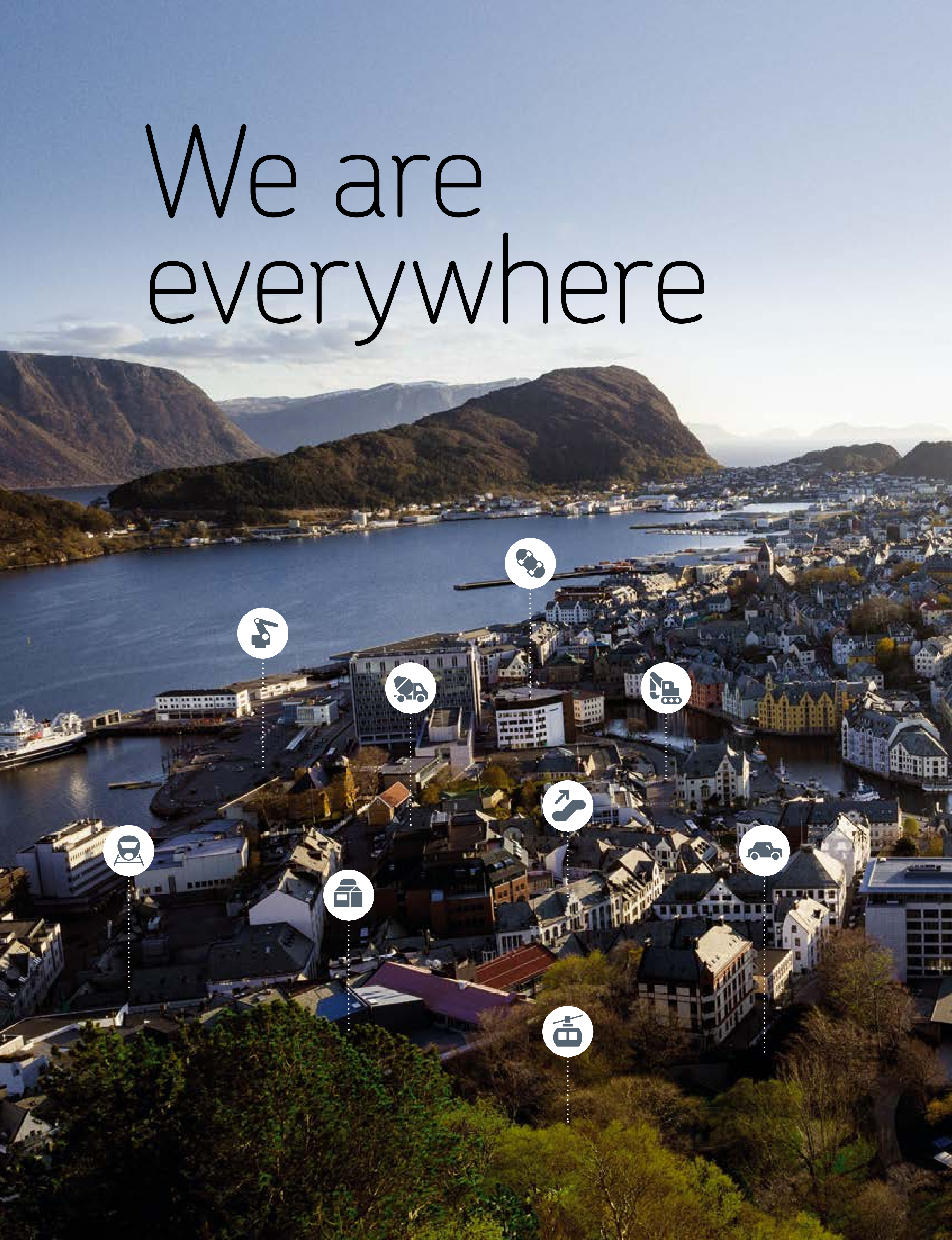
Annual Report 2019

We are everywhere



Our products and services are found everywhere in society. In fact, wherever there is movement, SKF's solutions are used. This means that we are an important part of the everyday lives of people and companies. When have you relied on reliable rotation today?

Contents

● Administration Report

The Administration Report has been audited by SKF's external auditors. See the Auditor's Report on pages 144–147.

Sustainability disclosures in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **independent Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report** on page 142.

The definition of the statutory sustianability report is presented on page 116.

The **Corporate Governance Report examined by the auditors** can be found on pages 148–154. The Auditor's report on the Corporate Governance Report can be found on page 155.

A leading global supplier of reliable rotation

Our customers want reduced friction; assets that run faster, longer, cleaner and more safely. Solving this in the most effective and sustainable way contributes to our vision of a world of reliable rotation.

SKF provides reliable rotation by combining hands-on experience in over 40 industries with in-depth knowledge across the SKF technology areas: bearings and units, seals, lubrication systems, services and condition monitoring.

One of our strengths is the ability to keep developing new technologies that are used to create value-adding solutions. This gives competitive advantages to customers and contributes, at the same time, to a sustainable global society.

