

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 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. 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. The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2020, which includes Group Management. Remuneration resolved by the Annual General Meeting is excluded from the principles. The performance criteria used to assess the outcome of the proposed 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 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 2020.

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 2020.

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. TVA is the SKF financial performance management model called Total Value Added (TVA) which is a simplified, economic value-added model. This model promotes greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital. The TVA result development for the SKF Group correlates well with the trend of the share price over a longer period of time. A high cash flow enables the SKF Group to continue reinvesting in the core business and future financial growth, while at the same time provide good return for its shareholders. Individual goals include components of both financial and non-financial targets which promote the SKF Group's business strategy, sustainability and long-term interests.

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. If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary shall vary between 50 to 70 percent of the accumulated annual fixed salary of Group Management members. Variable salary shall qualify for pension benefits to the extent required by mandatory collective agreement provisions.

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 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 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' 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.

Information about remuneration decided upon but not due for payment

The structure of Group Management remuneration decided upon prior to the approval of these principles for remuneration but not due for payment is in line with applicable principles. In relation hereto, the following should be noted:

- The Annual General Meetings 2008 – 2019 resolved on SKF's Performance Share Programmes 2008 – 2019.
- Allotment of shares under SKF's Performance Share Programme 2008 was made in the beginning of 2011. No allotment of shares was made under SKF's Performance Share Programme 2009 due to non-fulfillment of the TVA target for the financial year 2009. Allotment of shares under SKF's Performance Share Programme 2010 was made in the beginning of 2013. Allotment of shares under SKF's Performance Share Programme 2011 was made in the beginning of 2014. No allotment of shares was made under SKF's Performance Share Programme 2012 – 2013 due to non-fulfillment of the TVA target for the financial years 2012 – 2013. Allotment of shares under SKF's Performance Share Programme 2014 was made in the beginning of 2017. Allotment of shares under SKF's Performance Share Programme 2015 was made in the beginning of 2018. Allotment of shares under SKF's Performance Share Programme 2016 was made in the beginning of 2019. Allotment of shares under SKF's Performance Share Programme 2017 will be made beginning of February 2020. Any allotment of shares under SKF's Performance Share Programme 2018 and 2019 will be made during 2021 and 2022 respectively.
- The pension conditions of the President are described under Note 23 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions on parts of their salary.
- The normal retirement age for Group Management members is 65 years. One member of Group Management still has a retirement age of 62 years based on already existing agreement.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.