return and interest income	—	–762	–762	—	–1,475	–1,475
Actuarial (gains)/losses – demographic assumptions	8	—	8	–27	—	–27
Actuarial (gains)/losses – financial assumptions	–2,170	—	–2,170	2,599	—	2,599
Experience adjustments	173	—	173	–247	—	–247
Subtotal remeasurements in OCI	**–1,989**	**–762**	**–2,751**	**2,325**	**–1,475**	**850**
Employer contribution	—	–359	–359	—	–271	–271
Employee contribution	20	–4	16	27	–5	22
Benefit payments	–1,562	165	–1,397	–1,640	1,001	–639
Subtotal cash flow[1)]	**–1,542**	**–198**	**–1,740**	**–1,613**	**725**	**–888**
Sold businesses	—	—	—	—	—	—
Other[2)]	19	–134	–115	–213	–584	–797
Translation differences	1,799	–1,302	497	–2,275	2,065	–210
Closing balance 31 December	**31,159**	**–19,448**	**11,711**	**31,905**	**–16,769**	**15,136**

1) Cash outflows for 2022 are expected to be some MSEK 750 which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.
2) Other includes reclassification of the German pension plans from defined contribution plans to defined benefit plans, for both 2020 and 2021.

Components of total post-employment benefit expenses (MSEK)	2021	2020
Post-employment defined benefit expense	684	868
Post-employment defined contribution expense	575	486
Total post-employment benefit expenses	**1,259**	**1,354**
Whereof amounts charged to:		
Cost of goods sold	658	737
Selling expenses	435	353
Administrative expenses	20	25
Financial expenses	146	239
Total	**1,259**	**1,354**

Plan asset composition (MSEK)	2021 Quoted	2021 Unquoted	2021 Total	2020 Quoted	2020 Unquoted	2020 Total
Government bonds	1,721	—	1,721	1,622	—	1,622
Corporate bonds	6,072	—	6,072	5,794	5	5,799
Equity instruments	6,223	434	6,657	5,049	449	5,498
Real estate	259	1,648	1,907	232	681	913
Other, primarily cash and other financial receivables	2,174	917	3,091	2,053	884	2,937
Total	**16,449**	**2,999**	**19,448**	**14,750**	**2,019**	**16,769**

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.

	2021					
Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	2.7	2.6	1.2	1.8	1.5	1.3
Pension increase rate[1]	n/a	n/a	3.0	3.3	1.8	n/a
Salary growth rate[2]	n/a	n/a	2.2	3.3	3.1	3.2
Longevity male/female[3]	20.6/22.5	20.5/22.5	20.4/23.9	21.9/24.3	22.1/24.9	21.0/24.0
Weighted average duration of the plan (in years)[4]	10.1	9.4	18.5	19.1	21.2	10.7

	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

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 defined benefit obligations, MSEK
Discount rate	+1%	–3,758
	–1%	4,902
Salary growth rate	+0.5%	475
	–0.5%	–446
Pension increase rate	+0.5%	1,188
	–0.5%	–1,019
Longevity	+1 year	1,137
	–1 year	–1,131

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 an investigation in Brazil by the General Superintendence of the Administrative Council for Economic Defense, 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	2021 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2021 Opening balance
Claims	263	107	–143	–88	86	5	296
Other employee benefits	990	391	–296	–511	37	18	1,351
Restructuring	824	419	–633	–142	–2	40	1,142
Other	440	189	–94	–222	–144	18	693
Total	**2,517**	**1,106**	**–1,166**	**–963**	**–23**	**81**	**3,482**

MSEK	Of which current
Claims	102
Other employee benefits	48
Restructuring	771
Other	184
Total	**1,105**

Claims decreased during 2021 with MSEK –33, related to warranty claims.

In 2021, the total restructuring cost amounted to around MSEK 466, whereof MSEK 419 refers to 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 2022 and 2023.

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)	2021	2020
Guarantees	47	10
Tax claims	347	1,124
Other contingent liabilities	28	23
Total	**422**	**1,157**

20 Financial liabilities

Accounting policy
Financial liabilities are recognized in the balance sheet 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.

		2021		2020	
MSEK	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
MEUR 296	2022	—	—	2,963	3,096
MSEK 900	2024	899	922	897	939
MSEK 2,100	2024	2,097	2,153	2,096	2,174
MEUR 300	2025	3,118	3,143	3,127	3,151
MUSD 100	2027	905	1,057	817	1,018
MEUR 300	2029	3,057	3,243	2,993	3,332
MEUR 300	2031	3,019	3,079	—	—
Long-term lease liabilities	2022 and thereafter	2,179	2,179	2,024	2,024
Other long-term loans	2022–2028	181	197	172	172
Derivatives held for hedge accounting		18	18	—	—
Derivatives held for trading		—	—	—	—
Subtotal long-term financial liabilities		**15,473**	**15,991**	**15,089**	**15,906**
Short-term financial liabilities					
MEUR 200	2021	—	—	2,006	2,005
MEUR 296	2022	3,031	3,094	—	—
Trade payables	2022	9,881	9,881	8,459	8,459
Short-term lease liabilities	2022	579	579	560	560
Short-term loans	2022	147	147	169	169
Derivatives held for hedge accounting	2022	—	—	—	—
Derivatives held for trading	2022	106	106	525	525
Subtotal short-term financial liabilities		**13,744**	**13,807**	**11,719**	**11,718**
Total		**29,217**	**29,798**	**26,808**	**27,624**

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 is 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 has been designated as hedge instrument in net investment hedges of foreign operations. The fair value of this financial liability amounted to MSEK 317 (317) 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	2021	2020
Employee related accruals	3,366	2,356
Accrual for rebates	1,270	935
Income tax payable	972	1,027
Deferred income	245	256
Customer advances	315	520
Value added taxes payable, net	640	937
Other current liabilities	834	804
Other accrued expenses	2,033	1,681
Total	**9,675**	**8,516**

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 Wallenberg Investments AB, which 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 2021 FAM is the major shareholder of the Parent Company, holding 29.3% (29.5) of the voting rights and 14.0% (13.8) of the share capital.

Investments in associated companies include a 25% shareholding of Simplex Turbolo Co. Ltd. i Storbritannien, a 28% shareholdning of Sunstrength Renewables Pvt Ltd. i Indien, a 42% shareholding of Ningbo Hyatt Roller Co. Ltd i Kina, a 20% shareholding of Colinx, LLC in USA, a 50% shareholding of Wuhan Economos seals technology Co., Ltd. in Kina, and a 25% shareholding of Schwarz GmbH Technischer Großhandel in Germany.

Transactions with Associated companies (MSEK)	2021	2020
Sales of goods and services	55	53
Purchases of goods and services	437	328
Receivables as of 31 December	37	7
Liabilities as of 31 December	50	32

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 Annual General Meeting also, irrespective of the principles of remuneration for Group Management, resolved on SKF's Performance Share Programme 2021 for senior managers and key employees, where Group Management is included. For more information on SKF's Performance Share Programme 2021, see page 88.

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 2021 it was decided that the Board should be paid fees according to the following: – an allotment of SEK 2,300,000 to the Chairman of the Board and with SEK 750,000 to each of the other Board members; and – an allotment of SEK 260,000 to the Chairman of the Audit Committee, with SEK 190,000 to each of the other members of the Audit Committee, with SEK 150,000 to the Chairman of the Remuneration Committee and with SEK 120,000 to each of the other members of the Remuneration Committee. A prerequisite for obtaining an allotment is that the Board member is elected by the Annual General Meeting and not employed by the company.

President and Chief Executive Officer

Rickard Gustafson, President and Chief Executive Officer of AB SKF has received remuneration from the company during 2021 governed by the remuneration principles decided upon by the Annual General Meeting 2020; salary and other remunerations amounted to a total of SEK 8,277,590 of which SEK 8,277,590 was fixed annual salary and other benefits.

Alrik Danielson, former President and Chief Executive Officer of AB SKF, has received remuneration from the company in year 2021 in accordance with the remuneration principles; salary and other remunerations amounted to a total of SEK 26,791,643 of which SEK 11,435,433 was fixed annual salary and other benefits including final salary, SEK 8,497,310 was severence payment, SEK 2,551,500 was variable salary related to 2020 year's performance, and SEK 4,310,400 was alottment of shares under the Performance Share Programme 2018.

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

Niclas Rosenlew has received remuneration from the company during 2021 specifically for his assignment as acting Chief Executive Officer in accordance with the remuneration principles; salary and other remunerations amounted to a total of SEK 458,333 of which SEK 458,333 was fixed annual salary. The pension arrangement is a combination of the ITP scheme and a defined contribution of 35% of the annual fixed salary above 30 income base amounts.

Rickard Gustafson'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 2021 (exclusive of the President) salary and other remunerations amounting to a total of SEK 61,388,439 of which SEK 40,418,297 was fixed annual salary, SEK 11,316,173 was variable salary related to 2020 year's performance, and SEK 9,653,969 was alottment of shares under the Performance Share Programme 2018.

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 with criteria such as operating profit and cash flow.

SKF's Performance Share Programmes are further described on page 88.

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). 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

Amounts in SEK	Fixed salary and other benefits[1]/fixed Board remuneration: Amounts paid in 2021[3]	Fixed salary and other benefits[1]/fixed Board remuneration: Amounts expensed in 2021[3]	Short-term variable salary: Amounts paid in 2021 related to 2020[3]	Short-term variable salary: Amounts expensed in 2021[3]	Performance Share Programmes: Amounts paid in 2021 related to prior years[3]	Performance Share Programmes: Amounts expensed in 2021[3]	Remuneration for committee work: Amounts paid in 2021[3]	Remuneration for committee work: Amounts expensed in 2021[3]	Gross pension costs[2]: Amounts expensed in 2021[3]	Total expensed in 2021	Total expensed in 2020
Board of directors of AB SKF											
Hans Stråberg	2,216,500	2,300,000	—	—	—		340,000	340,000	—	2,640,000	2,454,000
Hock Goh	741,000	750,000	—	—	—		—	—	—	750,000	732,000
Ronnie Leten	366,000	—	—	—	—		—	—	—	—	1,022,000
Barb Smardzich	741,000	750,000	—	—	—		—	—	—	750,000	732,000
Colleen Repplier	741,000	750,000	—	—	—		120,000	120,000	—	870,000	732,000
Geert Follens	741,000	750,000	—	—	—		190,000	190,000	—	940,000	732,000
Håkan Buskhe	741,000	750,000	—	—	—		380,000	380,000	—	1,130,000	1,094,000
Susanna Schneeberger	741,000	750,000	—	—	—		—	—	—	750,000	732,000
CEO	8,277,590	9,286,670	—	2,861,369	—	2,265,000	—	—	3,041,959	17,454,998	43,600,153[4]
Former CEO	19,929,743[5]	6,159,121	2,551,500	1,922,467	4,310,400	1,448,400	—	—	2,134,932	11,664,920	—
Former acting CEO[6]	458,333	458,333	—	145,000	—	—	—	—	160,417	763,750	—
Group Management [7] [8]	40,418,297	42,543,138	11,316,173	16,090,429	9,653,969	16,292,019	—	—	11,831,882	86,757,468	85,158,098
whereof AB SKF	20,586,860	22,711,701	5,593,214	8,356,071	7,327,684	13,383,334	—	—	11,126,889	55,577,995	54,926,251
Total 2021	76,112,463	65,247,261	13,867,673	21,019,266	13,964,369	20,005,419	1,030,000	1,030,000	17,169,190	124,471,136	—
whereof AB SKF	56,281,026	45,165,824	8,144,714	13,284,908	11,638,084	17,096,734	1,030,000	1,030,000	16,464,197	93,291,663	—
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

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) The total expense refers to the previous CEO. 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) Includes severence payment of MSEK 8,497,310.
6) Compensation specifically for the assignment as acting CEO. Niclas Rosenlew's ordinary compensation as CFO is not included in the amount.
7) Total pension obligations, for SKF Group, related to Group Management (including CEO) were MSEK 134.
8) Exclusive of CEO.

SKF's Performance Share Programme

Performance Shares

The Annual General Meeting 2021 decided on the introduction of SKF's Performance Share Programme 2021. 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 2021–2023 compared to the financial year 2020. 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 226,5 for SKF's Performance Share Programme 2021. 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 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 was made in February 2022. In total 200,010 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 2019–2021.

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.

SKF's Performance Share Programme 2021: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2024, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2021 for all programmes were MSEK 95 (26) excluding social charges. The total provision for all programmes was MSEK 106 (89) and the total provision for social charges for all programmes was MSEK 27 (25).

	2021		2020	
Men and women in Board of Directors and Group Management	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	8	63%	9	67%
Group Management incl. CEO	10	80%	10	80%
Parent Company				
Board of Directors of the Parent company incl. CEO	8	63%	9	67%
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)	2021	2020
Deloitte		
Audit fees	50	—
Where of Deloitte AB	*10*	—
Audit related fees	2	—
Where of Deloitte AB	*2*	—
Tax fees	7	—
Where of Deloitte AB	*2*	—
Other fees	3	—
Where of Deloitte AB	*2*	—
PricewaterhouseCoopers		
Audit fees	1	47
Where of PricewaterhouseCoopers AB	—	11
Audit related fees	—	1
Where of PricewaterhouseCoopers AB	—	1
Tax fees	0	9
Where of PricewaterhouseCoopers AB	—	0
Other fees	—	1
Where of PricewaterhouseCoopers AB	—	0
	63	**58**

The Parent Company's share (MSEK)	2021	2020
Deloitte		
Audit fees	7	—
Audit related fees	2	—
Tax fees	1	—
Other fees to auditors	1	—
PricewaterhouseCoopers		
Audit fees	—	9
Audit related fees	—	1
Tax fees	—	0
Other fees to auditors	—	0
	11	**10**

Audit fees related to examination of the annual report and financial reporting 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.

25 Average number of employees

	2021		2020	
	Number of employees	Whereof men,%	Number of employees	Whereof men,%
Parent Company in Sweden	689	66	691	68
Subsidiaries in Sweden	1,900	81	1,846	80
Subsidiaries abroad	38,272	76	35,848	79
	40,861	**75**	**38,385**	**78**

Geographic specification of average number of employees in subsidiaries abroad	2021		2020	
	Number of employees	Whereof men,%	Number of employees	Whereof men,%
France	2,197	82	1,995	82
Italy	3,039	70	3,074	78
Germany	5,142	88	4,842	88
Other Western Europe excluding Sweden	3,163	83	3,136	84
Central and Eastern Europe	4,301	65	3,811	64
USA	3,677	74	3,660	76
Canada	192	80	174	76
Mexico	1,649	69	1,349	71
Latin America	3,303	88	2,947	89
China	6,390	69	5,851	67
India	2,730	95	2,421	95
Other Asian countries/Pacific	2,104	82	2,230	81
Middle East and Africa	385	69	358	76
	38,272	**76**	**35,848**	**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]	2021	2020
Total equity, MSEK	45,365	35,712
Gearing, %	40.5	48.0
Equity/assets ratio, %	45.5	39.4
Net debt/equity ratio, excluding post-employment benefits, %	12.5	9.3
Adjusted Return on capital employed[2], %	14.9	12.7

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 70,357 (58,341) to MSEK 6,594 (4,538). This amount represented the Group's main transaction exposure excluding hedges.

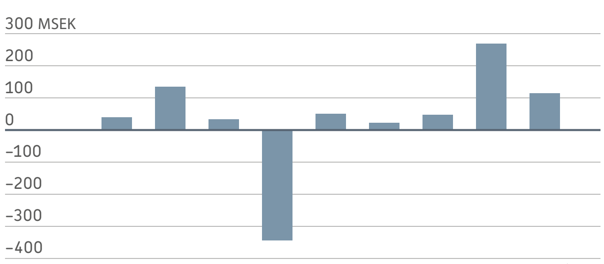
Net currency flows (MSEK)	2021	2020
CAD	747	621
CNY	2,666	2,803
DKK	626	444
EUR	–6,833	–7,194
RUB	958	719
THB	427	462
TRY	909	761
USD	5,331	4,245
Other[1]	1,763	1,677
SEK	–6,594	–4,538

1) Other is a sum comprising 11 different currencies.

Based on the assumption that the net currency flows will be the same as in 2021, 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.