43,360
employees

130
countries

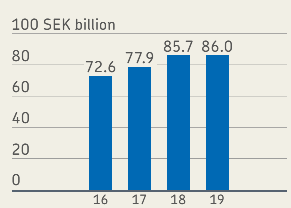
103
manufacturing units

15
technology centers

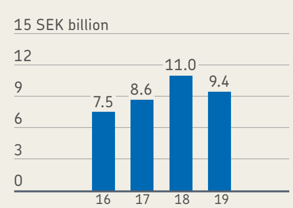
2019 in brief
Solid year with stable margin despite lower sales volumes

- Stable demand during the first half of the year. During the second half of the year, a strong operating result was maintained, despite falling demand.
- The underlying margin for the industrial business was 14.7%, which is higher than last year (14.4%), with organic sales growth of 0.1%.
- The underlying margin for the automotive business was 4.5% (6.9% last year), due to a fall in organic sales of 6.8%.

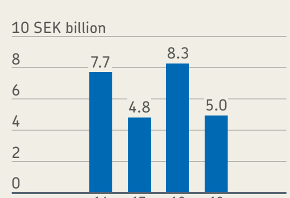
Net sales



Operating profit



Cash flow[1]



1) Net cash flow after investments before financing.

In 2019, cash flow excluding acquisitions and divestments was 5,736 million (5,966).

The divestment of the L&AT business positively impacted the operating profit in 2018 by SEK 1,261 million.

The SKF Group

Industrial

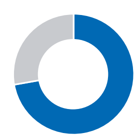
Offering
SKF supplies more than 40 industries globally with products and services, both directly and indirectly through a network of over 7,000 distributors. The offering includes developing and manufacturing a broad product range of bearings, seals and lubrication systems, as well as rotating shaft services and solutions for machine health assessment, reliability engineering and remanufacturing.

SKF's position
SKF has a leading position in certain industries, such as railway and heavy industries. In other industries, this position is shared with other companies. The Group also has a clear leading position in the industrial distribution market, which primarily serves the aftermarket.

Drivers
Reliable rotation is crucial for many industries. Other drivers vary from application to application, for example, low friction, low energy use, maintenance-free solutions and total cost of ownership. Digitalization is a growth driver, enabling monitoring and predictive maintenance throughout the product life cycle.

Market characteristics
The global industrial OEM (Original Equipment Manufacturer) market is fragmented, but in some industries, such as renewable energy and railway, a relatively small number of OEMs account for a large part of the market. The distributor channel is also globally fragmented and varies from country to country.

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



72%
of SKF's net sales

Market value[1)]
SEK 255–275 billion

Bearings market development 2019
0 to +2%

1) Total value of accessible bearings market.

Automotive

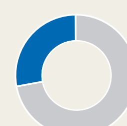
Offering
SKF provides customized bearings, seals and related products for wheel-end, driveline, engine, e-powertrain, suspension and steering applications to manufacturers of cars, light and heavy trucks, trailers, buses and two-wheelers. The vehicle aftermarket is supplied with spare parts, both directly and indirectly through a network of more than 10,000 distributors.

SKF's position
SKF has a leading position in e.g. wheel-end solutions and has a strong position in application-driven powertrain solutions. The Group is leading the development of components for automotive electrification. In the aftermarket, SKF has built up a strong global position with its extensive distribution network.

Drivers
The light vehicle market is driven by energy efficiency, reduction of emissions and electrification. Total cost of ownership, connectivity and integrated systems drive the truck market. The aftermarket is influenced by changing buying patterns, new channels, product performance and cost optimization.

Market characteristics
The automotive OEM market is consolidated and is made up of a small number of large companies. By contrast, the vehicle aftermarket is fragmented. OEM manufacturers account for about 80% of the total bearings market, while the independent vehicle aftermarket accounts for the remainder.

Competitors: Schaeffler Group, Timken, NSK, NTN, JTEKT, Iljin, C&U and Wanxiang Qianchao.



28%
of SKF's net sales

Market value[1)]
SEK 145–155 billion

Bearings market development 2019
–5 to –7%

1) Total value of accessible bearings market.

Why invest in SKF

An investment in SKF should not just be financially rewarded. It should also support transition to a low-carbon, climate resilient growth and the development towards a circular economy.

Since 2015, SKF has optimized the business portfolio ...

- Focused on the core business around the rotating shaft.
- Divested 13 businesses for a total of SEK 6.5 billion, strengthening the financial position and focusing the business portfolio.

SEK 6.5 billion

... made a turnaround of the automotive business ...

- Increased margins and profitability, thanks to better pricing, fewer loss-making products and cost reductions.
- Sharpened strategy to become a component expert for vehicle chassis and drivelines.
- Growth in the new energy vehicles (NEV) application business.

... and put the customer back in focus.

Two clear value propositions to create and capture customer value.

- **Products** Product cost can be reduced by designing for what matters.
- **Rotating Equipment Performance (REP)** Service and/or equipment and potentially materials provided in a fee-based business model.

Both models support and enable CO_2 emission reductions for customers.

The REP center in Bogotá, Colombia

These achievements have led to improved numbers ...

