

## **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 p. 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 p. 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 p. 86-89 in the annual report 2021.

### Key developments 2021

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

### Overview of the application of the remuneration principles in 2021

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](http://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](http://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 2021 (kSEK)**

Table 1 below sets out total remuneration earned by AB SKF's current and former CEO during 2021<sup>1</sup>.

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

### 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

<sup>1</sup> Disbursements may or may not have been made during the year.

<sup>2</sup> Alrik Danielson (Jan-April), Niclas Rosenlew (May), Rickard Gustafson (June-Dec)

<sup>3</sup> 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.

<sup>4</sup> In accordance with separate agreement accounted for in the section Application of performance criteria.

<sup>5</sup> 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.

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 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 <sup>6</sup>	+2,506 (+11.7%)	23,899
Adjusted operating profit <sup>7</sup>	+1,645,000 (+17.9%)	10,839,000
Cash flow <sup>8</sup>	-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

<sup>6</sup> Alrik Danielson (Jan-April), Niclas Rosenlew (May), Rickard Gustafson (June-Dec)

<sup>7</sup> Operating profit excluding items affecting comparability.

<sup>8</sup> Net cash flow after investments before financing

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](http://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 ceased 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.

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