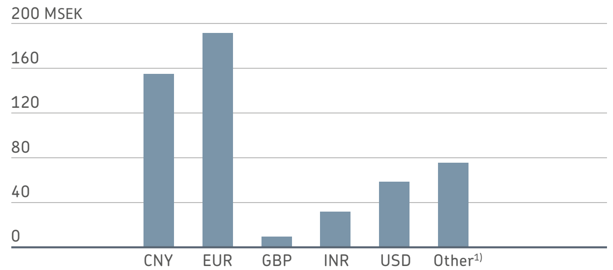
Effect of transactional currency flows on operating profits of a 5% weaker SEK



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 2021 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 92–93.

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



1) Other is a sum comprising 47 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 30,923 (32,960) and total interest-bearing financial assets amounted to MSEK 14,374 (15,210). 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 –70 (65). 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 402 (301), 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 20 (15) 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 unutilized 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 2021 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 shows 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 2021 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 2021. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2021 Cash flows			
MSEK	2022	2023	2024–2026	2027 and thereafter
Loans	–3,249	–222	–6,508	–7,104
Trade payables	–9,881	—	—	—
Derivatives, net	5	—	–18	—
Lease liabilities	–587	–447	–853	–1,036
Total	**–13,712**	**–669**	**–7,379**	**–8,140**

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 28,440 (27,928) 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)	2021	2020
Trade receivables	13,972	12,286
Other receivables	1,155	1,160
Derivatives	94	432
Cash and cash equivalent	13,219	14,050
Total	**28,440**	**27,928**

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 94 (425) and derivative liabilities of around MSEK 117 (513) 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 2021, 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 –18 (295) as fair value hedges as of 31 December 2021.

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

MSEK	Financial expense 2021	Financial expense 2020
Financial liabilities (hedged items)	70	–4
Cross-currency interest-rate swaps (hedging instruments)	–69	3
Difference (inefficiency)	**1**	**–1**

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 –6 (–36) before tax in 2021 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	2021	2020
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	–18	295
Economic hedges	Trading	—	–242
Currency forwards/ currency options			
Economic hedges	Trading	–11	–148
Share swaps			
Economic hedges	Trading	—	2
		–29	**–93**

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 2021, there has been no change in significant non-controlling interests.

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% (2.2) of the Group's total equity. The tables below present the summarized financial information of SKF India Ltd.

Summarized income statement (MSEK)	January–December 2021	2020
Net sales	3,973	2,944
Operating profit	675	451
Net income	**435**	**321**
Other comprehensive income	161	–349
Total comprehensive income	**596**	**–28**
Profit allocated to NCI	206	152
Dividends paid to NCI	–40	–355

Summarized balance sheet (MSEK)	As of 31 December 2021	2020
Non-current assets	608	539
Current assets	2,627	1,851
Total assets	**3,235**	**2,390**
Equity attributable to shareholders of AB SKF	1,123	853
Equity attributable to NCI	1,013	770
Non-current liabilites	45	31
Current liabilities	1,054	736
Total equity and liabilities	**3,235**	**2,390**

28 Subsequent events

There is uncertainty about how and to which extent SKF's operations will be affected by the ongoing conflict in Ukraine. SKF operates in both Ukraine and Russia with approximately 1,100 and 250 employees, respectively. Sales in Ukraine amount to less than 0,5% of SKFs total sales and sales in Russia amount to approximately 2% of SKFs total sales.

SKFs factory in Lutsk, Ukraine accounts for a production volume of about 1% of SKFs total production volume. At the time of publication of this report (2 March 2022), the factory in Ukraine is closed due to prevailing circumstances.

SKF is currently evaluating the extent of the impact on the supply of raw materials from this area. To reduce exposure SKF has taken measures to replace parts of of the raw material supply from the region.

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 50 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 2,010 (2,878).

Net investments in subsidiaries decreased by MSEK –421 (58) whereof MSEK –60 (–490) is attribuatble to impairments and MSEK 70 (279) related to capital contributions. Shares with a booked value of MSEK –354 (0) 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 23,627.

Parent Company income statements

		January–December	
MSEK	Note	2021	2020
Revenue	2	7,775	5,267
Cost of revenue	2	–5,036	–4,819
General management and administrative expenses	2	–1,470	–1,489
Other operating income and expenses, net	2	0	13
Operating profit		**1,269**	**–1,028**
Financial income and expenses, net	3	2,325	2,271
Profit after financial items		**3,594**	**1,243**
Appropriations	4	–793	1,070
Profit before tax		**2,801**	**2,313**
Income taxes	5	–54	30
Net profit		**2,747**	**2,343**

Parent Company statements of comprehensive income

		January–December	
MSEK	Note	2021	2020
Net profit		2,747	2,343
Items that may be reclassified to the income statement			
Assets at fair value through other comprehensive income	9	95	–40
Other comprehensive income, net of tax		**95**	**–40**
Total comprehensive income		**2,842**	**2,303**

Parent Company balance sheets

MSEK	Note	As of 31 December 2021	2020
ASSETS			
Non-current assets			
Intangible assets	6	1,371	1,528
Property, plant and equipment	7	63	83
Investments in subsidiaries	8	22,074	22,496
Long-term receivables from subsidiaries		13,022	12,749
Investments in equity securities	9	349	253
Other long-term receivables		167	334
Deferred tax assets	5	312	301
		37,358	**37,744**
Current assets			
Short-term receivables from subsidiaries		6,958	5,971
Other short-term receivables		140	70
Prepaid expenses and accrued income		130	91
Cash and cash equivalents		3	2
		7,231	**6,134**
Total assets		**44,589**	**43,878**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		—	99
		2,056	**2,155**
Unrestricted equity			
Fair value reserve		163	68
Retained earnings		20,717	21,235
Net profit		2,747	2,343
		23,627	**23,646**
		25,683	**25,801**
Untaxed reserves	4	—	—
Provisions			
Provisions for post-employment benefits	10	430	431
Other provisions		15	37
		445	**468**
Non-current liabilities			
Long-term loans	11	13,023	12,750
		13,023	**12,750**
Current liabilities			
Short-term loans	11	3,031	2,005
Trade payables		320	180
Short-term liabilities to subsidiaries		1,488	2,135
Other short-term liabilities		132	151
Accrued expenses and deferred income		467	388
		5,438	**4,859**
Total shareholders’ equity and liabilities		**44,589**	**43,878**

Parent Company statements of cash flow

MSEK	Note	January–December 2021	2020
Operating activities			
Operating loss/profit		1,269	–1,028
Adjustments for			
Depreciation, amortization and impairments	6, 7	202	206
Impairments equity securities	8	60	490
Other non-cash items[1]		66	–366[1]
Payments under post-employment defined benefit plans	10	–36	–28
Changes in working capital			
Trade payables		140	–175
Other operating assets and liabilities, net		–2,394	–684
Interest received		203	235
Interest paid		–252	–301
Other financial items		404	–139
Net cash flow from operating activities		**–338**	**–1,790**
Investing activities			
Additions to intangible assets	6	–112[1]	—
Additions to property, plant and equipment	7	–4	–13
Sales of property, plant and equipment	7	17	—
Dividends received from subsidiaries	3	2,010	2,878
Investments in subsidiaries	8	–464	–548
Sales of shares in subsidiaries	8	354	—
Capital repayments from subsidiaries	8	472	—
Investments in equity securities	9	–1	–4
Net cash flow used in investing activities		**2,272**	**2,313**
Net cash flow after investments before financing		**1,934**	**523**
Financing activities			
Proceeds from medium- and long-term loans		3,045	3,000
Repayment of medium- and long-term loans		–2,018	–2,163
Cash dividends to AB SKF's shareholders		–2,960	–1,366
Net cash flow used in financing activities		**–1,933**	**–529**
Increase(+)/decrease(–) in cash and cash equivalents		**1**	**–6**
Cash and cash equivalents at 1 January		2	8
Cash and cash equivalents at 31 December		**3**	**2**

1) Includes intangible assets of MSEK 112 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 2020	**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**
Net profit	—	—	—	—	2,747	2,747
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	95	—	95
Capitalized development reserve	—	—	–99	—	99	0
Transactions with shareholders						
Cost under Performance Share Programmes[2]	—	—	—	—	—	—
Dividends	—	—	—	—	–2,960	–2,960
Closing balance 31 December 2021	**1,138**	**918**	**0**	**163**	**23,464**	**25,683**

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 2,501 (2,221).

Of the total operating expenses, MSEK 3,782 (3,336) was invoiced from subsidiaries.

3 Financial income and financial expenses

MSEK	2021	2020
Income from participations in Group companies		
Dividends from subsidiaries	2,010	2,878
Other financial income from investments in subsidiaries	483	—
Impairment and disposals of investments in subsidiaries	–60	–490
	2,433	**2,388**
Financial income		
Interest income from subsidiaries	203	235
Other financial income	—	8
	203	**243**
Financial expenses		
Interest expenses to subsidiaries	–73	–84
Interest expenses to external parties	–202	–242
Other financial expense	–36	–34
	–311	**–360**

4 Appropriations

Appropriations (MSEK)	2021	2020
Paid/received group contribution	–793	1,070
Untaxed reserves		
Change in accelerated depreciation reserve	—	—
	–793	**1,070**
Untaxed reserves in the balance sheet		
Accelerated depreciation reserve	—	—

5 Taxes

Taxes on profit before tax (MSEK)	2021	2020
Current taxes	—	—
Other taxes	11	93
Deferred tax	–65	–63
	–54	**30**

Net deferred assets per type net (MSEK)	2021	2020
Provisions for post-employment benefits	126	97
Tax credit carry forwards	186	190
Tax loss carry forwards	—	—
Other	—	14
Deferred tax assets	**312**	**301**

Reconciliation of the statutory tax in Sweden and the actual tax (MSEK)	2021	2020
Tax calculated using the statutory tax rate in Sweden	–577	–495
Non-taxable dividends and other financial income	526	617
Tax referring to previous years	23	36
Other non-deductible and non-taxable profit items, net	–26	–128
Actual tax	**–54**	**30**

The corporate statutory income tax rate in Sweden is 20.6% (21.4).

6 Intangible assets

MSEK	2021 Closing balance	Additions	Impairments	Derecognitions	2021 Opening balance
Acquisition cost					
Goodwill	35	—	—	—	35
Technology, Intellectual property and similar items	1,013	—	—	—	1,013
Internally developed software	2,290	38	—	—	2,252
	3,338	**38**	—	—	**3,300**

MSEK	2021 Closing balance	Amortization	Impairments	Derecognitions	2021 Opening balance
Accumulated amortization					
Goodwill	25	5	—	—	20
Technology, Intellectual property and similar items	925	16	—	—	909
Internally developed software	1,017	174	—	—	843
	1,967	**195**	—	—	**1,772**
Net book value	**1,371**				**1,528**

MSEK	2020 Closing balance	Additions	Impairments	Derecognitions	2020 Opening balance
Acquisition cost					
Goodwill	35	—	—	—	35
Technology, Intellectual property 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, Intellectual property and similar items	909	16	—	—	893
Internally developed software	843	174	—	—	669
	1,772	**195**	—	—	**1,577**
Net book value	**1,528**				**1,611**

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	2021 Closing balance	Additions	Disposals	2021 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	81	—	—	81
Assets under construction including advances	27	4	–17	40
	113	**4**	**–17**	**126**

MSEK	2021 Closing balance	Depreciation	Disposals	2021 Opening balance
Accumulated depreciation				
Buildings	3	—	—	3
Machine toolings and factory fittings	47	7	—	40
	50	**7**	—	**43**
Net book value	**63**			**83**

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**

8 Investments in subsidiaries

Investments in subsidiaries held on 31 December (MSEK)	2021	Additions	Impairment	Disposals and capital repayments	2020	Additions	Impairment	Disposals and capital repayments	2019
Investments in subsidiaries	22,074	464	–60	–826	22,496	548	–490	—	22,438

The Group is composed of 183 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) 2021	Book value (MSEK) 2020	Main activities[1]
SKF Argentina S.A.	Argentina	—	14,677,299	29.2[2]	94	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) 2021	Book value (MSEK) 2020	Main activities[1]
Carried Forward					**379**	**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	626	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100	202	183	M,S
SKF Bulgaria Ltd	Bulgaria	—	—	—	—	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	223	M,S
SKF Maintenance service GmbH	Germany	—	—	—	—	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	—	1,196,450	52.8[2]	314	314	M,S
SKF India Ltd.	India	—	22,666,055	45.8[3]	87	87	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60	26	24	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	96.3[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	174	196	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	204	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	20	S
SKF Financial Services Poland sp.zoo	Poland	—	100	100	30	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	—	—	100	—	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	4,144	O
SKF HQ AB	Sweden	559250-5027	—	—	—	—	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]	99	66	O
SKF Eurotrade AB	Sweden	556206-7610	83,500	100	12	12	S
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 Efolex AB	Sweden	559233-1275	2,500	100	31	—	M,S
SKF Edge AB	Sweden	556785-4640	1,000	100	9	—	S
SKF Verwaltungs AG	Switzerland	—	500	100	502	502	O
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100	102	139	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
					22,074	**22,496**	

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
BFW Coupling Services Ltd.	Canada	100	Canada	S
Cooper Roller Bearings Co. Ltd.	United Kingdom	100	United Kingdom	M
Industrial Tectonics Inc.	USA	100	USA	M,S
Kaydon Corporation	USA	100	USA	M,S
Kaydon Precision Components (Suzhou) Co. Ltd.	China	100	USA	M
Kaydon S de R.L. de C.V.	Mexico	100	the Netherlands	M
Lincoln Industrial Corporation	USA	100	USA	M,S
Lincoln Lubrication Mocambique LDA	Mocambique	100	South Africa	S
Lincoln Lubrication (SA) Pty Ltd.	South Africa	100	South Africa	S
M3M S.A.S	France	100	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
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 (U.K.) Ltd.	United Kingdom	100	United Kingdom	M,S
SKF (Xinchang) Bearings and Precision Technologies	China	100	China	M
SKF (Zambia) Ltd.	Zambia	100	Sweden	S
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	M,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 RecondOil AB	Sweden	100	Sweden	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 Seals Italy S.p.A.	Italy	100	Italy	M
SKF Slovensko, spol. S.r.o.	Slovenia	100	Sweden	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
SKF Vietnam Co. Ltd.	Vietnam	100	Singapore	S
Stewart Werner Corporation of Canada	Canada	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	**2021** Book value	2020 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	332	237
Other			SEK	17	16
				349	**253**

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)	**2021**	2020
Present value of funded pension obligations	546	510
Fair value of plan assets	–313	–275
Net obligation	**233**	**235**
Present value of unfunded pension obligations	197	196
Net provisions	**430**	**431**

Change in net provision for the year (MSEK)	**2021**	2020
Opening balance 1 January	431	378
Defined benefit expense	35	81
Pension payments	–36	–28
Closing balance 31 December	**430**	**431**

Components of expense (MSEK)	**2021**	2020
Pension cost	56	76
Interest expense	17	16
Return on plan assets	–38	–11
Defined benefit expense	**35**	**81**
Defined contribution expense	119	105
Total post-employment benefit expense	**154**	**186**

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 0.39% (1.45).

Next year's expected cash outflows for pension obligations are MSEK 160.

In January 2022 the Swedish pension assumptions are updated, the discount rate, the life expectancy and the consolidation reserv. The net effect on AB SKFs pension liability will be a sustantial increase.

11 Loans

			2021		2020	
MSEK	Maturity	Interest rate	Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
MEUR 200	2021	0.15	—	—	2,005	2,005
MEUR 296	2022	1.63	3,031	3,094	2,963	3,096
MSEK 900	2024	1.13	899	922	897	939
MSEK 2,100	2024	0.89	2,097	2,153	2,096	2,174
MEUR 300	2025	1.25	3,046	3,143	2,984	3,151
MUSD 100	2027	4.06	905	1,057	817	1,018
MEUR 300	2029	0.88	3,057	3,243	2,993	3,332
MEUR 300	2031	0.25	3,019	3,079	—	—
			16,054	**16,691**	**14,755**	**15,715**

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

MSEK	2021[1)]	2020
Salaries, wages and other remuneration	798	768
Social charges (whereof post-employment benefit expense)	466 (154)	444 (186)

1) 2021 includes cost of MSEK 59 related to 2020s short-term variable salary programme.