Operating margin 2015 and 2019

from 9.2% to 10.9%

Net debt/equity 2015–2019

from 99.9% to 59.3%

Average cash flow 2015–2019

SEK 6.5 billion

CO_2 per weight of sold bearings 2015–2019

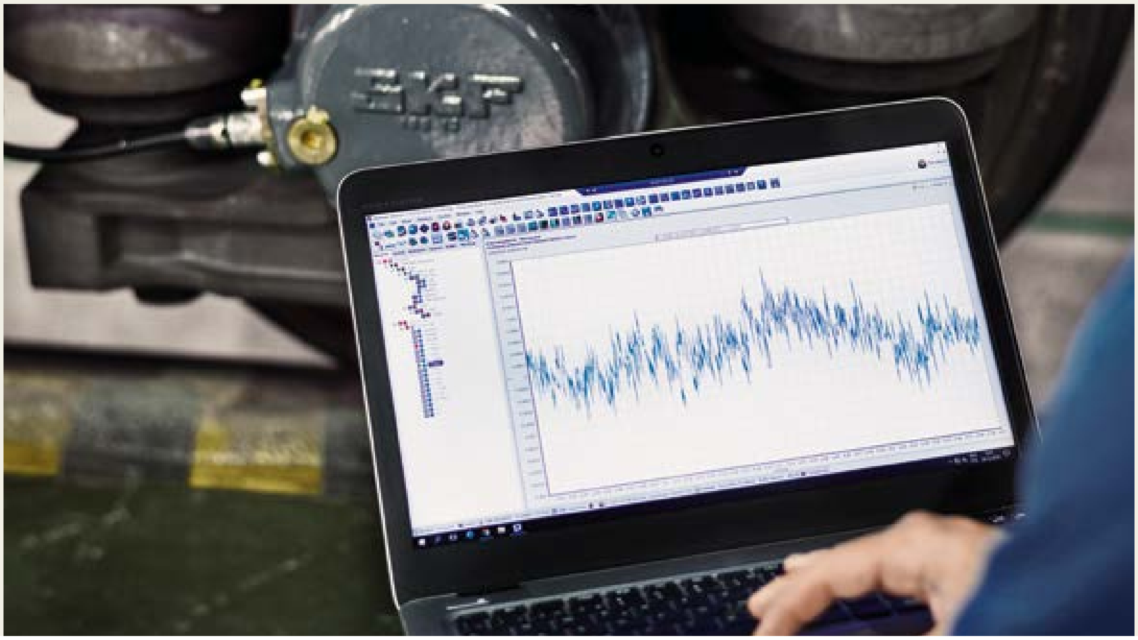
reduced by 36%

... and more resources to stay ahead, providing reliable rotation.

SKF is now accelerating the modernizing of factories, making the Group more flexible and competitive, whilst increasing productivity and reducing CO_2 emissions. World-class manufacturing is now well on its way on all continents, incorporating all aspects of the value chain: the right quality, the right cost and the right time.

Investments are given a broader scope to include technologies that enable fee-based business models, and systems are put in place where nothing goes to waste and parts are being increasingly reused. This reduces costs for customers, while SKF captures a fair part of that value in stable regular revenue streams. Everyone's a winner – the environment, customers and SKF.

Altogether, this makes SKF a resilient, high-margin business providing reliable rotation to customers and stable returns to investors.



CEO Alrik Danielson

"The world needs sustainable rotation"

Our products and services are applied to machinery everywhere. This means that we have a unique position and responsibility to make a difference. We know we can reduce the waste in the value chain and we are totally committed to drive the circular use of resources to its full potential.

2019 has been an exciting and important year for SKF. We saw stable demand during the first half of the year followed by lower demand in the second half. By seeking to always put the customer first and keeping a consistent focus on cost, we managed to deliver stable results, whilst continuing to invest in our factories and in developing technologies. We have sustainability at the core of our business and, through our SKF Care agenda, we continue to support the UN Global Compact and the Global Goals for 2030.

The financial outcomes in recent years have been rewarding: stronger cash flow, lower net debt/equity and, above all, a high and stable operating margin. Even in a more challenging year like 2019, we were able to generate a margin of 10.9%. This is thanks to our hard work during the last five years and we have our dedicated employees to thank for this development.

Global challenges require new business models

We all know how fast the world is changing around us. Information and knowledge are spreading faster and faster; the speed of technological development is ever increasing; and the positive socio-economic growth in many regions is putting an elevated demand on all of us to drastically reduce our environmental impact, as envisioned by the Global Goals.

We believe that by engaging the whole value chain, applying digital tools and new technologies, and by introducing new business models, we can create economic growth designed to benefit businesses, society and the environment alike. There is no longer a contradiction between the environmental and economic objectives.

In the traditional linear model of "take, make and waste", there is an inherent conflict of interest. Suppliers' proceeds depend on the quantity of parts, consumables or services sold to the customer, whilst the customer truly benefits from longer component life, reduced consumption and improvements in machine performance. A fee-based business model aligns the interests of the customer, SKF and the environment. It improves financial performance when waste is eliminated and the machinery's productivity, reliability and efficiency is improved. This is valid for industrial, automotive and aerospace businesses alike.

Digitalization allows for scalability

The cost to improve performance is drastically reduced by digitalization. We can detect defects before they cause damage and take preventive action by installing sensors, SKF's condition monitoring and automated lubrication systems. At the same time, we learn more about why assets fail and we use that knowledge when we develop the next generation of products and services. Today, we monitor millions of customer bearings, a number that will grow exponentially in the years to come.

> We have put sustainability at the core of our business and updated our focus areas.

