

# 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 58 of the Administration Report for the Group in the Annual Report 2019.

## 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](http://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 2019 was also held in accordance with the Code rules. The auditor of the company has read and performed a statutory examination of the Corporate Governance Report.

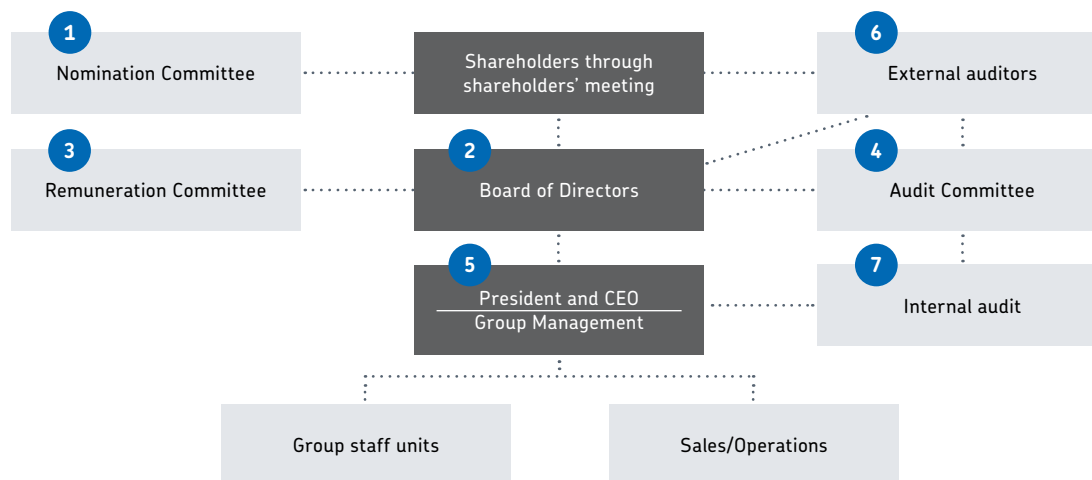
## General information about how the company is managed

The shareholders' meeting is the company's highest decision-making body. The Annual General Meeting of shareholders shall be held within six months after the end of the financial year. At the Annual General Meeting the shareholders exercise their voting rights for e.g. the composition of the Board of Directors, adoption of principles of remuneration for Group Management and election of external auditors. SKF has issued A and B shares. An A share entitles the shareholder to one vote and a B share to one-tenth of a vote.

The Board of Directors has a responsibility for the company's organisation and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continuously monitoring SKF's vision, mission, values and drivers. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board annually adopts written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Technologies. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and



Business Transformation and Group People, Communication and Legal, see pages 156–157 in the Annual Report 2019. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area. The Director of Group Sustainability, reports, from 4 February 2020, directly to the Chief Executive Officer and has the task to assure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group. Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.

### 1 Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2019, 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 2019 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 Annual General Meeting 2020. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 16 September, 2019, 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 2020:

- Marcus Wallenberg, FAM
- Ramsay Brufer, Alecta
- Anders Algotsson, AFA Försäkring
- Anders Jonsson, Skandia

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2020:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2021

The proposals of the Nomination Committee were published in connection with the notice to the Annual General Meeting 2020.

### 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 2019, 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 resolved to appoint Board members in accordance with the Nomination Committee's proposal.

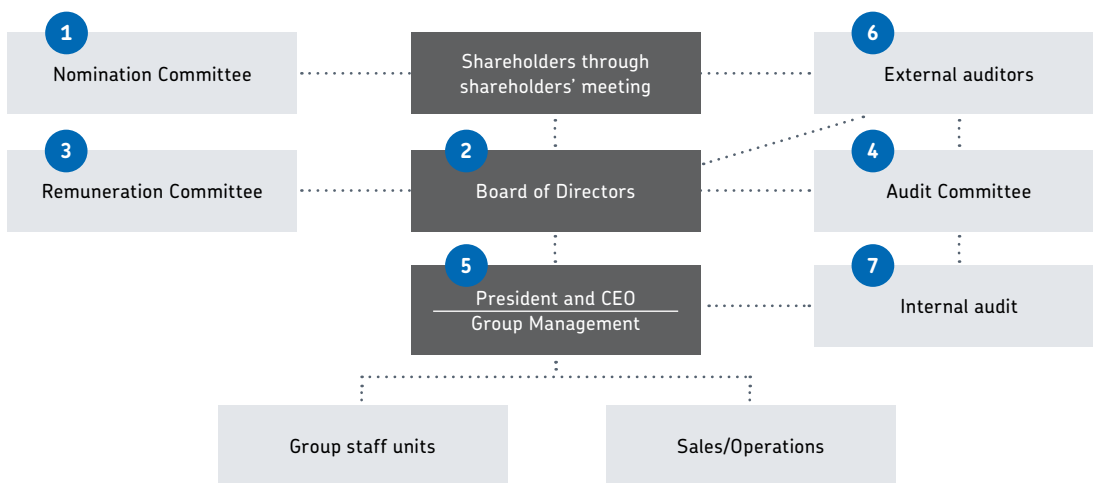
Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2019. One of the Board members resigned from the Board in October 2019. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for 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 2019 can be found in the Annual Report 2019, 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	•	•
Lars Wedenborn	•	
Hock Goh	•	•
Alrik Danielson		•
Ronnie Leten	•	
Barb Samardzich	•	•
Colleen Repplier	•	•
Geert Follens	•	•