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	2021	2020
General partner	4	1
Other contingent liabilites	24	22
	28	**23**

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

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

Proposed distribution of surplus

Fair value reserve	SEK	162,583,341
Retained earnings	SEK	20,716,903,273
Net profit for the year	SEK	2,747,066,008
Total surplus	**SEK**	**23,626,552,622**
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 7.00 per share[1]	SEK	3,187,457,476[2]
to be carried forward:		
Fair value reserve	SEK	162,583,341
Retained earnings	SEK	20,276,511,805
	SEK	**23,626,552,622**

1) Suggested record day for right to dividend, 28 March 2022.
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 2021 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 2022

Hans Stråberg, *Chairman*
Hock Goh, *Board member*
Barb Samardzich, *Board member*
Colleen Repplier, *Board member*
Geert Follens, *Board member*

Håkan Buskhe, *Board member*
Susanna Schneeberger, *Board member*
Rickard Gustafson, *President and CEO, 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 2022.

Deloitte AB

Hans Warén
Authorized Public Accountant

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 financial year 2021-01-01–2021-12-31. The annual accounts and consolidated accounts of the company are included on pages 14–105 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 the parent company as of 31 December 2021 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 2021 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 audit committee 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 Responsibility 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.

Other information

The audit of the annual accounts for the fiscal year 2020-01-01 –2020-12-31 was performed by another auditor who signed the audit report 2 March 2021 without exceptions in the Annual Report.

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.

Valuation of Goodwill

As of 31 December 2021, AB SKF (publ) accounts for goodwill in the consolidated balance sheet amounting to MSEK 10 924. The value of the goodwill is dependent on future income and profitability in the cash-generating units, to which the goodwill refers, and is assessed for impairment at least once a year. Management bases its impairment test on several judgements and estimates such as growth, EBIT development and cost of capital (WACC) as well as other complex circumstances. Incorrect judgements and estimates may have a significant impact on the group's result and financial position. Management has not identified any need for impairment for any of the cash-generating units within the Group.

For further information, see note 10, where it is described how management has performed the impairment test together with important judgements and estimates.

Our audit procedures included, but were not limited to:

- Review and assessment of SKF's procedures and model for impairment tests of goodwill and evaluation of the reasonability of judgements and estimates made, that the procedures are consistently applied and that there is integrity in calculations;
- Verification of input data in calculations including information from business plans for the forecast period;
- Test of head room for each cash-generating unit by performing sensitivity analyses; and
- Review of the completeness in relevant disclosures to the financial reports.

When performing the audit procedures our valuation experts have been involved.

Other information than the annual accounts and consolidated accounts

The other information includes the pages 1–13 and 106–159 in this document which does not include the annual accounts, the consolidated accounts or our Auditors report.

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 Directors 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 intends 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 responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms 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 Directors and the Managing Director of AB SKF (publ) for the financial year 2021-01-01–2021-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors 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 Directors and the Managing Director

The Board of Directors and the Managing Director are 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's 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 responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor´s report.

The auditor's examination of the Esef report

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528) for AB SKF (publ) for the financial year 2021.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report #[f8e2b085331a4838e105fbbd c1fc005e436287211280da1ac6aa6b40764cea65] has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditor's responsibility section. We are independent of AB SKF (publ) 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Esef report in accordance with the Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The audit firm applies ISQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with professional ethical requirements, professional standards and legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a technical validation of the Esef report, i.e., if the file containing the Esef report meets the technical specification set out in the Commission's Delegated Regulation (EU) 2019/815 and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the Esef report has been marked with iXBRL which enables a fair and complete machine-readable version of the consolidated statement of financial performance, financial position, changes in equity and cash flow.

Deloitte AB, was appointed auditor of AB SKF (publ) by the general meeting of the shareholders on 25 March 2021 and has been the company's auditor since 25 March 2021.

Gothenburg, March 2, 2022

Deloitte AB

Hans Warén

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.

Topics related to the Annual Report
In addition to the information provided in this Annual Report, related topics can be found at skf.com/ar2021.

- GRI content index[1)]
- CO_2e emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Energy, Health and Safety (EHS) Policy
- Manufacturing units 2021
- TCFD Report
- Green Bond Investor Letter and Impact Report
- SDG analysis

Statutory Sustainability Report
SKF has prepared a separate report according to the Swedish Annual Account Act chapter 6, § 11 on sustainability reporting and reports on the topics:

- **Business model** pages 22–23
- **Anti-corruption** page 118
- **Climate and environment** pages 119–125
- **Employees** pages 126–132
- **Human rights and other relevant social topics** pages 133–136
- **EU Taxonomy** page 137

Risks associated with the topics above are found in connection to the topics in SKF's overall risk management on pages 42–44 and on page 112.

1) Documents subject to limited assurance by SKF's auditors.

General disclosures

Organizational profile

General Disclosures – GRI 102 2016

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. For more information please refer to SKF's global presence on pages 32–41.

102-05 Ownership and legal form
AB SKF, listed at Nasdaq Stockholm, Large cap. For more information about the SKF share, see pages 46–47.

102-06 Markets served
SKF is a global actor, with business across all geographical markets and major customer industries. Pages 6–8 and 32–39 provide an overview of geographies and industries served.

102-07 Scale of the organization
Represented in 130 countries, 42,602 employees, 15 technical centres and 87 manufacturing sites. Net sales in 2021 amounted to SEK 81,732 million.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 53. In 2021, SKF delivered 429,825 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
2021	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,303	10,327	161	303	1,386	21,480
Asia and Pacific	2,968	6,342	4	385	2,547	12,246
North America (incl. Mexico)	1,755	3,321	20	2	167	5,265
Eastern and Central Europe	847	2,598	29	782	164	4,420
Latin America	543	2,480	0	110	55	3,188
Africa and Middle East	277	44	1	0	6	328
Total	**15,693**	**25,112**	**215**	**1,582**	**4,325**	**46,927**

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 2021.

Employees by contract and region

2021	Full time	Part time
Western Europe	19,226	868
Asia and Pacific	9,696	3
North America (incl Mexico)	5,096	2
Eastern and Central Europe	4,243	12
Latin America	3,101	32
Africa and Middle East	320	2
Total	**41,683**	**919**

Employees by gender and contract

2021	Full time	Share, %	Part time	Share, %
Men	33,057	79%	316	34%
Women	8,626	21%	603	66%
Total	**41,683**	**100%**	**919**	**100%**

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local People Experience 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 87 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 45 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 135–136.

102-10 Significant changes to the organization and its supply chain
In 2021, SKF acquired EFOLEX AB and Rubico Consulting AB.

102-11 Precautionary principle or approach
As required by the International Chamber of Commerce 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, 102-13 External initiatives and Membership of associations
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 net zero scope 1 and 2 emissions by 2030 target, SKF joined the RE100 (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.
- Pursuant to SKF's overall climate strategy and ambitions, SKF committed to the Science Based Targets initiative (SBTi) in July of 2021.
- Pursuant to SKF's net zero scope 3 (upstream) by 2050 target, SKF joined the SteelZero initiative in 2021. This global initiative brings together industrial users of steel committed to decarbonization of the global steel industry by 2050.
- As part of SKF's overall Responsible Sourcing strategy, SKF joined the Responsible Steel Initiative (RSI) in 2021. The RSI is the steel industry's first global multi-stakeholder standard and certification initiative.
- 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 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.
- SKF maintains a central list of the organizations SKF is a member of. This list is reviewed annually to make sure that the organizations are in line with SKF's values and commitments.

Strategy

102-14 Statement from senior decision-maker
The President's letter is found on pages 10–13. SKF's strategic framework, trends, targets, achievements and outlook are described throughout the report.

As described in the front section of this report, in February 2022, SKF has announced and embarked on a revised strategy and organization. The work to adapt the current organization, processes and governance relating to sustainability matters in line with this new strategy is ongoing at the time of writing. The explanations provided in this section of the report on the governance, organization and processes related to sustainability reflect the reporting period 2021 and will be updated in subsequent reports.

102-15 Key impacts, risks and opportunities
The United Nations Sustainable Development Goals (SDG) help to highlight risks and opportunities for businesses globally. The SDG's provide a lens to the social change needed to achieve them.

External drivers, trends and opportunities are described on page 22. SKF's risk management is described on page 42.

SKF's materiality analysis, described on page 114, helps the organization identify sustainability risks in the value chain and supports the organization to filter out and aggregate the risks that are material. 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 People Experience function 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 2021, 431 (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 (23%), conflict of interest (7%) and bribery (6%). Concerns related to COVID-19 amounted to 6%. 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 2021, a procedure has been developed for local grievances related to discrimination and harassment, to be reported centrally.

431

cases reported via the Group's whistle blowing system

Governance

102-18 Governance structure as per 31 December 2021

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 Cluster level EHS and Energy reviews, and the operational EHS network, oversees issues related to management systems, ISO 9001, ISO 14001, 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.
- The Global Energy Committee drives and coordinates the procurement of energy, owns and drives the plan to transition to 100% renewable energy for the entire Group.
- The Green Finance team which oversees the Green finance funds allocation process, reporting , approval and follow up of eligible projects.
- The Group Health and Safety Committee brings together senior managers from EHS and People Experience with worker representatives from the World Union Council to ensure consultation and participation with the employee representees at Group level.

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 Stakeholder engagement
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, People Experience, Communication, Sales, Bearing Operations, Purchasing, Legal and Compliance). This includes managing the direct dialogue and identifying individuals from whom to seek feedback. SKF has not made a full stakeholder analysis during 2021 but has sought and received input to complement the previous analysis and this has been reflected in minor changes to the materiality ratings of some topics.

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; 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 of SKF's total workforce of 42,000). 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: Colombia, Finland, Peru, Russia, Singapore, South Africa and Zambia.

In 2021, annual European World Union Council (EWC) and World Union Council (WUC) meetings was held in October, due to the pandemic, in an online format with online translations. Due to the change in management, one extraordinary online meeting for both EWC and WUC was held in spring 2021.

	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 Union 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 139–146. 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

Reporting practices

102-45 Entities included in the consolidated financial statements
See pages 100–102.

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.

Material topic	GRI standard	Impact mainly on			
		Suppliers	SKF	Customers	Society
Economic topics					
Economic performance	GRI 201 Economic performance 2016	●	●	●	●
Anti-corruption and Anti-competitive behavior	GRI 205 Anti-corruption 2016 GRI 206 Anti-competitive behaviour 2016	●	●	●	●
Customer sustainability performance	n.a		●	●	●
Environmental topics					
Energy and emissions	GRI 302 Energy 2016 GRI 305 Emissions 2016	●	●	●	●
Materials, water, effluents, and waste, environmental compliance	GRI 301 Material 2016 GRI 303 Water and effluents 2016 GRI 306 Effluents 2016, Waste 2020		●	●	●
Social topics					
Employment	GRI 401 Employment 2016	●	●		●
Labour management relations	GRI 402 Labour management relations 2016	●	●		●
Occupational health and safety	GRI 403 Occupational health and safety 2018	●	●		●
Training and education	GRI 404 Training and education 2016		●		●
Diversity and Equal opportunity	GRI 405 Diversity and equal opportunity 2016	●	●		
Human rights	GRI 406 Non-discrimination 2016 GRI 407 Freedom of association and collective bargaining 2016 GRI 408 Child labour 2016	●	●	●	●
Supplier assessments	GRI 414 Supplier social assessment 2016 GRI 308 Supplier environmental assessment 2016	●	●	●	
Socioeconomic compliance	GRI 419 Socioeconomic compliance 2016		●		●

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.

The context, scope and boundaries of each topic are described further in the specific disclosures on pages 117–136, along with the management approach.

Loss of Biodiversity is an increasingly critical challenge for the planet. Due to the nature of SKF's business, operations and value chain, the possibility to exert direct influence on this is relatively limited and therefore this is not included as a material topic. However, the work done on topics such as climate change alleviates some of the drivers of biodiversity loss. Certain SKF solutions and local community based actions also address biodiversity.

102-48 Restatements of information
On pages 121 to 123, as defined by the GHG reporting protocol, energy and CO_2e statements relating to scope 1 and 2 emissions have been restated due to acquisitions and divestments.

The reporting scope of transportation scope 3 emissions has been increased in 2021 and the previous data has been re-stated accordingly (page 123).

102-49 Changes in reporting
During 2021 SKF has further explained the reported scope of scope 3 green house gas emissions related to purchased materials – specifically steel and forgings, see pages 122-123.

Cajamar AM and Cajamar ICS have been consolidated under one site. St Cyr AM and St Cyr IM have been consolidated under one site. Walldorf Berlin replaces Hockeneim (closed) and includes Berlin.

The following sites are Included for the first time in 2021:
- Jordanesia, Brazil
- Dexter, USA
- Moody, USA

Updates to the materiality analysis
Input received from stakeholders during 2021 has been added to complement previously collected feedback. The main new input sought pro-actively in 2021 comes from senior SKF managers, SKF customers, employees and unions.

No significant changes were identified in the updated analysis. There were no new or removed material topics.

102-50 Reporting period
1 January to 31 December 2021.

102-51 Date of most recent report
The previous report was published on 3 March 2021.

102-52 Reporting cycle
Annual

102-53 Contact point for questions regarding the report
Johan Lannering
Director Sustainability
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/ar2021

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 sustainability report is subject for limited assurance by our auditors in accordance with the standard ISAE 3000. Please refer to the Auditor's Limited Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report on page 138.

The Board has also approved this report.

SKF's material topics

Economic Performance

Material topic – GRI 201: Economic Performance 2016
Management approach – General disclosures 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 62 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)	2021	2020
Net sales	81,732	74,852
Revenue from financial investments and other operating income	506	290
Economic value generated	**82,238**	**75,142**
Operating costs	–47,618	–46,074
Employee wages and benefits	–24,270	–23,000
Economic value distributed to providers of capital	–3,496	–3,249
Economic value distributed to government (income taxes)	–2,484	–1,826
Economic value distributed	**–77,868**	**–74,149**
Economic value retained	**4,370**	**993**

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 58.

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 87 manufacturing units in 22 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. SKF reports to CDP and has aligned it's reporting approach with the TCFD framework. A detailed TCFD report is included in the Topics Related at SKF.com/ar2021.

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. Please find further details in the TCFD report which is included in the Topics Related at SKF.com/ar2021.

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. To give an indication of the financial impact, a 20% increase in costs related to energy would impact the Group's result by around MSEK 260. For more on SKF's climate objectives, please refer to Climate impact and energy 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

Direct impact on
UN Sustainable
Development Goals

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Material topics – GRI 205: Anti-corruption 2016 and GRI 206: Anti-competitive Behavior
Management approach – General Disclosures 2016

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 included in 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
The function called Group Assurance is, together with Group Compliance, 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: Central and East Europe, China, India, Latin America, Middle East and Africa, Russia and CIS, and South-East Asia. 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.

During 2021, SKF launched mandatory e-learnings in Data privacy, Export Control and Conflicts of Interest with 88%, 85% and 78% completion rates respectively. (Conflict of Interest was launched in December 2021). Also, a mandatory e-learning on Antitrust compliance was launched for employees in Sales Europe.

The number of ethical concerns reported via SKF ethics & compliance reporting line reported 2021 was 431, this included 26 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 2021, compliance risk assessments have been conducted in Asia Pacific, China, Eastern Europe, Latin America, MEA and Russia.

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 2021, eleven such reviews have been reported.

205-3 Confirmed incidents of corruption and actions taken
During 2021, SKF substantiated 15 incidents of corruption (incl. bribery, fraud, conflict of interest). As a consequence, four employees have left SKF.

One distributor contract in India was terminated during 2021 due to involvement in corruption.

There were no reported public legal cases involving corruption.

206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices
For any ongoing investigations, please refer to note 19 on page 82.

Customer sustainability performance

Direct impact on UN Sustainable Development Goals

Material topic, SKF indicator: Customer sustainability performance
Management approach – General Disclosures 2016

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. As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from SKF customer solutions enabling climate change mitigation in these areas: renewable energy, electric vehicles, recycling industry and bearing remanufacturing. The total revenues of these areas amounted to SEK 6,8 billion in 2021.