Benefits from remanufacturing

Remanufacturing plays a central role in our efforts to reuse and recycle products. Personally, I have a vision for all bearings above a certain size to be reused instead of scrapped. A correctly remanufactured bearing reduces the carbon foot-print compared to a new one by up to 90%. By using SKF condition monitoring to determine when it's the right time to take the bearing out of the application, we can give it a second or third life through remanufacturing. In other words, remanufacturing leads to drastically lower environmental impact, reduces costs and increases profitability, as well as creating jobs. There is a huge potential since only a fraction of all bearings are remanufactured today.

We added leading edge technologies to our capabilities

Great innovation is happening all around us, and we need to keep exploring new technologies to strengthen our offerings around the rotating shaft. In 2019, we added two clean and smart technologies that improve our value propositions: SKF RecondOil and SKF Presenso.

Under the brand name SKF RecondOil, we promote an extraordinary innovation where we turn the environmentally harmful use of industrial oil into an asset that can be used repeatedly with maintained performance. With SKF Presenso we improve our artificial intelligence (AI) capabilities to analyze sensor data and automatically detect anomalies; predicting and alerting on upcoming failures so that we and the customer can take preventive action. This will accelerate our development within AI predictive maintenance solutions and provide necessary scalability to fee-based contracts.

I have personally been directly involved in presenting SKF RecondOil and SKF Presenso to several key customers, and it has strengthened my conviction in just how sought-after these types of solutions are. We will continue to look for technologies and companies that strengthen our offerings.

Smart, clean and sustainable operations

We work relentlessly to improve. To become the undisputed leader in our business, we must have the cleanest, smartest, safest, most efficient and flexible operations, which need to be close to our customers to ensure shorter lead times and transports.

During the past three years, we have significantly increased our investments in state-of-the-art manufacturing technologies. These investments are improving productivity, as well as reducing lead times and energy and material consumption.

> We are proud to be a part of this great event that brings young people of the world together to play football.

SKF will continue as main partner for Gothia Cup until 2022. Read more on page 48.

We have shown that it is possible to grow our business and reduce CO_2 emissions at the same time. In fact, SKF has been effectively reducing energy use and CO_2 emissions from our operations for nearly two decades now, and this focus has accelerated in recent years. Since 2015, the CO_2 from our operations has been reduced by 36% while the revenue has grown by 13%. This is very encouraging and has spurred us to sharpen the energy targets for the manufacturing operations, as well as for the Group in 2019.

To enable further investments in cleaner technologies, more environmentally friendly manufacturing technologies and Green Energy Generation, we issued a green bond in 2019. SKF is the first industrial company out of the Nordics to issue a green format EUR bond, and one of the first globally.

Sustainability attracts talent

Everyone wants to be part of something to be proud of; to feel the purpose. We want to understand how we can add value, have freedom to contribute and to take responsibility. In SKF, I think we have all this. When I talk to potential employees I say: Come to SKF and make a difference!

We are convinced

We are convinced that business models which incentivize circular economies are the future. There is a strong logic and ethic in this. When different players in the value chain share the same vision of zero waste and optimal performance, the model will gain momentum and spread to more and more industries. We have come a long way with our fee-based offerings, but we are only at the beginning. The potential cannot be underestimated with our offerings being present in so many applications and industries throughout the world. With the interests in the value chain aligned, this creates more stable revenues for SKF and an inherent incentive to improve our ways of providing sustainable rotation – for the greater good of our customers, employees, shareholders and our planet.

Alrik Danielson
President and Chief Executive Officer

2019 in brief

- High and stable operating margin and record-level investments in world-class manufacturing despite decreased demand.
- Several new fee-based contracts with customers all over the world.
- Acquisitions of RecondOil and Presenso Ltd strengthening the REP and remanufacturing offers, thereby contributing to achieve circular economies.
- Launched a Green finance framework and issued, as one of the first industrial companies in the world, a green bond.

Focus in 2020

- Generate a high cash flow in order to continue reinvesting in the core business and in future growth.
- Continued investments in manufacturing technology and automation enabling further cost reductions.
- Development of region-for-region manufacturing footprint to increase competitiveness by being closer to the customers.
- Further investments in R&D increasing mean-time between failure.

Improving traditional industries

Reducing customers' environmental impact

One way for SKF to decrease the CO_2 and environmental footprint is by helping customers become more efficient and reduce their energy use, CO_2 emissions and waste. In 2019, SKF and Nordic Paper, a pulp and paper manufacturer, signed a five-year, fee- and performance-based contract. The agreement aims to improve Nordic Paper's productivity, health and safety, and environmental performance.

The agreement will increase the automation and digitalization at Nordic Paper's mill in Säffle, Sweden. 500 lubrication points and 230 condition monitoring points have been installed, all of which are connected to SKF's IMx monitoring system. Data from the connected machinery is monitored and analyzed at SKF's REP Center in Gothenburg, Sweden.

By installing sensors, condition monitoring and an automated lubrication system, along with a close cooperation between Nordic Paper and SKF, significant improvements have been made. Productivity and up-time have been improved through a reduction of the number of unplanned production stops, as well as shortened duration of outages. Safety and cost are improved by eliminating manual lubrication.

In terms of environmental benefits, major improvements will be made with an expected 80% reduction in oil consumption, a 35% reduction in water consumption and a 25% reduction in energy consumption for the lubrication and cooling systems.