**Activities of the Board of Directors**

The Board held eight meetings in 2019. 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)	8/8
Peter Grafoner (resigned in March 2019)	2/8
Lars Wedenborn	8/8
Hock Goh	7/8
Alrik Danielson	8/8
Nancy Gougarty (resigned in October 2019)	6/8
Ronnie Leten	8/8
Barb Samardzich	8/8
Colleen Repplier	8/8
Geert Follens (elected March 2019)	6/8
Jonny Hilbert	8/8
Zarko Djurovic	5/8
Kennet Carlsson	7/8
Claes Palm	8/8

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 2019 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, antitrust related matters, 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.

**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 Lars Wedenborn and Ronnie Leten.

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. 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 principles in the Code, a report on the results of the Remuneration Committee’s evaluation.

The Remuneration Committee held two meetings in 2019. 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)	2/2
Peter Grafoner (resigned in March 2019)	1/2
Lars Wedenborn	2/2
Ronnie Leten	2/2

#### 4 Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Hans Stråberg and the Board member Ronnie Leten.

The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review and control of the financial reporting, and of the internal control, internal audit and risk management regarding the financial reporting.

The Audit Committee held six meetings in 2019. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/ Total no. of meetings
Hans Stråberg	6/6
Lars Wedenborn (chairman)	6/6
Ronnie Leten	6/6

#### Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

#### 5 President and Chief Executive Officer Alrik Danielson

Alrik Danielson, President and CEO of AB SKF since 2015. Board member of AB SKF's Board since 2015. Born 1962.

#### Education and job experience

Bachelor of Science in Business Administration and International Economics, School of Business Economics and Law, University of Gothenburg. Several positions within the SKF Group 1987–2005 and President and CEO of Höganäs AB 2005–2014.

#### Other assignments

Board member of Association of Swedish Engineering Industries since 2015.

#### Shareholding (own and/or held by related parties) as of 31 December 2019

41,327 SKF B

#### Material shareholdings or other holdings

(own and/or held by related parties) in companies with which the company has important business relationships: 0

#### 6 The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2017, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2021. Peter Clemedtson is the auditor in charge and Bo Karlsson is co-signing auditor.

Peter Clemedtson has many years of experience as the auditor in charge at a number of other listed companies, such as Nordea Bank AB (publ), AB Volvo, Ericsson, Electrolux and SEB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as ASSA ABLOY AB, Investment AB Latour and unlisted companies such as Scania AB.

The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.

PwC has during 2019 been involved in matters besides the audit and audit services other than the audit assignment for 2019. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2019 amount to SEK 9 million.

#### Financial reporting

The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2019 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, 2019

## 1 Hans Stråberg

Chairman, Board member since 2018  
Born 1957

### Education and job experience

Master of Science in Engineering from Chalmers University of Technology, Gothenburg. President and CEO of Electrolux AB 2002–2010. Several leading positions within the Electrolux Group in Sweden and USA since 1983. Former EU Co-Chair TABD, Trans-Atlantic Business Dialogue.

### Other assignments

Chairman of Atlas Copco AB, Roxtec AB and CTEK AB, Vice Chairman of Stora Enso Oyj. Board member of Investor AB, Mellby Gård AB, Hedson AB and Anocca AB.