SEK billion	2021	2020	2019
Total revenues from renewable energy, electric vehicles, recycling industry and bearing remanufacturing	6.8	6.6[1]	5.2

1) Previously published figures for 2020 have been restated to reflect a change in classification.

Climate impact and energy

Direct impact on UN Sustainable Development Goals

Material topics – GRI 302: Energy 2016 and GRI 305: Emissions 2016
Management approach – General Disclosures 2016

103-1 Materiality and boundaries

Climate change presents a critical challenge for businesses, governments and society. The ability of SKF to run its operations and supply chain in a highly energy and carbon efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. At the same time, the Group focus on developing and offering customer solutions that enable energy efficiency and greenhouse gas reductions is a key part of the overall strategy.

The Group therefore focuses on improving energy efficiency and driving down GHG emissions from its own operations, its extended supply chain as well as helping to enable improvements for its customers.

103-2–103-3 Management approach, its components and evaluation

In July 2021, SKF signed up to the Science Based Targets initiative (SBTi) and committed that all its climate targets shall be in line with the Paris Agreement to reach net zero global emissions by 2050 at the latest, to limit global warming to 1.5°C.

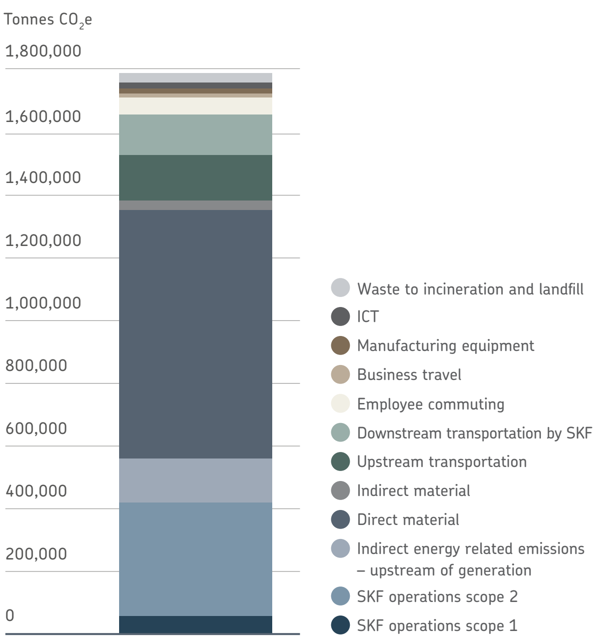
The Group's climate objectives are based on this commitment and a comprehensive understanding of SKF's life cycle greenhouse gas emissions. The graph on the next page shows an estimation of all relevant GHG impacts from SKF in 2019 from raw material extraction to finished product at the customer.

In line with this, during 2021 SKF announced its goal to achieve net zero greenhouse gas emissions (from raw material to finished product delivered to the customer) by 2050 – adding all relevant upstream scope 3 impacts to the existing scope 1, 2 and 3 impacts which SKF already reports and addresses. This goal includes and incorporates a number of sub-goals and interim targets such as the existing goals for 40% reduction in CO_2 emissions/tonnes sold product by 2025, the 40% reduction in CO_2 per tonne of goods shipped by 2025 and net zero SKF operations by 2030 (scope 1 and 2). It also introduces a number of new interim (2025, 2030, 2035 and 2040) goals which are summarized in the table below.

As part of this updated approach and in order to engage with other stakeholders to drive change, SKF joined the SteelZero and ResponsibleSteel multi-stakeholder initiatives in 2021.

	Purchased direct material	Logistics	Other up-stream impacts	SKF operations
GHG Reporting Scope	Scope 3 – upstream, expect logistics both upstream and downstream			Scope 1 & 2
2025	• ISO 50001 for energy intensive suppliers. • 15% reduction in emissions from forging and ring suppliers, base year 2019.	• 40% reduction in CO_2 emissions per tonne of goods shipped to end customer, base year 2015.	• Ambition to limit GHG for business travel to <50% of 2019 figure. • Goals and follow up defined for all other relevant emissions.	• 40% reduction of CO_2 emissions from manufacturing per tonne of bearings sold, base year 2015. • 5% year on year improvement in energy efficiency.
2030	• 32% reduction in emissions from direct material, base year 2019. • SteelZero goals met or exceeded for steel suppliers.	35% reduction in transport related greenhouse gas emissions, base year 2019.	TBD	**Net zero emissions for all SKF operations.**
2035	43% reduction in emissions from direct material, base year 2019.	55% reduction in transport related greenhouse gas emissions, base year 2019.	TBD	
2040	60% reduction in emissions from direct material, base year 2019.	77% reduction in transport related greenhouse gas emissions, base year 2019.	TBD	
2050	**Net zero emissions**			

Estimated GHG emissions (tonnes), base year 2019



A deeper explanation of the overall approach can be found on SKF.com/decarbonizing.

SKF is working to establish robust reporting approaches for those aspects of the new goals which we have not previously reported. The Group will increase the scope of reporting to include all these aspects over the coming two to three years, with highest priority on the most significant impacts (direct material sourcing).

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.

SKF's own operations

In 2020, SKF announced the objective for manufacturing and other operations to achieve net zero GHG emissions by 2030. This relates to scope 1 and 2 emissions and 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 joined the RE100 initiative – a signal that the Group intends to source 100% renewable electricity by 2030.

In 2021, SKF used some 1,772 GWh of energy in its manufacturing operations, which has resulted in around 369,881 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 50001:2018. The certificate covers the 45 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 applies a Group wide energy target to all units within the scope of the ISO 50001 standard. In 2021, 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 2021, the performance against this target was –1.7% vs. the –5.0% target. Energy performance improved in 2021, although not enough to reach the target. This was mainly due to supply chain disruptions caused by the COVID-19 pandemic which had a negative impact on production and energy efficiency.

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 and when 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).

Raw material and components
As seen in the graph above, the emissions from raw material and components (direct materials) are typically the most significant of all 'cradle to customer gate' emissions.

For several years, SKF has worked to influence energy intensive suppliers by requiring them 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 and 2021, SKF has increased its focus on driving reductions related to raw materials and components. The Group is working with the 13 largest steel suppliers (representing 80% of total steel sourcing by weight) and the 15 largest suppliers of steel forgings (representing 45% of total forging supply).

SKF has started to focus on this because steel and forgings are by far SKF's most energy and carbon intensive suppliers and steel represents more than 95% of weight total direct material purchased by the 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 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.

During 2021, SKF started the process to inform and engage the direct material suppliers in the scope of the Groups new net zero 2050 objective and this work will continue through 2022.

The scope 3 direct material figures presented in this report represent around 72,6% of the estimated total for this scope (steel, rings, rolling elements). In line with the Groups net zero 2050 strategy, SKF will systematically increase the scope of reporting GHG emissions related to its significant direct material suppliers in the next few years, with the aim to have at least 95% coverage by 2025.

Business travel
SKF monitors CO_2 emissions from the large majority of business travel undertaken by its employees. Included in the scope are Argentina, Brazil, Canada, Chile, China, Europe, India, Mexico, Uruguay and USA. In August 2020, SKF announced the ambition to reduce CO_2 emissions from business travel by limiting the amount of CO_2 from business travel at 50% of the full year 2019. The ambition commits to stay below this ceiling each year for the coming several years and will be achieved by significantly increasing the use of digital collaboration in order to reduce the need for business travel.

Other upstream impacts
As described in the carbon footprint graph above and Position Paper referred to previously, there are several other upstream GHG impacts associated with SKF's activities. These include upstream energy related emissions, information and communications technology (ICT), employee commuting and indirect material purchasing. These impacts are much less significant compared to those from SKF operations, direct material purchasing and logistics. In total, they make up around 15% of the total footprint, nevertheless, as part of the Group's net zero 2050 commitment, SKF will work to find pragmatic ways to report and drive toward net zero also in these aspects.

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 (customer sustainability performance), 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

Source, GWh	2021	2020	2019
LPG	18	16	19
Natural gas	298	255	288
Fuel oil	8	5	6
Renewable energy generated onsite[1)]	32	20	23
District heating and cooling	141	118	112
Electricity	1,275	1,146	1,248
Total energy use	**1,772**	**1,561**	**1,696**

1) includes electricity procured with Power Purchase Agreement (PPA)

302-3 Energy intensity
This disclosure includes all energy generating scope 1 and 2 emissions for the SKF Group, and revenues in SEK million for the SKF Group. In this disclosure, the data have not been adjusted for acquisitions and divestments.

GWh per SEK million	2021	2020	2019
Total energy use within the organization (GWh)	1,772	1,561	1,696
Revenues, net sales (MSEK)	81,732	74,852	86,013
Energy intensity (GWh/SEK million x 1,000)	**21.68**	**20.85**	**19.72**

302-4 Reduction of energy consumption

As mentioned, SKF uses a specific target and KPI to drive improved energy performance at the main manufacturing sites. 2021 showed a -1.7% improvement against this target indicating an underlying energy efficiency saving of 15.5 GWh.

305-1 Direct (scope 1) GHG emissions and
305-2 Energy indirect (scope 2) GHG emissions

During 2021, SKF purchased a small quantity of carbon offsets to cover the last few tonnes of scope 1 emissions (for building heat) to make SKF's factory in Tudela, Spain, net zero. During 2021, SKF switched from gas fired heating to renewable electric power heat pump 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 and 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	2021	2020	2019
Direct (scope 1) GHG emissions CO_2e emissions	56,478	50,285	58,606
Energy indirect (scope 2) GHG emissions CO_2e emissions market-based	313,403	331,509	361,960
Total CO_2e emissions, market-based	**369,881**	**381,794**	**420,566**

Location-based, tonnes	2021	2020	2019
Direct (scope 1) GHG emissions CO_2e emissions	56,478	50,285	58,606
Energy indirect (scope 2) GHG emissions CO_2e emissions, location-based	525,849	466,248	501,067
Total CO_2e emissions, location-based	**582,327**	**516,532**	**559,673**

Sources of emissions

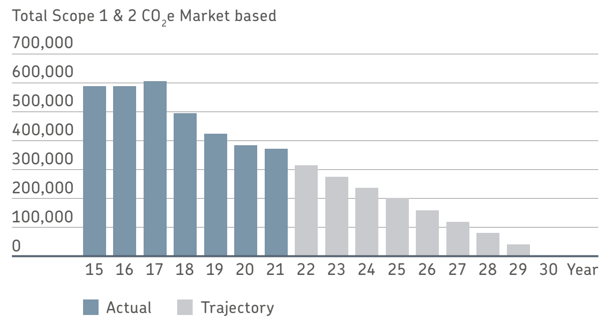
Tonnes, conversion factors in tonne per unit in brackets	2021	2020	2019
Direct (scope 1) LPG (3.0 per tonne)	3,890	3,468	3,996
Fuel oil (3.2 per tonne)	1,937	1,302	1,565
Natural gas (0.002 per cubic meter)	50,651	45,515	53,045
Supplied (scope 2), market-based Electricity	288,589	310,282	341,931
District heating and cooling	24,813	21,226	20,030
Total CO_2e emissions, market-based	**369,881**	**381,794**	**420,566**

Scope 1 emission factors have been derived from the UK DEFRA standard, except Gothenburg where the local RECERT standard has been applied.

Scope 2 contractual emission factors have been provided by relevant electricity suppliers. Scope 2 location based emission factors have taken from IEA, DEFRA and other recognized data sources.

DEFRA Standard used for district heat except certain sites in Germany, Sweden and Poland where specific emission factors from suppliers are provided by the local district heat provider.

Progress towards net zero Goal



305-3 Other indirect (scope 3) GHG emissions

Under scope 3 emissions, SKF reports CO_2e 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 13 major suppliers of steel and the 15 major suppliers of forgings to SKF. This scope covers 33% by volume of total direct material spend and 80% by weight of steel purchased (an increased reporting scope compared to 2020 of 16% and 27% respectively. This is only the second year in which SKF reports this information and the data should be considered as indicative rather than a 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	2021
Scope 3 direct material supplier emissions in scope[1)]	770,246
Scope 3 direct material supplier emissions total[2)]	1,060,424

1) See text for description of scope.
2) Total estimated emissions related to steel, forging, rolling elements

Goods transportation data and related CO_2e emissions

	2021	2020[1)]	2019[1)]	2015[1)]
CO_2e emissions from transports scope 3, (tonnes)	226,666	144,466	173,459	153,031
Transport works (tonnes shipped)	422,720	340,934	392,224	352,641

1) Scope of reporting was increased and figure for 2020 recalculated, previous figures re-stated accordingly.

Shipped volumes and emissions per transport mode 2021

	Road	Sea	Air	Rail
Transport works, tonnes shipped, % of total	70.2	26.1	1.6	2.1
CO_2e emissions, % of total	21.0	29.0	47.5	2.5
Tonne * kilometer, % of total	11.0	80.6	3.1	5.3

Business travel (air travel)

	2021	2020	2019
CO_2e emissions (tonnes) from air travel (scope 3)	3,990	3,584	12,954

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)

Intensity in tonnes unless otherwise stated	2021	2020[1]	2019[1]	2015[1]
CO_2e emissions – bearings & units factories	308,613	323,750	352,376	482,956
Weight bearings and units sold[2]	429,825	367,684	388,565	336,803
GHG emissions intensity CO_2e emissions/tonnes sold products	0.72	0.88	0.91	1.43
Change vs 2015, %	–50%	–39	–37	—

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)

	2021	2020[1]	2019[1]	2015[1]
GHG emissions intensity kg CO_2e emissions per tonnes shipped goods to end customer[2]	536	424	442	434
Change vs 2015, %	24	–2	2	—

1) Scope of reporting was increased in 2020 and previous years restated accordingly. Restated 2015–2020.

305-5 Reduction of GHG emissions (scope 1 and 2)

Following the good trend of recent years, absolute CO_2 emissions were again reduced in 2021. This is despite a sharp increase in production output vs. 2020 and is due to a combination of factors. Notably further increases in energy efficiency and an increased share of renewable energy.

Goods transportation (scope 3)

Continued problems related to COVID-19, material shortages and other disruptions made 2021 an extremely challenging year for the global logistics industry. This was reflected in a disappointing result for SKF's goods transportation CO_2 performance. The KPI (CO_2/Tonne KM) increased by 24% and this was largely due to the unavoidable use of air-freight to make up for inadequacy in the normal transport modes (mainly sea-freight). Going forward, SKF's work to regionalise its manufacturing and supply chain footprint will result in reduced need for intercontinental transports.

Other scope 3 impacts

During 2021, the number of direct material suppliers in scope has increased compared to 2020, from 10 to 28. SKF has focused on energy intensive suppliers, with the higher GHG emissions (steel, forgings). All investigated suppliers have been requested to share their GHG reduction target (CO_2 mainly). After the first screening, the average target for steel makers is to reduce 20% by 2030 (vs.2019); for the others the planned reduction is 13%. SKF's new net zero 2050 strategy will be communicated to the suppliers to push for more aggressive targets and for further reductions.

As the scope of reporting is still evolving significantly, it is not yet possible to comment on the performance trend for most of other impacts such as ICT, employee commuting and indirect material purchasing.

Material, Water, Effluents and waste, Environmental compliance

Direct impact on UN Sustainable Development Goals

Material topics – GRI 301: Material 2016, GRI 303: Water and Effluents 2018, GRI 306: Waste 2020
GRI 307: Environmental compliance 2016
Management approach – General Disclosures 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 2021, the Group sourced about 582,000 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 2021 vs. 2020, %
SKF Shanghai Bearings Co, Deep groove ball bearings	–23
Nankou	–1
Dalian, Large size bearings	10
Dalian, Medium size bearings	–42
Jakarta	–22
Ahmedabad	–15
Bangalore, Deep groove ball bearings	–12
Haridwar	–21
Mysore	–17
Puebla, Hub units	24
Tudela	–12
Shanghai, Automotive Technologies Co	20

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/ar2021.

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 135.

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.

Defined Group level objectives

- 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 2021, SKF had eleven such sites.