How SKF creates value

Resources

Financial resources
- Assets SEK 94 billion
- New investments SEK 3.5 billion
- R&D investments SEK 2.7 billion

Social resources
- Customers in 40 industries
- 17,000 distributors worldwide
- 43,360 employees
- 800 application engineers
- 2,200 service engineers

Physical resources
- 103 manufacturing units
- 15 technology centres
- 1,686 GWh energy
- 472,000 tonnes metal

Global trends and drivers

- Population growth and increased wealth
- Urbanization
- Digitalization
- Environmental challenges
- Globalization

Read more on page 16.

Strategic focus areas

Vision
A world of reliable rotation

Mission
The undisputed leader in the bearing business

Values
Empowerment • Openness • High ethics • Teamwork

Sustainability is embedded in all we do. This is for the benefit of our customers, employees, the natural environment and the communities around us. What we do creates shared value between all these dimensions.

Customer offering
The two value propositions

Products

The product proposition meets performance requirements of specific parameters such as speed, load, noise or physical environment.

Rotating Equipment Performance

The Rotating Equipment Performance (REP) proposition meets the needs of customers who operate critical machinery by maximizing performance.

Objectives and results

Financial targets, Climate objectives and Social objectives are chosen to reduce impact over the entire value chain.

Read more on page 22.

Value created

Financial value

9.4 Operating profit, SEK billion	5.0 Cash flow, SEK billion[1]	2.7 Corporate income taxes, SEK billion
2.8 Dividends, SEK billion	3.3 Yield, %	2.9 Value reinvested in SKF, SEK billion[2]

Social value

1.5 Approved customer savings, SEK billion	26.2 Employee benefit expenses, SEK billion[3]

Physical value

224 invention disclosures	201 first filings of patents	41 new products and solutions

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

Trends and drivers impacting the bearing industry

SKF's business and strategy is based on a deep understanding of the trends and drivers that impact, or have the potential to impact, all markets, regions and industries in which the Group operates.

Megatrend	Effects on society	SKF's response and solutions
Population growth and increased wealth The global population is growing, especially in Asia and Africa, and wealth is increasing in all regions.	This puts pressure on scarce or finite resources such as materials, minerals, food, land, energy and water; thereby generating strong demand for efficiency and productivity.	SKF's products and solutions help to reduce friction and enable reliable rotation, which contributes to environmental benefits through, for example, decreased energy and water consumption.
Urbanization Today, more than half the world's population lives in cities and 1.5 million people are added to the global urban population every week. Over 90% of this growth is taking place in Asia and Africa.	Rapid urbanization places huge demands on infrastructure, services, job creation, climate and the environment.	
Digitalization for the real, industrial world Digital transformation affects all parts of the value chain, from digital twins in design and manufacturing, through integrated planning, purchasing and customer use, to maintenance and condition monitoring. It also changes the way companies go to market.	This means shorter lead times, faster development cycles, smaller inventories and significant opportunities for resource efficiency. It also highlights the need for continuous individual skill development.	The collection of digital insights together with digital scalability enables a transition from product sales to fee-based business models. This aligns SKF's interests with the customers. Read more on page 18.
Environmental challenges Increasing concern about the negative impacts of climate change and environmental degradation calls for action to reduce or avoid these impacts, through legal or other means.	This calls for industries to adopt new and efficient business models, which are less dependent on physical resources.	Through the Rotating Equipment Performance (REP) offer, SKF helps customers move towards a circular economy. Read more on page 19.
Globalization with a shift from west to east Global trade of goods and services is under pressure while connectivity and information flows are increasing rapidly. Economic power continues to shift, particularly towards Asia.	This calls for a region-for-region approach with manufacturing, sales and technical knowledge close to customers.	SKF continues the process of regionalizing its manufacturing footprint and product development, to stay competitive and relevant for customers. Read more on page 17.

Industry change driver 1
Globalization with a shift from west to east

The economic upswing during recent years has concealed a structural shift within global trade and regional competitiveness. Asia, and China in particular, has invested in modernizing and upgrading technologies and manufacturing. This trend will continue in an economic downturn, permanently altering the balance of power on a global scale.

