

Remuneration report 2020

Introduction

This remuneration report provides an outline of how AB SKF's principles for remuneration for Group Management (the "remuneration principles"), adopted by the Annual General Meeting 2020, have been implemented in 2020. The report also provides details on the remuneration of AB SKF's CEO. In addition, the report contains a summary of AB SKF's outstanding share and share-price related incentive programs. The report has been prepared in compliance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551) and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Information required by Chapter 5, Sections 40-44 of the Annual Accounts Act (1995:1554) is available in note 23 on p. 90-93 in the company's annual report for 2020 (the "annual report 2020"). Information on the work of the Remuneration Committee in 2020 is set out in the corporate governance report, which is available on p. 141-148 in the annual report 2020.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in note 23 on p. 90-93 in the annual report 2020.

Key developments 2020

The CEO summarizes the company's overall performance in his statement on page 10-13 in the annual report 2020.

Overview of the application of the remuneration principles in 2020

The objective of the remuneration principles is to ensure that the SKF Group can attract and retain the best people in order to contribute to the SKF Group's mission and business strategy, its long-term interests and sustainability. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests. Variable salary covered by the principles shall be linked to predetermined and measurable criteria, aiming to promote the SKF Group's business strategy and long-term interests, including its sustainability.

The total remuneration package for a Group Management member shall consist of the following components: fixed salary, variable salary, pension benefits, conditions for notice of termination and severance pay, and other benefits such as a company car. The components shall create a well-balanced remuneration reflecting individual performance and responsibility as well as the SKF Group's overall performance. The Annual General Meeting may also – irrespective of the principles – resolve on other remuneration components, e.g. SKF's Performance Share Programme.

The principles are found at www.skf.com. The remuneration principles, adopted by the Annual General Meeting 2020, have been fully implemented.

No deviations from the principles have been decided and no derogations from the procedure for implementation of the principles have been made. The auditor's report regarding the company's compliance with the principles is available on www.skf.com. No remuneration has been reclaimed.

In addition to remuneration covered by the remuneration principles, the Annual General Meetings of the company have resolved to implement SKF Performance Share Programme for senior managers and key employees.

Table 1 – Total CEO remuneration in 2020 (kSEK)

Table 1 below sets out total remuneration earned by AB SKF's CEO during 2020¹.

Tot rem	Fixed remuneration		Variable remuneration		Extraordinary items ²	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
	Base salary	Other benefits	One-year variable	Multi-year variable ³				
Alrik Danielson CEO	13,500	71	2,552	-	-	5,270	21,393	84% / 16%

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives, sustainability, short-term and long-term business priorities for 2020 have been taken into account.

The performance measures for the CEO's variable cash remuneration have been divided equally between Total Value Added (TVA)⁴ and cash flow. To determine the range for the parameters, the final result of the year before is the baseline. During 2020, the criteria for TVA and the criteria for cash flow were partly met. The outcome was therefore that 27 % of the maximum variable cash remuneration was earned by the CEO during the year; 9 % relating to TVA and 18 % relating to cash flow.

1 Disbursements may or may not have been made during the year.

2 The current CEO's employment will cease during 2021. The maximum severance payment is eighteen months' fixed salary. The severance payments are subject to certain conditions. Any other income that the CEO may have after six months from the last employment date will reduce the severance payment. Therefore, the severance payment cannot be determined until the severance payment period has ended. However, the severance payment will be in the range of 6,812 KSEK and 20,438 KSEK.

3 Allotment of shares under the SKF Performance Share Programme are not covered by the remuneration principles and are reported separately under share based remuneration below.

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

Comparative information on the change of remuneration and company performance 2020 will be the first reference year and therefore no year over year changes for the previously reported financial years (RFY) will be presented. Coming years will be added so that the annual change over the last five years will be visible.

Table 2 – Remuneration and company performance during 2020 (kSEK)

	2020
	RFY- 0
Directors remuneration	
Alrik Danielson, President & CEO	21,393
Company's performance	
Adjusted operating profit ⁵	9,194,000
Cash flow ⁶	8,265,000
Average remuneration on a full-time equivalent basis of employees	
Employees of AB SKF	1,030

Share-based remuneration

Outstanding share-related incentive plans

Since 2008 the Annual General Meeting has resolved each year upon the SKF Performance Share Programme for senior managers and key employees. The SKF Performance Share Programmes for 2018-2020 have been ongoing during 2020.

The number of shares that may be allotted must be related to the degree of achievement of the Total Value Added (TVA) target level, as defined by the Board, for the TVA development during a three-year calculation period. The performance criteria used to assess the outcome of the proposed SKF Performance Share Programme is distinctively linked to the business strategy and thereby to SKF Group's long-term value creation, including its sustainability. These performance criteria include a clear link to the SKF Group's yearly growth, long-term financial targets and capital efficiency. For further information on said SKF Performance Share Programme, including the criteria which the outcome depends on, please refer to the Board of Directors' proposal on SKF's Performance Share Programme 2021 which can be found on www.skf.com.

At the end of 2019, the SKF Performance Share Programme 2017 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2017-2019, compared to the financial year 2016. Since the target level of the TVA increase, defined by the Board, was fully achieved, the participants of the programme were awarded 100 % allotment of shares under the programme. Consequently, during 2020, the

⁵ Operating profit excluding items affecting comparability.

⁶ Net cash flow after investments before financing

CEO was awarded 100 % allotment of shares free of charge under the SKF Performance Share Programme 2017 amounting to 30,000 SKF B shares. In total, around 639,400 SKF B shares were allotted under the programme, corresponding to approximately 0.14 % of the total number of outstanding shares.

At the end of 2020, the SKF Performance Share Programme 2018 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2018-2020, compared to the financial year 2017. Since the threshold level of the TVA was met and the TVA target was partly met, as decided by the Board, the participants of the programme were awarded 64 % allotment of shares under the programme. Consequently, in the beginning of 2021, the CEO was awarded 64 % allotment of shares free of charge under the SKF Performance Share Programme 2018 amounting to 19,200 SKF B shares. In total, around 393,000 SKF B shares were allotted under the programme, corresponding to approximately 0.09 % of the total number of outstanding shares.

Allotment of shares requires that the persons covered by the programme are employed in the SKF Group during the entire calculation period. The current CEO Alrik Danielson's employment will cease during 2021 and his participation in the Performance Share Programmes 2019 and 2020 will therefore lapse.