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, therefore 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	2021	2020	2019
Metal as raw material from external suppliers	582,062	460,971	470,305
Rubber as raw material from external suppliers	5,308	3,795	3,913
Oils	8,376	7,175	7,813
Greases	2,524	2,153	2,138

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	2021	2020	2019
VOC (Organic solvents) total use	1,144	970	1,069
VOC (Organic solvents) emitted to the atmosphere (washing of bearings and components in bearings manufacturing[1])	148	242	214

1) Past data are restated for acquired and 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 2021, SKF had eleven such sites.

Water (1,000 N cubic meters)	2021[2)3)]	2020[2)3)]	2019[2)]
Water from municipal supply	1,902	2,062	1,796
Water use from other source[1)]	1,117	1,075	921
Water withdrawal total	3,020	3,137	2,717

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, 306-3, 306-4, 306-5 Waste by type and disposal method

SKF works to avoid waste generation in a number of ways. Upstream these include the use of near-net shape production technologies such as cold rolling (minimizing the amount of material which needs to be removed in subsequent processes). Examples within SKF operations include avoidance of scrap and excessive material use through optimized processes and downstream SKF works with its remanufacturing approach to extend the life of SKF products and the systems in which they operate – thereby avoiding waste.

Almost all recycling, reuse and recovery of waste which is diverted from disposal is undertaken by external companies (steel plants, waste management and recycling companies etc.). SKF is now starting to perform recycling (reconditioning) of lubrication oil at some sites using SKF's RecondOil solution, but this is not yet reported separately.

As part of the Group's overall responsible sourcing approach, SKF requires that waste management companies and other companies making use of SKF's residual materials operate in full compliance with the SKF code of conduct and therefore all applicable local legislation,

The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. Local objectives have been required by the 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/ar2021. SKF reports all significant residuals and waste site-by-site for all relevant SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. The data on weight of waste generated comes from both SKF measurements and those made by the waste management companies – depending on the fraction and the location.

Non-hazardous waste (tonnes unless otherwise stated)	2021	2020	2019
Total residuals generated	142,050	125,564	138,349
Recycled or reused	117,005	102,450	114,571
Recycling rate, %	82	82	83
Incinerated with energy recovery	8,691	8,825	10,079
Incinerated without energy recovery	1,364	1,930	1,647
Landfill, excl. grinding swarf	14,990	12,356	12,051

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 2021, the rate of recycled or reused grinding swarf decreased to 61%. This result was impacted by problems in the recycling supply chain in some regions.

Hazardous waste, grinding swarf (tonnes unless otherwise stated)	2021	2020	2019
Grinding swarf generated	24,063	19,614	22,054
Recycled or reused	14,623	12,420	14,281
Recycling rate, %	61	63	65
Incinerated, heat recovery[1]	1,581	1,491	1,637
Incinerated, no recovery[1]	4,040	3,366	2,972
Landfill[1]	3,819	2,238	3,163

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 2021.

Employment

Material topic – GRI 401: Employment 2016
Management approach – General Disclosures 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 focus is on the Group and its subsidiaries, where SKF works with central recruitment processes, training, leadership, people development and an excellent overall employee experience to proactively safeguard the need of future capabilities.

103-2–103-3 Management approach, its components and evaluation

SKF's People Experience has been centralized and is since 2020 represented in SKF's Group Management by the Senior Vice President People Experience. Group People Experience'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 People Experience activities driven on Group, business area, region, country and site levels. Guiding the work is the Group People Experience vision "People make it happen".

People Experience 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 EWC 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.

People Experience has a strong local presence. However, digitalization and synergies in operations and business has increased the need for and enabled a more centralized and regionalized approach to processes, systems, operational model and organization. New common systems are being put in place to facilitate this work.

The top risk in the workforce area is the ability 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 skill deficit in the labor market. Examples of challenges are within engineering, digitalization and deep technical expertise in the core technologies. There is a fierce competition in the labor market, where the success of companies is dependent of the ability to attract, develop and retain critical competences and capabilities for the future. During 2021, the deficit of critical capabilities has somewhat increased, as more companies are actively recruiting when the pandemic situation is slowly stabilizing.

To mitigate the risks SKF continues to strengthen and develop the recruitment practices and our position of being an attractive employer. To clearly demonstrate the importance of putting the employees in the center of everything we do, the Human Resource department has transferred to become "People Experience", in which customer centricity and employee experience steers the agenda. An important part is to further engage the workforce in making SKF a great place to work, the quarterly employee satisfaction survey (SKF Team Pulse) is now launched globally, and has been complimented with an AI based platform in which all employees have been invited into dialogue with the SKF CEO.
To strengthen leadership at SKF a new model has been introduced, in which focus is on leading yourself, leading others and leading the business. The model will be a good base to further develop leadership in SKF. End of 2021 SKF launched a new system and way of working with performance development, having continuous alignment and feedback between managers and employees improved.
In the pipeline for 2022 examples of projects progressing are to modernize the learning landscape within SKF and review our total reward and recognition design.

401-1 New employee hires and employee turnover

Employee retention rate by region (excluding lay offs)

%	2021			2020	2019
	Women	Men	Total		
Asia and Pacific	84.8	90.4	89.2	91.0	88
Middle East and Africa	87.1	92.3	90.9	93.8	96
North America	88.3	87.9	88.0	92.5	90
Latin America	83.3	88.0	87.5	89.5	93
Eastern and Central Europe	86.1	90.1	88.6	90.6	91
Western Europe	96.8	97.7	97.5	97.2	97
The Group	**90.2**	**93.4**	**92.7**	**94.0**	**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

%	2021			2020	2019
	Women	Men	Total		
Asia and Pacific	17.6	12.4	13.5	14.5	15
Middle East and Africa	14.7	10.4	12.0	24.6	13
North America	17.3	16.4	16.5	17.0	17
Latin America	22.6	18.4	18.9	19.8	18
Eastern and Central Europe	14.9	11.2	16.4	13.5	10
Western Europe	6.6	4.8	5.1	4.5	4
The Group	**13.0**	**9.7**	**10.3**	**10.6**	**10**

New hires by region

Total number	2021			Women as share of total, %
	Women	Men	Total	
Asia and Pacific	553	1,599	2,152	26%
Middle East and Africa	14	35	49	29%
North America	412	832	1,244	33%
Latin America	128	652	780	16%
Eastern and Central Europe	412	602	1,014	41%
Western Europe	280	872	1152	24%
The Group	**1,799**	**4,592**	**6,391**	**28%**

Labour management relations

Direct impact on
UN Sustainable
Development Goals

Material topic – GRI 402: Labour management relations 2016
Management approach – General Disclosures 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 the 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 openly discuss labor issues and to share what is on the Groups' agenda. In addition to the SKF WUC meeting, an EWC meeting involving only European delegates is set up in conjunction to the WUC. All countries fulfilling the EWC/WUC agreement requirements and with major operations, have the right to send appointed union officials or observers to the SKF EWC/WUC meeting. In 2021, the annual EWC and WUC meeting was held in October, in an online format with online translations, due to travel restrictions during the COVID-19 pandemic. Due to the change in management, one extra meeting for both EWC and WUC was held online in spring 2021.

The focus areas were employment, environment, health & 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 Union Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

Occupational health and safety

Direct impact on UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING
8 DECENT WORK AND ECONOMIC GROWTH

Material topic – GRI 403: Occupational health and safety 2018
Management approach – General Disclosures 2016

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. In blue-collar work roles the focus 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 135. In addition, psychological health and wellbeing are increasingly material across all job roles within the company.

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 imporovement rate has slowed down in recent years, 2021 showed an improvement of 11% in the recordable accident rate vs. 2020. In 2021, the accident rate was 0.67 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.

The overall EHS governance in SKF emphasizes line ownership for health and safety. EHS managers are appointed 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.

During 2021, SKF has focused on developing and promoting a Behavior Based Safety (BBS) approach. BBS works on the psychological aspects of safety behavior – helping to promote a proactive and self driven approach to improving safety in the workplace. BBS has already been deployed in a number of SKF units and this has correlated with a substantial improvement in safety performance.

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 regionalized 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 People Experience have held 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 ISO 45001:2018 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, energy, 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 successfully completed the process updating the management system to the new ISO 45001:2018 standard in 2021, replacing OSHAS 18001 management standard which the Group had previously applied.

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 for more information on the management system and it's coverage.

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, energy, health and 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. A Group level Health and Safety Committee is also established with representatives from the World Union Council, Group EHS and Group People Experience. Normally this committee meets once per quarter, however during the COVID-19 pandemic it has met on a bi-weekly basis to address specific related issues.

During 2021, SKF's WUC, Group EHS and Group People Experience have continued to work to increase the effectiveness of the local committees through updated procedures, guidance materials and training and awareness.

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.

During the COVID-19 pandemic, where possible, SKF has supported employees to get vaccinated for example, by offering on-site vaccinations or giving paid leave to get vaccinated.

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 page 135, Supplier 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 78%, or some 33,000 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 89% of consultants or agency workers under SKF's management control (around 4,000 people) are also covered by health and safety management systems. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a time 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 ISO 45001:2018 certification. Accidents reporting is divided by the total headcount, including agency workers and consultants. SKF is globally certified according to ISO 45001, 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, energy, health and safety policy and related Group instructions and requirements.

Read more on the certification on skf.com/45001.

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.

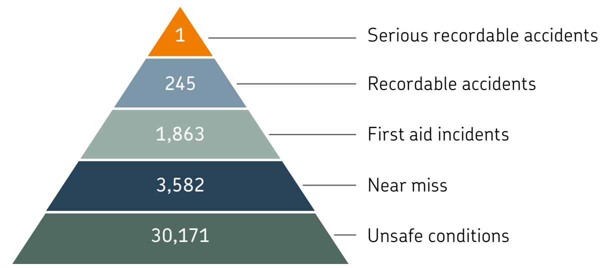
Health and safety data are collected on a quarterly basis using the Group's main reporting and consolidation tool.

The accident rate is calculated with R × 200,000/h, where R = number of recordable accidents and h = total hours worked.

	2021	2020	2019	2018	2017	2016	2015	2014
Accident rate for the Group	0.67	0.75	0.77	0.81	0.85	0.87	0.99	1.13
Rate of high consequence work related injuries	0.003	0.003	0.013	0.013	0.013	—	—	—

	2021	2020	2019
Work related fatalities	0	0	0
High consequence work accidents	1	1	5
Recordable accidents	245	252	281
First aid incidents	1,863	1,987	2,539
Near miss incidents	3,582	4,016	7,893
Unsafe conditions	30,171	20,988	14,498
Worked hours (x 200,000)	367	338	374

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 that an increasing attention to near miss incidents and unsafe conditions, would result in better risk mitigation and a reduced number of recordable and serious accidents.



Unsafe conditions are since 2019 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

Direct impact on UN Sustainable Development Goals

Material topic – GRI 404: Training and Education 2016
Management approach – General Disclosures 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 fast-changing global competitive landscape, it is a necessity to develop employees. SKF is working to improve our offer towards all employees. On top of current traditional learning methods we are adding focus on 24/7 self-learning, bringing together content from external and internal sources, recommending material based on interest, needs and peer activity. The lifelong learning approach is contributing to the development of individuals, SKF and society.

103-2–103-3 Management approach, its components and evaluation

Continuous learning and development is vital for SKF to stay 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.

To ensure that competence development supports 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 People Experience 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). During 2021 leadership expectations were clarified and is now the base for employee growth. The three Leadership pillars are; Develop Yourself, Develop Others, Develop the Business. Development activities can include, e.g. job rotation, shadowing, mentoring, and specific technical training. To support employee engagement, SKF Team Pulse has now been rolled out in SKF and includes all employees worldwide. Utilizing the joint resources of Group People Experience, 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.

During 2021 we have put further focus on upskilling our customer facing functions within sustainability and especially how customers can lower emissions when using SKF products. This work will continue during 2022 in close collaboration with Sales and Technical Academy.

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 14,000 white collar employee users in 2021.

During 2021 the performance development process and system has been reviewed leading to the implementation of a new way of working and system in 2022.

	2021		2020	
	Women	Men	Women	Men
Users with documented performance reviews in SKF's global system, %	91	92	90	89

Diversity and Equal Opportunity

Direct impact on UN Sustainable Development Goals

Material topic – GRI 405: Diversity and Equal Opportunity 2016
Management approach – General Disclosures 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.

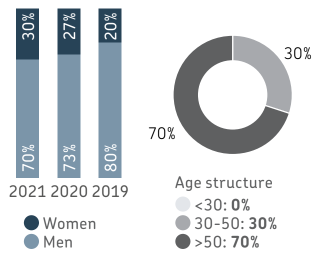
To keep delivering in times of change, SKF is dependent on its people. SKF needs a truly inclusive atmosphere where differences bring people together, rather than separating them. To stay competitive and attractive, SKF has, during 2021, put continued effort into gender diversity. Succeeding to achieve gender balance means organizations don't miss 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.

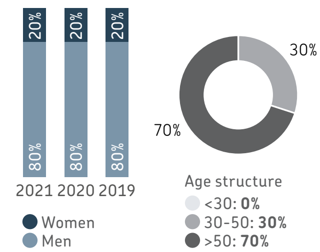
In 2021, activities and programs were continued to keep focus on improving equality. The virtual global programme Elevate, targeting women with leadership ambition started in the beginning of 2020, continued during 2021. To further strengthen our ability to attract talents and safeguard that we attract from a diverse talent pool, an AI tool for inclusive language was introduced. Additional initiatives have focused on building awareness on Diversity and Inclusion, such as monthly diversity activities for the global application engineering team, establishment of a DEI council for North America, and workshops held globally for close to 700 leaders.
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 the age structure at different categories within the organization. Information on minorities is not available.

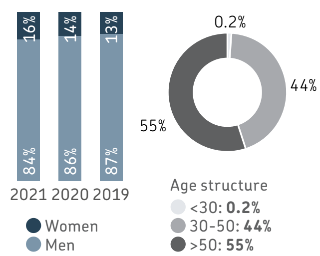
The Board
The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization. Please refer to page 144.



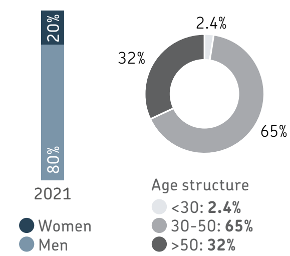
Group Management
Group Management is the operational management team of the SKF Group. Please refer to page 148.



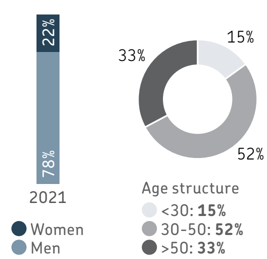
Higher management
Higher management refers to the around top 400 managers in the SKF Group. The actual number in this population changes over time.



Managers
Managers refers to the employees who have direct reports.[1)]



Total employees
Total employees refers to the total number of employees in SKF as per end of 2021.[1)]



1) New definition and data source from 2021 and therefore no data is presented for previous years.

405-2 Ratio of basic salary and remuneration of women to men

Average annualized basic salary[1)], %	2021
Women's average basic salary as percentage of men's – Senior Management	85%
Women's average basic salary as percentage of men's – Local Management	96%
Women's average basic salary as percentage of men's – Other Staff	82%

1) Applies to staff basic salaries from all countries of the Group. Salaries for Group Management and Blue Collars are excluded. Total remuneration could not be reported at Group level.

SKF Code of Conduct - Our working ethics commitment in relation to gender and pay requires that:
All employees are treated equally, fairly and with respect regardless of race, gender, age, national origin or nationality, disability, caste, religion, sexual orientation, union membership or political affiliation we provide non-discriminatory working conditions and we promote diversity, we ensure that wages and other related benefits meet at least the legal or industry minimum standard in the country in question. Wages and benefits are rendered in full compliance with laws and collective agreements

All employees at SKF are to be rewarded on the basis of their contribution to the companys success, i.e., salaries are to be individual, differentiated and based on the degree of difficulty of the position, together with the employee's experience of the task and fulfilment of the job requirements. SKF uses a position evaluation system – IPE (International Position Evaluation) – for salary setting to ensure internal equity and to pay people fairly. Salary setting also follows legislation and/or union agreements as locally applicable. Equal pay audits are carried out locally adhering to country regulations.