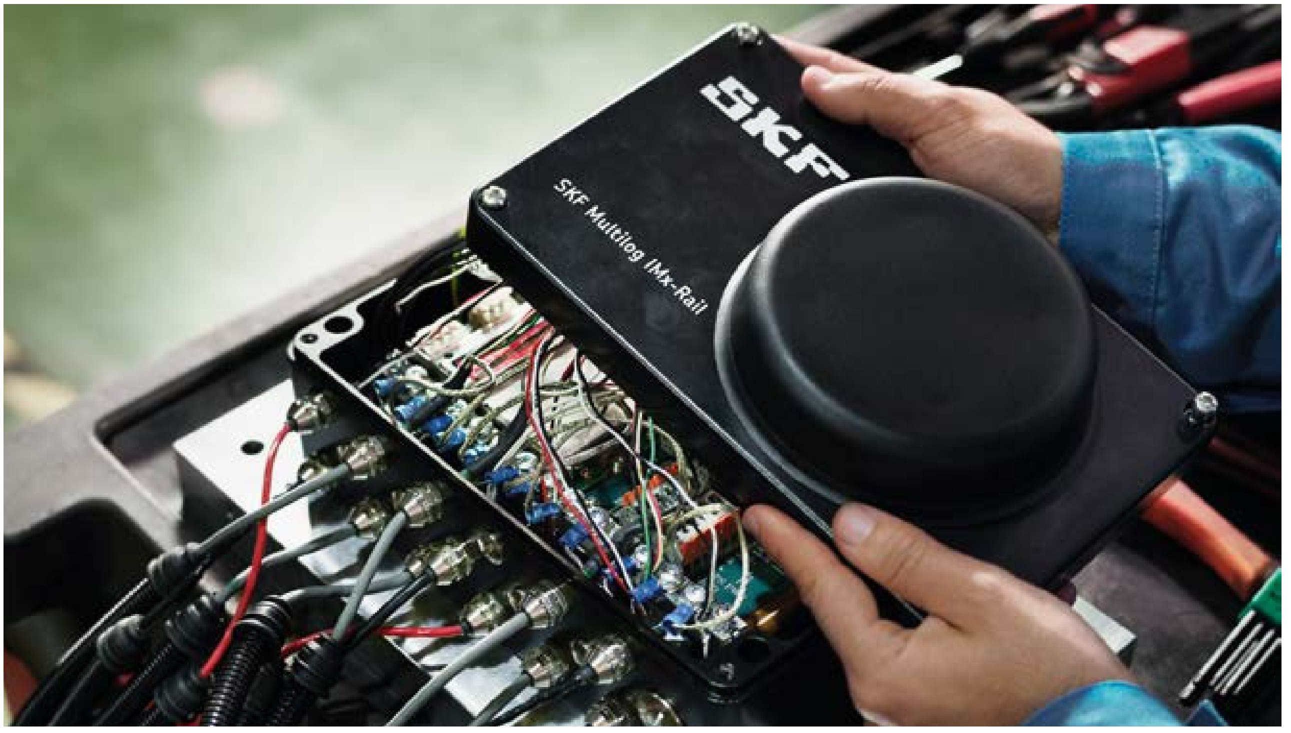
This means that OEMs in Asia, that so far have been more focused on their domestic market, will be even more relevant and competitive on a global scale. SKF is responding to this development by continuing to regionalize its manufacturing footprint and product development to remain competitive and relevant for customers in China.

Industry change driver 2
Electrification

Electrification is a strong trend in many industries, especially in the automotive industry. This is driven by battery technology development and by the multiple benefits that electric vehicles can bring to societies, for example, energy security, urban air quality, greenhouse gas reductions and noise mitigation.

The International Energy Agency (IEA) predicts a rapid expansion of electric vehicles by 2030, especially if the world takes a more aggressive approach to fighting climate change and cutting emissions. Currently, China is the country leading the world in this way.

Electrification and the growing market of electric and connected vehicles will have a positive impact on SKF's automotive business, as the bearings play an important role in their applications. Today, SKF has a portfolio of innovative solutions that enable robust and efficient E-powertrain drive.



Industry change driver 3

Digitalization for the real, industrial world

SKF has long recognized the important role digitalization will play within the industry, including meeting more ambitious sustainability goals. Digitalization and connectivity enable new ways of interacting with customers throughout the value chain. Digitalization also enables faster product development. New digital manufacturing technologies and automation contribute to flexible and automated manufacturing processes.

Industrial Internet of Things (IIoT) is typically viewed as part of Industry 4.0 and focuses on the use of big data, connected sensors, autonomous machines and artificial intelligence. SKF began pioneering some of the elements that form the IIoT many years ago and has been monitoring equipment remotely for 15 years. By using SKF technologies to connect, collect and analyze critical data from customers' machines, events can be predicted and performance optimized.

SKF is gearing up for a future in which smart products predict upcoming failures and automatically order the replacements needed, all the way back through the supply chain. This creates opportunity for new circular business models with remanufacturing and extends the "just-in-time" manufacturing concept down to the individual component – which could bring stock and waste levels close to zero in the future.

Digitalization is changing the way business is done

Aligning interests in the value chain
The collection of digital insights, together with digital scalability, enables a transition to fee-based business models. This way of doing business aligns SKF's interests with those of its customers by improving value creation for all.

Enabling innovation with insights and speed
Automated design tools make development cheaper and quicker. Digital twins – using field and industry insights – radically speed up the design processes.

Making new business models scalable
Digital tools reduce the cost of services related to fee-based business models. Business models that were previously too labour intensive are now scalable.

Transforming supply chain through automation
Foresights and insights through connected bearings and factory automation provide flexibility and low labour costs – enabling local production, as well as reduced lead times and logistics.

Industry change driver 4

Environmental challenges

The Intergovernmental Panel on Climate Change special report on Global Warming of 1.5 °C from 2018 states that limiting global warming to 1.5 °C above pre-industrial levels requires rapid, far-reaching and unprecedented changes in all aspects of society.

What is needed is a rapid deployment of technical and system transformations on an unprecedented scale. SKF considers that playing a significant role in this transformation is a responsibility and a great opportunity, both of which the company is uniquely positioned to embrace.

The releated challenges have a multitude of implications for SKF's diversified customer industries. The Group's leading expertise and in-depth knowledge of customers' goals and ambitions put SKF in a strong position to bring about sustainable solutions that help customers meet their goals.

Sustainability is embedded in SKF's business. By reducing friction and enabling reliable rotation, the Group's offering contributes to make the customer's business operations more energy efficient and environmentally friendly. Combining this with condition monitoring and remanufacturing services increases the environmental benefits for the customers. Through the REP offer, SKF also helps customers move towards a circular economy. Reducing CO_2 emissions from both SKF's factories and supply chain is also an important contributing factor.