**Shareholding** (own and/or held by related parties) 15,000 SKF B

## 2 Lars Wedenborn

Board member since 2008  
Born 1958

### Education and job experience

Master of Science in Economics, University of Uppsala. EVP and CFO of Alfred Berg 1991–2000, EVP and CFO of Investor AB 2000–2007, and CEO of FAM AB, wholly owned by the Wallenberg Foundations, since 2007.

### Other assignments

Board member of NASDAQ Group Inc., Höganäs AB, Nefab AB, IPCO AB and FAM AB.

**Shareholding** (own and/or held by related parties however not including FAM AB) 10,000 SKF A, 11,500 SKF B

## 3 Hock Goh

Board member since 2014  
Born 1955

### Education and job experience

Bachelor's degree (honours) in Mechanical Engineering from Monash University, Australia, completed the Advanced Management Program at INSEAD. Operating Partner of Baird Capital Partners Asia, 2005–2012. Several senior management positions in Schlumberger Limited, 1995–2005, President of Network and Infrastructure Solutions division in London, President Asia and Vice President and General Manager China.

### Other assignments

Member of the Board of Stora Enso Oyj, Santos Australia and Vesuvius PLC.

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

## 4 Alrik Danielson

President and Chief Executive Officer of AB SKF  
For more details, see page 157

## 5 Ronnie Leten

Board member since 2017  
Born 1956

### Education and job experience

Master of Science in Applied Economics, University of Hasselt, Belgium. CEO and Board member of Atlas Copco AB between 2009 and 2017.

### Other assignments

Chairman of Ericsson, Epiroc and Piab.

**Shareholding** (own and/or held by related parties) 10,000 SKF B

## 6 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 Chief Operating Officer of Ford Europe, 2013–2016. Engineer in the Commercial Nuclear Fuel Division at Westinghouse Electric Corporation, 1981–1990.

### Other assignments

Board member of Adient plc, Velodyne LidDAR and Bombardier Recreational Products. Board of Trustee member of Lawrence Technological University.

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

## 7 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

## 8 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

## Auditors

### Peter Clemedtson

Authorised Public Accountant  
Auditor in charge  
PricewaterhouseCoopers AB

### Bo Karlsson

Authorised Public Accountant  
PricewaterhouseCoopers AB



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## 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 Kennet Carlsson

Deputy Board member since 2015  
Born 1962

**Education and job experience**  
Employed in the SKF Group since 1979.  
Board member 2008–2015 and deputy  
board member 2001–2008.

**Other assignments**  
Chairman SKF World Union Council and  
chairman SKF European Works Council.

**Shareholding** (own and/or held  
by related parties) 100 SKF A

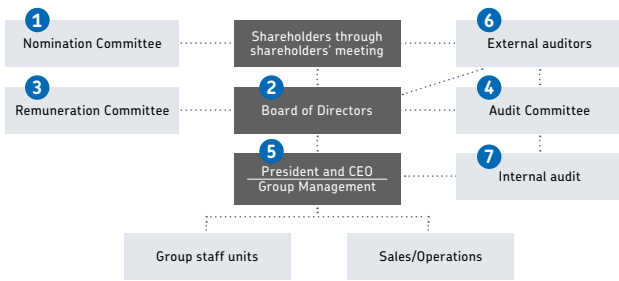
### 12 Claes Palm

Deputy Board member since 2016  
Born 1971

**Education and job experience**  
Employed in the SKF Group since 1989.

**Other assignments**  
Board member of Unionen at  
SKF in Gothenburg.

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



**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 May 2013 COSO launched an updated version of the framework, COSO 2013. SKF annually updates the review of the internal control framework to ensure alignment with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:

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 annually 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. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF 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 formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

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 and reassessed at least once a year.

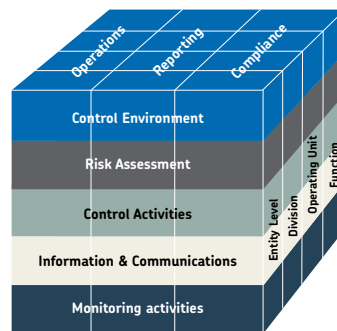
These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual 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. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 3 March, 2020  
The Board of Directors



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# Auditor's report on the Corporate Governance Report

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

## **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance statement for the year 2019 on pages 148–154 and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the examination**

Our examination has been conducted in accordance with FAR's auditing 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, 3 March, 2020  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Auditor in charge*  
*Authorised Public Accountant*

Bo Karlsson  
*Authorised Public Accountant*