Differences in the gender pay ratio of the company are not due to unequal pay for equal work. A higher proportion of men in higher level positions, as well as a higher proportion of women in part-time work, are contributing to the total pay difference between women and men. SKF is striving for increased gender diversity on all levels and closing the gender pay gap.

Human rights

Direct impact on UN Sustainable Development Goals

Material topics: Non-discrimination 2016, Freedom of association and collective bargaining 2016, Child labour 2016, Forced or compulsory labour 2016, Human rights assessments 2016 Management approach – General Disclosures 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 87 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 SKF's operations, its distribution, sales and end-use of products and services.

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, Parts 1, 5 and 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.

103-2–103-3 Management approach, its components and evaluation

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.

Salient human rights 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 equality 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. 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.

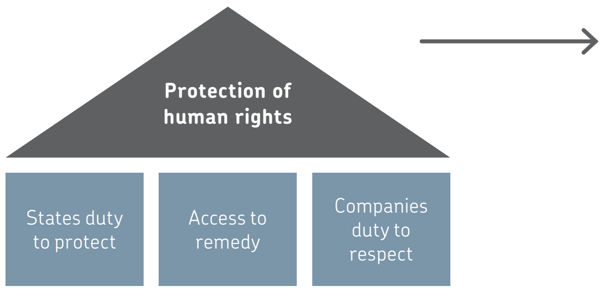
Steel and steel components represent by far the most significant material input to SKF in terms of value and weight. The steel supply chain is complex and highly globalized and may involve human rights risks particularly at the top end of the supply chain. Typically, SKF has no direct business relationship with actors beyond tier 1 or 2 and so driving change unilaterally is not feasible. Therefore, in 2021, SKF joined many other actors in the steel value chain as well as representatives from civil society in the Responsible Steel Initiative (RSI). The RSI is a multistakeholder initiative which works to identify and address salient human rights (along with environmental) risks in the full steel value chain – from scrap or raw material to finished steel.

Trends and patterns 2021

At the annual conference, SKF WUC and the Group focused on health, safety, decent working conditions, COVID-19 control measures and behaviour based safety.

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,



Duty of companies
- Policy commitment
- Human rights due diligence
  - – Assessing impact
  - – Act on findings
  - – Tracking effectiveness
  - – Communicate
- Stakeholder engagement
- Remediation

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 2021.

406-1 Incidents of discrimination and corrective actions taken

During 2021, 99 reports related to discrimination and harassment have been received through the SKF Ethics & Compliance Reporting Line.

These cases are normally assigned to local investigators (mainly People Experience country leads) and actions are taken on a local level.

SKF has set a process in place during 2021 so that concerns about harassment and discrimination that are reported locally (e.g. via email or in-person to People Experience) are also reported and documented centrally.

In addition, SKF works to establish a corporate harmonization, adhering local labor laws, in regards of setting appropriate actions as result of the findings of local investigations.

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 2021, SKF found no actual cases of child labour at its own operations and one case at SKF's supplier in China (found at the end of 2021). The problem has been immediately solved by the supplier, but SKF decided to stop business with that supplier.

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 2021, two cases of forced or bonded labour have been identified in India. Immediate corrective actions have been taken and the concerns were addressed. The two suppliers are now under monitoring.

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

SKF's manufacturing units are subject to an ethics review including relevant aspects on the Code of Conduct with a risk-based periodicity. In 2021, eleven such reviews were carried out. In addition, sites undergo audits on specific topics and most audits related to human rights focus on health and safety. SKF also carries out site audits at suppliers. Read more on the next page.

Supplier assessments

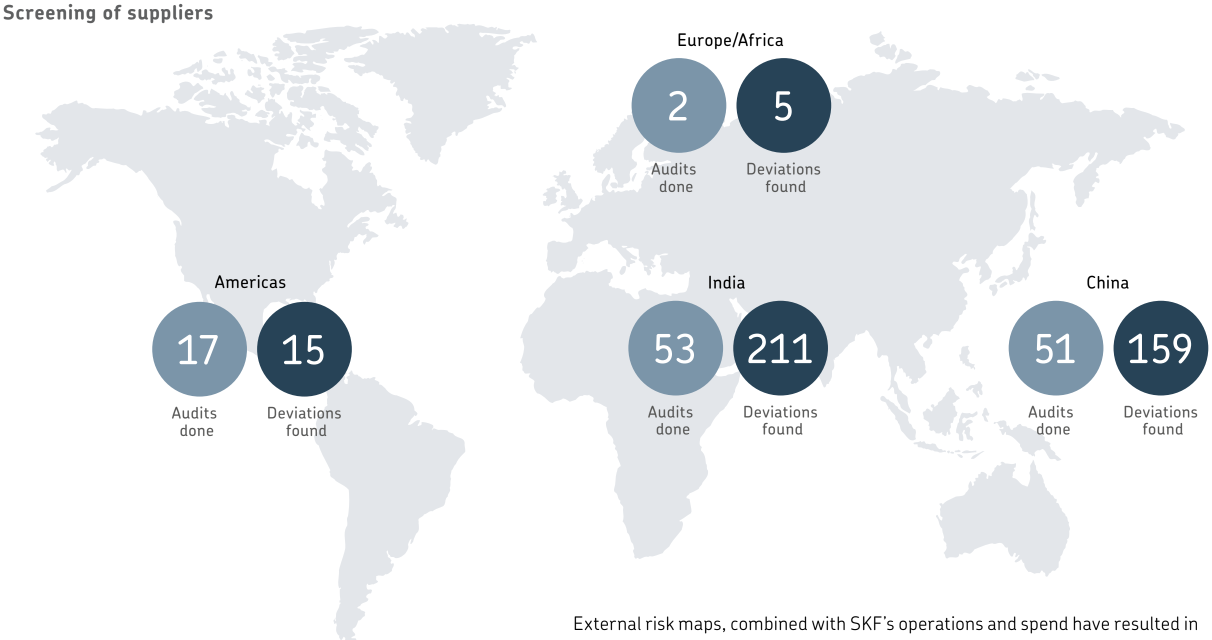
Direct impact on UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Material topics – GRI 414: Supplier social assessment 2016 and GRI 308: Supplier environmental assessment 2016 Management approach – General Disclosures 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.

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.

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% 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 2021, unacceptable deviations were found at ten suppliers in India and China. nine 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, most of the main problems have been solved and seven of the ten suppliers were confirmed as business approved. Contracts were (or will be soon) terminated with the other three suppliers; sourcing with them has already been stopped, or will finish within 2022. One of these three is a case of child labor that has been found at the end of 2021 after the last RSC. The problem has been immediately solved by the supplier, but SKF has decided to stop business with it; progress will be followed up during the next RSC meeting.

During 2021, 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, health and safety, pollution and waste handling, fire license 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.

2021 (like 2020) was heavily impacted by the COVID-19 pandemic and major travel restrictions, in spite of this 123 suppliers have been physically audited. 20 out of 123 have been audited without negative impact identified (no critical deviations). With the 103 other suppliers, all have confirmed improvements, although with one of them business exit decision has been taken by SKF. 32 new suppliers were audited on site using environmental and social criteria, and all were approved to supply SKF.

414-2 Negative social impacts in the supply chain and actions taken

In 2021, 326 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 2021, 64 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 as well as sub-contractors and service providers. Around 51 suppliers attended the training in India and 12 in China. 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 by SKF employees when visiting the suppliers.

Socioeconomic compliance

Direct impact on UN Sustainable Development Goals

11 SUSTAINABLE CITIES AND COMMUNITIES

Material topic – GRI 419: Socioeconomic compliance 2016
Management approach – General Disclosures 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 online training courses, which are mandatory for all employees having an SKF email address, with content about issues such as Data privacy (88%), Export Control (85%) Conflict of Interest (78%) Corruption (87%), Workplace harassment (88%) Diversity & Inclusion (86%), Reporting ethical concerns (88%) 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 2022.

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 closely the development and recommendations from the OECD and the European Union as regards tax transparency. In line with the OECD 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.

The EU Taxonomy

The EU Taxonomy is a classification system to help define environmentally sustainable economic activities to support the transition to an economy consistent with the EU's environmental objectives.

A cross-functional team with members from sustainability, finance and investor relations has investigated the EU Taxonomy requirements and its relevance to SKF based on the EU Taxonomy Regulation 2020/852 and the related delegated regulations and annexes.

The conclusion from the analysis is that since the manufacturing of components is currently not included in the economic activities covered by the EU Taxonomy, there is no material eligible turnover, CAPEX or OPEX for SKF.

Turnover

The interpretation of Annexes 1–5 of the Delegated regulations /2021/4987 section 1.1.1. is that SKF has no eligible turnover, as the Group's activities neither qualify as enabling nor are taxonomy eligible themselves, since the manufacturing of components is not covered.

CAPEX

The interpretation of Annexes 1–5 of the Delegated regulations /2021/4987 section 1.1.2.2. (a,b) is that SKF has no eligible CAPEX, since the manufacturing of components is not covered. According to paragraph (c) SKF has some eligible CAPEX related to energy efficiency of buildings and solar panels, but the amount is not considered to be material as it represents less than 1% of the Group's total CAPEX.

OPEX

The interpretation of Annexes 1-5 of the Delegated regulations /2021/4987 section 1.1.3.2. is that SKF has no eligible OPEX, since the manufacturing of components is not covered.

Contextual information

The EU Taxonomy does not cover SKF's operations as described above. Nevertheless, SKF takes sustainability and climate change seriously and has been doing so for many years. As described on pages 13 and 19 in this report, the Group has during 2021 defined an even higher ambition level with the target to have net zero greenhouse gas emissions in the full supply chain by 2050.

Since the launch in the end of 2019, the Group has now allocated the full EUR 300 million Green Bond to projects that support the transition to low-carbon, climate resilient growth and lower environmental impacts. This is an important part of SKF's focus on reducing its own emissions as well as increasing investments in R&D, production, testing and remanufacturing capacity for products used in industries such as renewable energy generation, electric vehicles

Auditor's Limited Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report

To 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 SKF Sustainability Report for the year 2021. The Company has defined the scope of the Sustainability Report on page 2 and the Statutory Sustainability Report on page 110.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive 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 respectively. The criteria are defined on page 110 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative), 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 relevant to the preparation of a Sustainability Report that is free from material misstatements, 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 express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented and does not cover 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. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 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.

The 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 of AB SKF in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria 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 Executive Management.

A Statutory Sustainability Report has been prepared.

Gothenburg, 2 March 2022
Deloitte AB

Hans Warén
Authorised Public Accountant

Lennart Nordqvist
Expert Member of FAR

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 46 of the Administration Report for the Group in the Annual Report 2021.

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 2021 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.

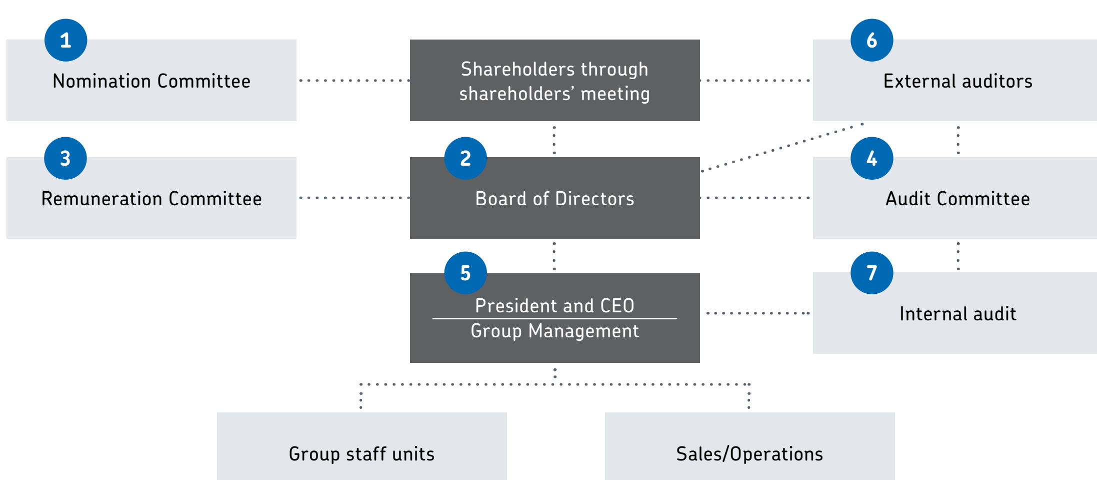
General information about how the company is managed

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.

As per 31 December 2021, SKF was 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 People Experience and Group Legal, Reinsurance, Brand Protection and Real Estate & Facility Management, see pages 148–149 in the Annual Report 2021. Each Group staff unit had its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area. The Director of Sustainability, reported directly to the Chief Executive Officer and had 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 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 8 September 2021, 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 2022:

- Marcus Wallenberg, FAM
- Anders Algotsson, AFA Försäkring
- Anders Jonsson, Skandia
- Joachim Spetz, 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 2022:

- 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
- 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 2022.

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 2021, 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 2021 resolved to appoint Board members in accordance with the Nomination Committee's proposal.

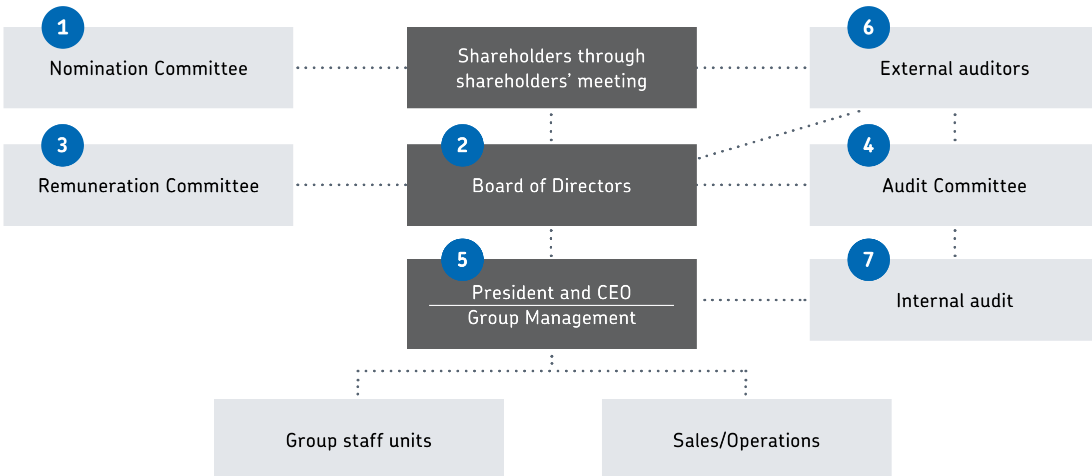
Eight Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2021. Alrik Danielson and Ronnie Leten resigned from the Board. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the 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 2021 can be found in the Annual Report 2021, 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	•	•
Barb Samardzich	•	•
Colleen Repplier	•	•
Geert Follens	•	•
Håkan Buskhe	•	
Susanna Schneeberger	•	•
Rickard Gustafson		•



Activities of the Board of Directors

The Board held nine meetings in 2021. 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)	9/9
Hock Goh	9/9
Alrik Danielson (resigned in March 2021)	2/3
Ronnie Leten (resigned in March 2021)	3/3
Barb Samardzich	9/9
Colleen Repplier	9/9
Geert Follens	9/9
Håkan Buskhe	9/9
Susanna Schneeberger	9/9
Rickard Gustafson (elected in March 2021)	6/6
Jonny Hilbert	9/9
Zarko Djurovic	9/9
Thomas Eliasson (appointed in March 2021)	6/6
Steve Norrman (appointed in October 2021)	2/2
Kennet Carlsson (resigned in October 2021)	7/7
Claes Palm (resigned in March 2021)	3/3

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 2021 include i.a. appointment of new CEO, 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.

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, subject to COVID-19-related restrictions and recommendations.

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 Håkan Buskhe and Colleen Repplier.

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 five meetings in 2021. 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)	5/5
Håkan Buskhe	5/5
Ronnie Leten (resigned in March 2021)	2/2
Colleen Repplier (elected in March 2021)	3/3

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 Geert Follens.

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 2021. 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)	6/6
Ronnie Leten (resigned in March 2021)	1/1
Geert Follens (elected in March 2021)	5/5

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

Rickard Gustafson

Rickard Gustafson, President and CEO of AB SKF since June 2021 (succeeding Alrik Danielson).
Board member of AB SKF's Board since 2021. Born 1964.