With ever increasing environmental challenges, the importance of sustainability has increased over the last few years. An increasingly important factor for winning new business is how a solution contributes to the customer's climate footprint. This increased attention from stakeholders will continue. The combination of SKF's offering and internal commitment to reducing the impact will continue to be a source of competitive advantage in the future.

Read more on page 37 and the full Sustainability Report on pages 116–141.

The 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs or Global Goals) and 169 targets, agreed by 193 countries. Read more on skf.com/globalgoals

Reducing impact of SKF operations and supply chain

CO_2 neutral factories

SKF works to reduce CO_2 emissions from its production facilities in several ways:

- Material, energy and CO_2 waste are reduced in the Group and up the supply chain by assuring stable and capable processes and optimizing material usage.
- With a systematic focus on energy efficiency, SKF is implementing more energy efficient technologies and eliminating energy waste, associated costs and CO_2 emissions.
- Purchased electricity represents 70–80% of energy use and CO_2 emissions from the factories. SKF's ambition is to buy or generate energy from renewable sources whenever this is practically and commercially viable.

The result is lower costs, better material utilization and a significantly lower carbon footprint for SKF factories and the products they produce. As customers start to work to reduce their upstream CO_2 emissions, the Group's good track record and solid approach to these aspects is increasingly a source of competitive advantage.

Several SKF factories have over many years taken significant steps towards zero CO_2 emissions. This is exemplified by the Tudela Factory in Spain, which has consistently had a very effective material and energy efficiency approach. This has resulted in a 45% reduction in the absolute energy need since 2011. The reduced energy consumption has, together with a 100% renewable electricity contract, led to a reduction of annual CO_2 emissions from 12,000 tonnes in 2011 to around 600 tonnes in 2019.

SKF has approved a further investment for on-site solar (PV) generation in 2020. With an offset of the remaining 600 tonnes of CO_2 emissions, Tudela is a carbon neutral factory.

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

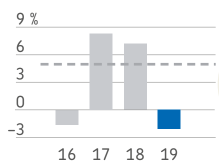
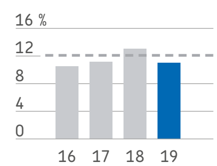
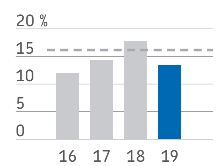
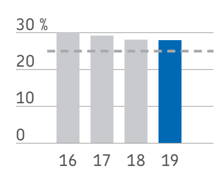
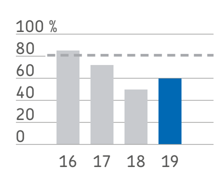
13 CLIMATE ACTION


SKF

Objectives and results

SKF’s financial targets were introduced in 2016 and are to be achieved over a business cycle. SKF’s climate targets for 2025 started in 2017 and are based on life-cycle thinking – to reduce impact over the entire value chain.

Financial targets

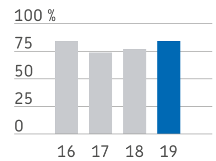
			Average 2016–2019	Outcome 2019	
Organic growth		TARGET 5%	2.9%	–2%	• Organic sales decreased by 2% compared to 2018. • Latin America and Asia-Pacific showed growth while North America and Europe declined. • Industrial sales were in line with last year, while Automotive sales declined.
Operating margin		TARGET 12%	11.3%	10.9%	• A reduction compared to 2018. The sale of the L&AT business positively contributed by MSEK 1,261 last year. • Positive effects from pricing and cost reductions. • Lower sales and manufacturing volumes had a negative effect.
Return on capital employed		TARGET 16%	14.2%	13.2%	• The decrease is mainly due to implementation of IFRS 16 which affected capital employed by SEK 3 billion. • In 2018, the gain from the sale of the L&AT business positively affected the return on capital employed.
Net working capital		TARGET <25%	28.6%	27.7%	• Net working capital was in line with last year. • Higher inventories had a negative effect. • Higher trade payables had a positive effect.
Net debt /equity		TARGET <80%	66.0%	59.3%	• The increase is mainly due to effects of IFRS 16, which increased debt by SEK 3 billion and increased pension liabilities due to the decrease of discount rates. • Net debt/equity excluding leasing and pension liabilities, was 10% (13%).

Climate objectives

Outcome 2019

Raw material

% of major energy intensive suppliers certified according to ISO 50001.



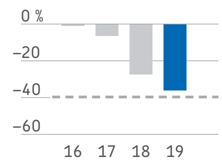
TARGET
Support suppliers to reduce their CO_2 emissions

- Share of the energy intensive major suppliers ISO 50001 certified: 83%.
- Global suppliers in scope: 42.

- Raw materials have a significant impact from a lifecycle perspective. Systematic energy management has proved to be a pragmatic way of reducing scope 3 emissions from the supply chain.

Reduction of CO_2 emissions in manufacturing

% reduction per tonne of sold bearings compared to 2015.



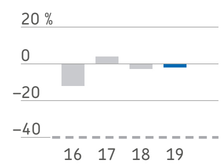
TARGET
–40%

- CO_2 emissions: –36%.
- Increased energy efficiency, increased share of renewable energy, consolidation of manufacturing footprint.

- Energy use and related emissions are among the most significant and direct ways that SKF can reduce its environmental impact.