Education and job experience

Master of science from the Institute of Technology at Linköping University. His previous senior positions include president and CEO of the SAS Group, CEO of the insurance company Codan/Trygg-Hansa and several positions within General Electric.

Other assignments

Board member of Telia Company and Confederation of Swedish Enterprise.

Shareholding (own and/or held by related parties) as of 31 December 2021

4,350 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 2021, Deloitte AB (Deloitte) was elected as auditor for the time up to the closing of the Annual General Meeting in 2025, succeeding PricewaterhouseCoopers AB. Hans Warén is the auditor in charge.

Hans Warén has many years of experience as auditor in a number of other listed companies, and is currently the lead auditor for Axfood, Industrivärden and Trelleborg.

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. Deloitte 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.

Deloitte has during 2021 been involved in matters besides the audit assignment. These matters have primarily concerned tax services. The total fees for Deloitte's services besides auditing in 2021 amount to MSEK 10.

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 auditors in 2021 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 2021

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, CTEK AB and Anocca AB. Board member of Investor AB and Mellby Gård AB.

Shareholding (own and/or held by related parties) 37,000 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 and Santos Australia.

Shareholding (own and/or held by related parties) 0

3 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 and Bombardier Recreational Products.

Shareholding (own and/or held by related parties) 0

4 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

5 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

6 Håkan Buskhe

Board member since 2020
Born 1963

Education and job experience
Master of Science, Licentiate of E ngineering, Chalmers University of Technology. CEO of FAM AB, owned by Wallenberg Investments AB. His previous senior postitions include CEO of Saab AB, 2010–2019 and CEO of E.ON Nordic AB, 2008–2010.

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

7 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 Chief Digital Officer and executive board member of the KION Group, 2018–2020, CEO of Demag Cranes & Components, 2015–2018, and various positions in the Trelleborg Group 2007–2014.

Other assignments
Board member of Concentric AB and Hempel A/S.

Shareholding (own and/or held by related parties) 1,000 SKF B

8 Rickard Gustafson

President and Chief Executive Officer of AB SKF. For more details, see page 149.

EMPLOYEE REPRESENTATIVES

9 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

10 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

11 Thomas Eliasson

Deputy Board member since 2021. Born 1965

Education and job experience
Employed in the SKF Group since 1984.

Other assignments
Chief Safety Representative and Board member of Unionen at SKF in Gothenburg.

Shareholding (own and/or held by related parties) 0

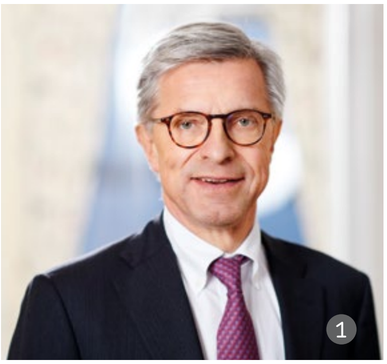
12 Steve Norrman

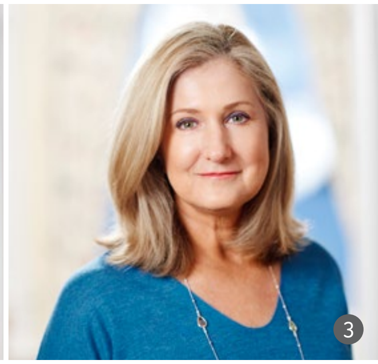
Deputy Board member since 2021. Born 1965

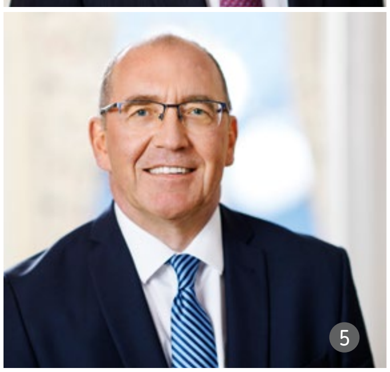
Education and job experience
Employed in the SKF Group since 1994.

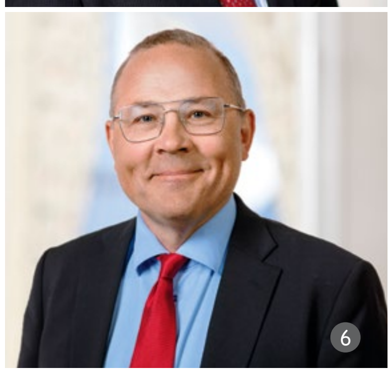
Other assignments
Vice Chairman and Safety Officer Metalworker's Union, SKF, Gothenburg.

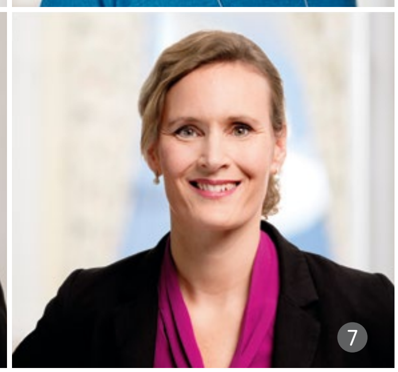
Shareholding (own and/or held by related parties) 0

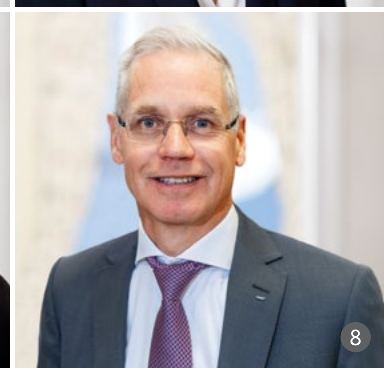


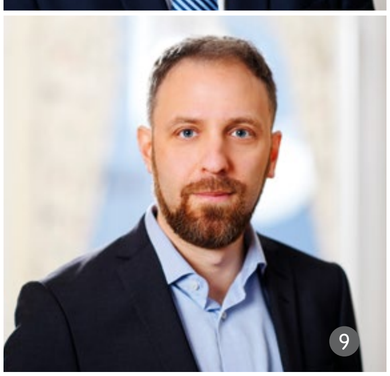


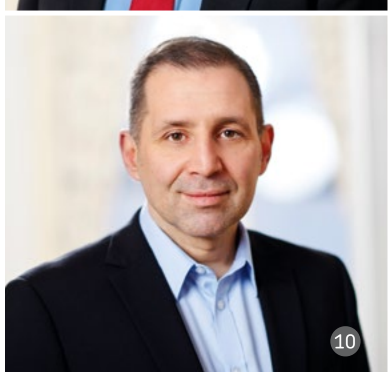


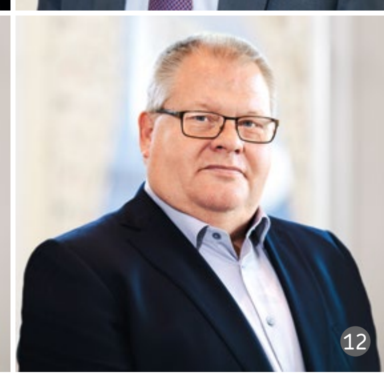








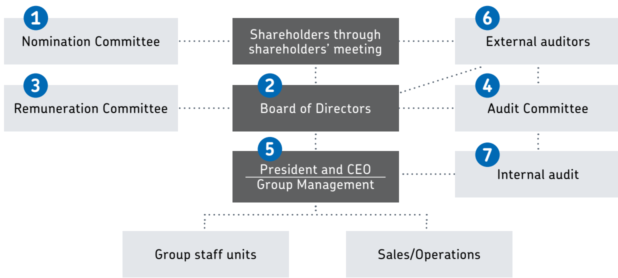




AUDITOR

Hans Warén

Authorized Public Accountant
Deloitte 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. 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.

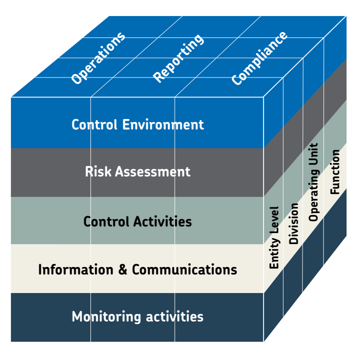
SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and subsidiary companies. SKF has implemented these 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 2021 the control test activities have been limited due to the COVID-19 pandemic and been performed primarily through testing of controls in the 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. Information on COSO components of monitoring, information and communication, financial risk assessment, control environment, test and review protocols as well as test results are stored in a special IT System. Detailed financial process and control documentation are stored centrally and/or locally. 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 Compliance & Assurance conducts high level risk-based audits within prioritized areas. The Director, Group Compliance & Assurance reports 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 2022
The Board of Directors



Auditor’s report on the Corporate Governance Statement

To the general meeting of the shareholders in AB SKF (publ), corporate identity number 556007-3495

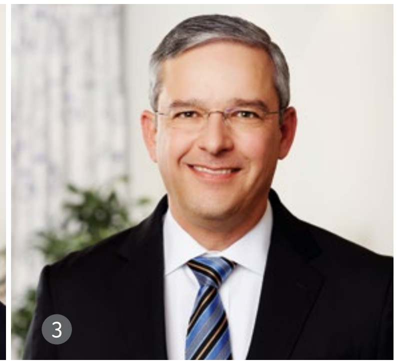
Engagement and responsibility
It is the Board of Directors who is responsible for the corporate governance statement for the financial year 2021-01-01 –2021-12-31 on pages 139–146 and that it has been prepared in accordance with the Annual Accounts Act.

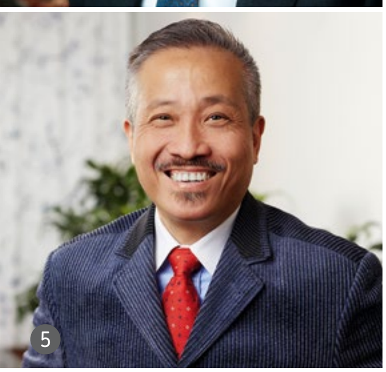
The scope of the audit
Our examination has been conducted in accordance with FAR’s standard RevU 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted 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.

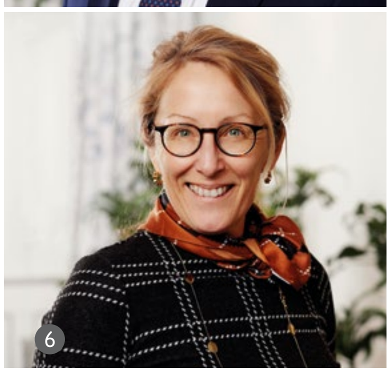
Opinions
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

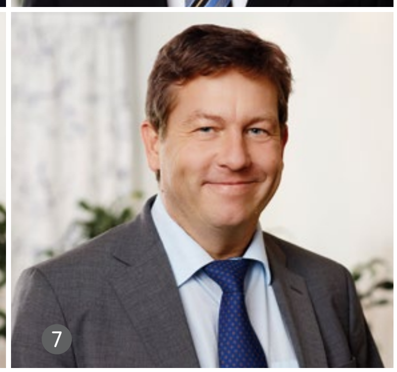
Gothenburg, 2 March 2022
Deloitte AB

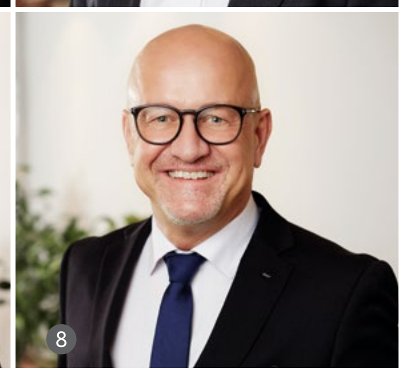
Hans Warén
Authorised Public Accountant

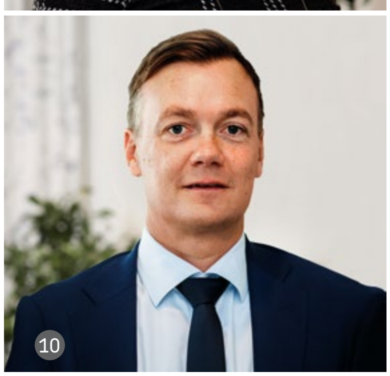












Changes to Group Management in 2021

Alrik Danielson stepped down from his role as President and CEO in April 2021.

Group Management as of 31 December 2021

1 Rickard Gustafson

President and CEO
Born 1964

MSc from the Institute of Technology at Linköping University, Sweden. Employed since June 2021

Previous positions
President and CEO of SAS Group, CEO of Codan/Trygg Hansa and he has held several positions within General Electric.

Board member
Telia Company and The Confederation of Swedish Enterprise

Shareholding in SKF
4,350 SKF B

2 Niclas Rosenlew

Chief Financial Officer och Senior Vice President, Group Finance
Born 1972

Master of Science in Finance, Hanken, Swedish School of Economics. Employed since 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
22,989 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
20,245 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
23,579 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
18,300 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 18,962 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
1,248 SKF B

9 Ann-Sofie Zaks

Senior Vice President, Group People Experience
Born 1976

Bachelor's degree, Innovation Program with special focus on Behavioural Science from University college of Mälardalen. Employed since 2001

Previous positions
People Experience Director Bearing Operations, Program manager, Group People Transformation initiative and several other positions within SKF.

Shareholding in SKF
4,928 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
1,625 SKF B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Group Management as of 15 February 2022

1 Rickard Gustafson

President and CEO
Born 1964

MSc from the Institute of Technology at Linköping University, Sweden. Employed since June 2021

Previous positions
President and CEO of SAS Group, CEO of Codan/Trygg Hansa and he has held several positions within General Electric.

Board member
Telia Company and The Confederation of Swedish Enterprise

Shareholding in SKF
9,600 SKF B

2 John Schmidt

President, Industrial Region Americas
Born 1969

Bachelor of Science, Mechanical Engineering from the Pennsylvania State University. Employed since 2001 and 1993–1998

Previous positions
President, Industrial Sales Americas, President and CEO SKF USA Inc, Vice President Industrial Market NAM and several other positions within SKF.

Shareholding in SKF
25,883 SKF B

3 Kent Viitanen

President, Industrial Region Europe, Middle East and Asia
Born 1965

Business and Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 1988

Previous positions
President, Bearing Operations, 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 20,857 SKF B

4 Manish Bhatnagar

President, Industrial Region India and Southeast Asia
Born 1969

Master of Business Administration from Indian Institute of Management, Calcutta, and B.E. in Electronics Engineering from Birla Institute of Technology & Science, Pilani, India. Employed since 2018

Previous positions
Senior roles at General Electric and Danaher.

Shareholding in SKF
14,430 SKF B

5 Patrick Tong

President, Industrial Region Northeast Asia
Born 1962

Executive Master's Degree of Business Administration, Hong Kong University of Science and Technology. Employed since 1989

Previous positions
President, Industrial Sales Asia, President Specialty Business, President SKF Second Brands Bearings, as well as several other positions within SKF.

Shareholding in SKF
26,002 SKF B

6 David Johansson

President, Automotive
Born 1980

Master in Science; Industrial Marketing, Electrical Engineering at Chalmers University of Technology, Gothenburg.

Employed since 2005

Previous positions
Director, Global Railway and China Mobility business, Director, China Automotive, Aerospace and Railway business, Drector, Global Marine Business Unit and several other positions within SKF.

Shareholding in SKF
0 SKF B

7 Thomas Fröst

President, Independent and Emerging Business
Born 1962

Degree in Industrial Economics from Chalmers University of Technology. Employed since 1988

Previous positions
President, Industrial Technologies, Director Industrial Units, Head of Industrial Marketing, and several other positions within SKF.

Shareholding in SKF
1,904 SKF B

8 Joakim Landholm

Senior Vice President, Operations and Digital Transformation
Born 1969

MSc Stockholm School of Economics. Employed since February 2022

Previous positions
CEO Hector Rail, Chief Commercial Officer SAS and senior positions at Codan/Trygg Hansa and GE Capital.

Shareholding in SKF
0 SKF B

9 Victoria Van Camp

CTO and Senior Vice President, Technology Development
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
20,195 SKF B

10 Niclas Rosenlew

Chief Financial Officer and Senior Vice President, Group Finance
Born 1972

Master of Science in Finance, Hanken, Swedish School of Economics. Employed since 2019

Previous positions
CFO of Basware and senior positions within Microsoft, Nokia and Deutsche Bank.

Shareholding in SKF
8,640 SKF B

11 Mathias Lyon

General Counsel and Senior Vice President, Group Legal and Compliance
Born 1975

Master of Laws, Faculty of Law at Lund University. Employed since 2012

Previous positions
General Counsel and Senior Vice President, Group Legal, Reinsurance, Brand Protection and Real Estate & Facility Management, SKF Deputy General Counsel and several other positions at Volvo, AstraZeneca, Mannheimer Swartling and Rosengrens.

Shareholding in SKF
2,062 SKF B

12 Ann-Sofie Zaks

Senior Vice President, Group People Experience and Communication
Born 1976

Bachelor's degree, Innovation Program with special focus on Behavioural Science from University college of Mälardalen. Employed since 2001

Previous positions
People Experience Director Bearing Operations, Program manager, Group People Transformation initiative and several other positions within SKF.

Shareholding in SKF
5,584 SKF B

Seven-year review

MSEK unless otherwise stated	2021	2020	2019	2018	2017	2016	2015
Income statements							
Net sales	81,732	74,852	86,013	85,713	77,938	72,589	75,788
Operating expenses incl. associated comp.	–70,974	–67,783	–76,618	–74,664	–69,346	–65,062	–68,820
Operating profit	10,758	7,069	9,395	11,049	8,592	7,527	6,968
Financial income and expense, net	–695	–769	–926	–861	–934	–788	–1,134
Profit before taxes	10,063	6,300	8,469	10,188	7,658	6,739	5,834
Taxes	–2,484	–1,826	–2,677	–2,603	–1,898	–2,530	–1,760
Net profit	7,579	4,474	5,792	7,585	5,760	4,209	4,074
Balance sheets							
Intangible assets	16,942	16,242	18,397	17,722	17,360	19,568	21,485
Deferred tax assets	3,839	4,800	4,437	3,563	3,633	3,806	3,185
Property, plant and equipment	20,723	18,161	18,420	16,688	15,762	15,746	15,303
Right of use assets	2,661	2,517	2,991	—	—	—	—
Non-current financial and other assets	1,674	1,939	2,019	1,964	1,627	1,688	1,607
Inventories	20,997	15,733	18,051	17,826	17,122	15,418	14,519
Trade receivables	13,972	12,286	14,006	13,842	13,416	13,462	11,777
Other current assets	18,820	18,879	15,787	15,568	12,283	14,219	11,857
Total assets	**99,628**	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**
Equity	45,365	35,712	37,366	35,452	29,823	27,683	26,282
Provisions for post-employment benefits	11,781	15,170	15,366	12,894	12,309	13,945	13,062
Deferred tax provisions	1,040	792	960	1,118	1,100	1,380	1,373
Other provisions	2,517	3,482	2,474	2,541	2,275	2,224	2,095
Financial liabilities	19,336	18,349	19,017	17,157	18,508	23,650	23,825
Trade payables	9,881	8,459	8,266	7,831	7,899	7,100	5,671
Other liabilities	9,709	8,593	10,659	10,180	9,289	7,925	7,425
Total equity and liabilities	**99,628**	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**
Key figures[1] (in % unless otherwise stated)							
Operating margin	13.2	9.4	10.9	12.9	11.0	10.4	9.2
EBITA, MSEK	11,340	7,681	10,008	11,541	9,064	8,016	7,522
EBITDA, MSEK	14,064	10,470	12,892	13,522	10,916	9,895	9,826
Return on capital employed	14.8	9.8	13.2	17.6	14.2	11.9	10.9
Return on equity	18.8	12.1	15.7	22.8	20.4	16.5	15.7
Net working capital, % of sales	30.7	26.1	27.7	27.8	29.0	30.0	27.2
Net debt/equity	38.3	51.7	59.3	49.1	71.3	84.4	99.9
Turnover of total assets, times	0.85	0.79	0.90	1.00	0.96	0.89	0.92
Gearing	40.5	48.0	47.1	45.0	49.9	55.3	56.7
Equity/assets	45.5	39.4	39.7	40.7	36.7	33.0	33.0
Net cash flow after investments before financing, MSEK	2,100	5,259	4,953	8,326	4,753	7,717	6,416
Investments and employees							
Additions to property, plant and equipment, MSEK	3,822	3,332	3,461	2,647	2,243	1,869	2,063
Research and development expenses, MSEK	2,751	2,515	2,691	2,591	2,395	2,246	2,372
Patents – number of first filings	241	200	201	202	192	191	461
Average number of employees	40,861	38,385	41,559	42,565	43,814	43,508	44,305
Number of employees registered at 31 December	42,602	40,963	43,360	44,428	45,678	44,868	46,635

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 investors.skf.com.

Three-year review

MSEK unless otherwise stated	2021	2020[1]	2019[1]
Industrial			
Net sales	58,559	53,912	61,031
Operating profit	9,309	6,691	8,579
Operating margin, %	15.9	12.4	14.0
Assets and liabilities, net	42,612	38,508	42,949
Registered number of employees	34,702	33,157	35,839
Automotive			
Net sales	23,173	20,940	24,983
Operating profit	1,450	378	816
Operating margin, %	6.3	1.8	3.3
Assets and liabilities, net	10,769	9,358	11,954
Registered number of employees	6,421	6,351	6,850

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	2021	2020	2019	2018	2017	2016	2015
Earnings per share	16.10	9.44	12.20	16.0	12.02	8.75	8.52
Dividend per A and B share	7.00[2]	6.50	3.00	6.00	5.50	5.50	5.50
Total dividends, MSEK	3,188[2]	2,960	1,366	2,732	2,504	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	214.5	213.4	189.4	134.5	182.2	167.6	137.2
Equity per share	96	75	78	74	62	57	54
Yield in percent (B)	3.3[2]	3.0	1.6	4.5	3.0	3.3	4.0
P/E ratio, B (share price/earnings per share)	13.3	22.6	15.5	8.4	15.2	19.2	16.1
Cash flow from operations, per share	11.5	18.2	20.7	18.3	14.1	15.7	17.0
Cash flow, after investments and before financing, per share	4.6	11.6	10.9	18.3	10.4	17.0	14.1

1) See page 154 for definitions.
2) According to the Board's proposal for the year 2021.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1–1,000	60,769	87.5	13,912,259	3.2
1,001–10,000	7,836	11.3	21,117,029	4.6
10,001–100,000	631	0.9	18,046,739	3.9
100,001–	217	0.4	344,777,207	75.7
Anonymous ownership	—	—	57,497,834	12.6
	69,453	**100**	**455,351,068**	**100**

Source: Monitor, Modular Finance as of 31 December 2021.

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 in SEK (as defined by IFRS)
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, 24 March 2022.

Due to COVID-19, 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 24 March 2022 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 President and the auditor will be available at the company's website, www.skf.com, latest by 22 March 2022.

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 as per Wednesday, 16 March 2022 and must notify its intention to participate to the company at the latest on 23 March 2022 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 23 March 2022. 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 18 March 2022 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 the Act 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 23 March 2022. The form may be submitted by post to Computershare AB, "AGM 2022 of AB SKF", Box 5267, 102 46 Stockholm or via e-mail to proxy@computershare.se. Shareholders 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 7.00 per share for 2021. Monday, 28 March 2022 is proposed as the record date for shareholders to be entitled to receive dividends for 2021. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 31 March 2022.

Financial information and reporting
Publishing dates for financial reports in 2022:

Annual Report 2021	2 March
Q1 report	26 April
Q2 report	20 July
Q3 report	25 October
Q4 report	2 February 2023

The reports are available in Swedish and English on investors.skf.com. A subscription service for press releases and interim reports, sent via e-mail or SMS, is available on the website.

Contact information

Patrik Stenberg
Director SKF Group Investor Relations
and Mergers & Acquisitions
email: patrik.stenberg@skf.com
www.investors.skf.com

Theo Kjellberg
Director Group Communication
email: theo.kjellberg@skf.com

SKF Group Headquarters
SE-415 50 Gothenburg, Sweden

Telephone: +46 31 337 10 00
www.skf.com
Company reg.no 556007-3495

Remuneration Report 2021

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 2021. 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 86–89 in the company's annual report for 2021 (the "annual report 2021"). Information on the work of the Remuneration Committee in 2021 is set out in the corporate governance report, which is available on pages 140–146 in the annual report 2021.

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 86–89 in the annual report 2021.

Key developments 2021

The CEO summarizes the company's overall performance in his statement on pages 10–13 in the annual report 2021.

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.

The Board has decided on one partial deviation from the principles which is accounted for below in the section Application of performance criteria. 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 2021 have been taken into account.

The performance measures for the CEO's variable cash remuneration have been divided equally between adjusted operating profit and cash flow. To determine the range for the parameters, the final result of the year before is the baseline. During 2021, the criteria for adjusted operating profit were partly met but the criteria for cash flow were not met. The outcome was therefore that 48% of the maximum variable cash remuneration was earned by the CEO

Table 1 – Total CEO remuneration in 2021 (kSEK)

Table 1 below sets out total remuneration earned by AB SKF's CEO current and former during 2021[1].

	Fixed remuneration		Variable remuneration					
Total remuneration[2]	Base salary	Other benefits	One-year variable	Multi-year variable[3]	Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
Rickard Gustafson CEO (Current)	8,175	102	2,747	—	114[4]	3,036	14,174	81% / 19%
Niclas Rosenlew Acting CEO (Former)[5]	458	0	145	—	—	160	763	81% / 19%
Alrik Danielson CEO (Former)	5,128	18	1,922	—	—	1,894	8,962	79% / 21%

1) Disbursements may or may not have been made during the year.
2) Alrik Danielson (Jan–April), Niclas Rosenlew (May), Rickard Gustafson (June–Dec).
3) Allotment of shares under the SKF Performance Share Programme is not covered by the remuneration principles and is reported separately under share based remuneration below.
4) In accordance with separate agreement accounted for in the section Application of performance criteria.
5) The table shows the remuneration Niclas Rosenlew earned specifically for his assignment as Acting CEO in addition to his remuneration for his ordinary role as CFO and Senior Vice President of the company.

during the year; 96% relating to adjusted operating profit and 0% relating to cash flow. A separate agreement was made with Rickard Gustafson, in conjunction with his employment by SKF, to grant Rickard Gustafson a minimum of 50% variable salary for the period employed during 2021. The granted minimum variable salary constitutes a partial derogation from the requirement in the remuneration principles that the variable salary shall be performance based and have predetermined and measurable criteria which need to be satisfied for payment of the variable salary. The Board deemed that the derogation was necessary to serve the SKF Group's long-term interests by attracting and employing the new CEO.

Comparative information on the change of remuneration and company performance

2020 was 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 – Change of remuneration and company performance over the last reported financial years (kSEK)

	2021 vs. 2020	2021
President remuneration[6]	+2,506 (+11.7%)	23,899
Adjusted operating profit[7]	+1,645,000 (+17.9%)	10,839,000
Cash flow[8]	–3,017,000 (–36.5%)	5,248,000
Average remuneration on a full-time equivalent basis of employees in AB SKF	+18 (+1.7%)	1,048

Share-based remuneration

Outstanding share-related incentive plans

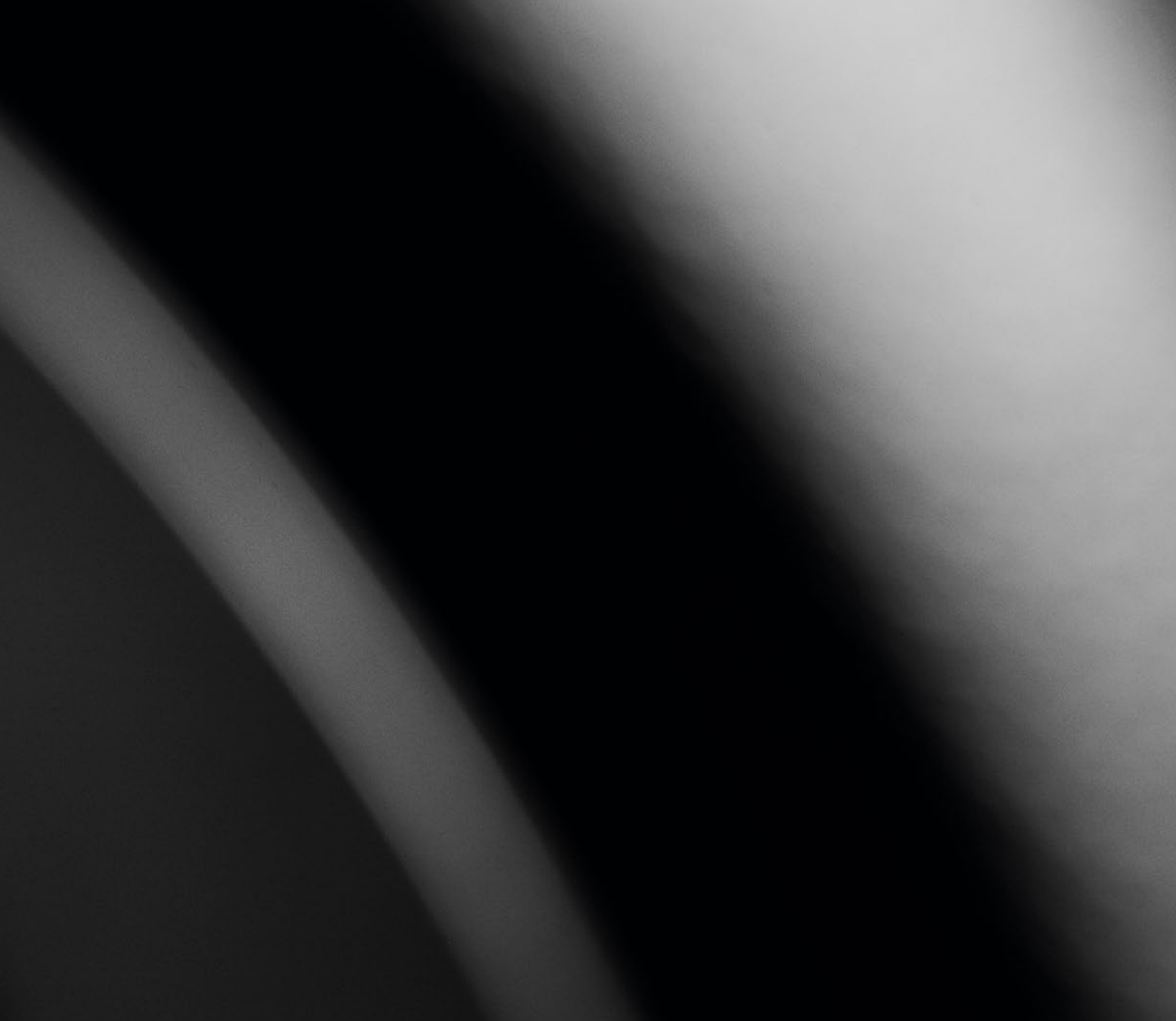
Since 2008 the Annual General Meeting has resolved each year upon the SKF Performance Share Programme for senior managers and key employees. The SKF Performance Share Programmes for 2019–2021 have been ongoing during 2021.

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 the 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 2021, the SKF Performance Share Programme 2019 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2019 –2021, compared to the financial year 2018. 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 34% allotment of shares under the programme. In total, around 200,000 SKF B shares were allotted under the programme, corresponding to approximately 0.04% 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 Rickard Gustafson did not participate in the Performance Share Programme 2019 and was therefore not awarded any allotment of shares under the programme. The previous CEO, Alrik Danielson's employment seized during 2021 and his participation in the Performance Share Programme 2019 therefore lapsed. No CEO allotment of shares was therefore awarded.

The current CEO Rickard Gustafson participates in the Performance Share Programme 2021. Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2024, if all the conditions of the programme are met and the allotment is approved by the Board.

6) Alrik Danielson (Jan–April), Niclas Rosenlew (May), Rickard Gustafson (June–Dec).
7) Operating profit excluding items affecting comparability.
8) 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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AB SKF
SE-415 50 Gothenburg, Sweden
Telephone +46 31 337 10 00
www.skf.com