Reduction of CO_2 emissions in goods transport

% reduction per tonne of shipped products compared to 2015.



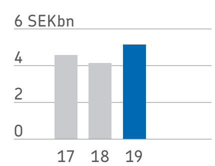
TARGET
–40%

- CO_2 emissions: –2%.
- Shorter transports, higher fill rates and more CO_2 effective transport modes.

- There is significant potential to reduce emissions from SKF's goods transport, while at the same time improving cost efficiency.

Customer solutions

Revenues from key areas such as renewable energy, electric vehicles, the recycling industry and bearings remanufacturing.



TARGET
Support customers to reduce their CO_2 emissions

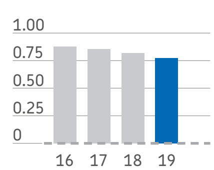
Revenues from key areas:
SEK 5.1 billion.

- Life cycle studies show that the greatest impact is within the use phase of SKF's solutions, when they are installed and used in customer applications.

Social objectives

Safety

Accident rate per 200,000 worked hours.



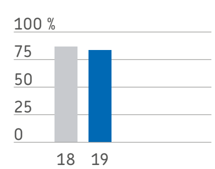
TARGET
0.00

- Accident rate: 0.77 (0.81 in 2018).
- Actual number of recordable accidents: 281 (319).

- SKF is convinced that all work-related accidents can be prevented. That is why the zero accidents ambition remains.

Performance development

% of users with documented performance reviews in SKF's global system.



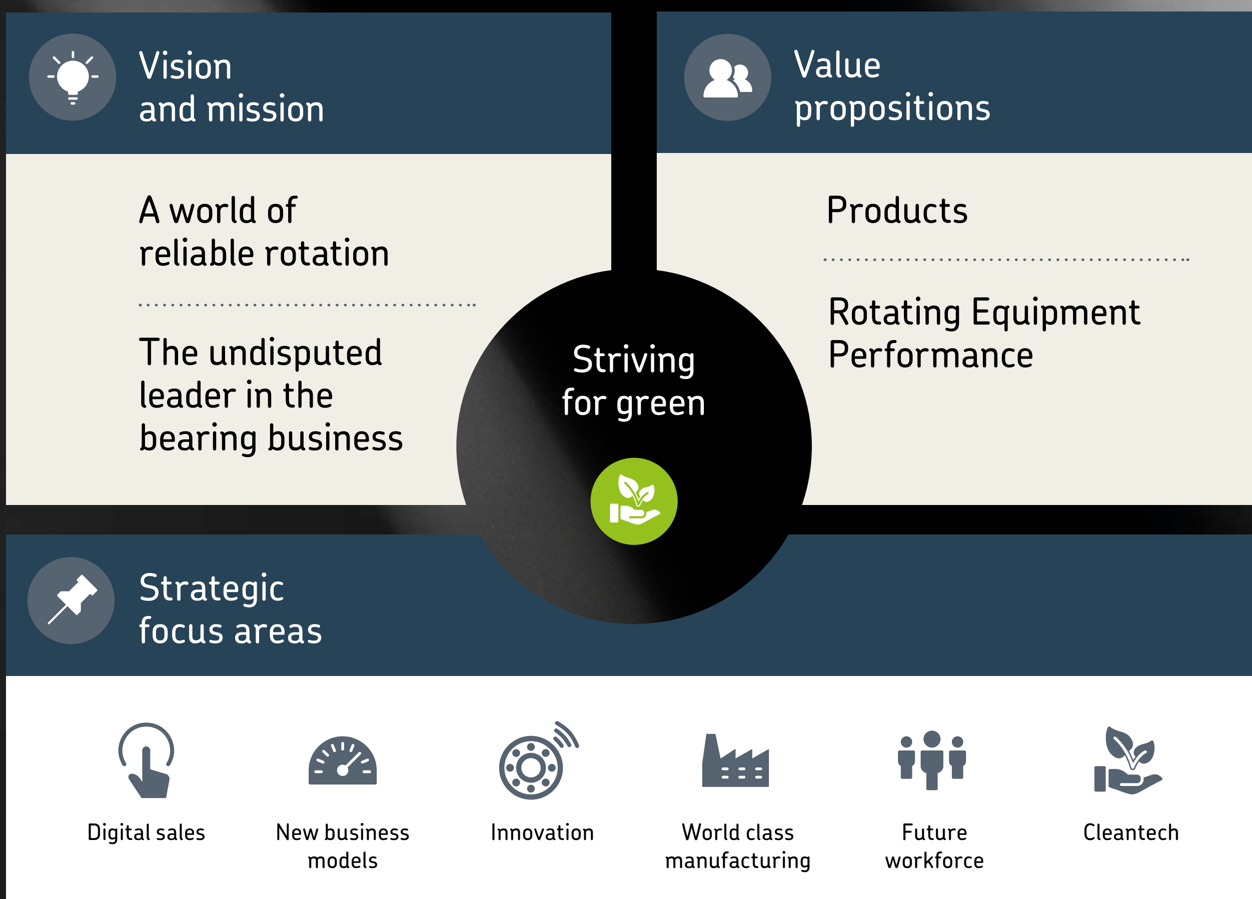
- 83% according to the 2019 analysis, covering employees active in the Group's global system.

- Strong individual and team contribution of SKF's people is needed to deliver on the Group's strategy.

SKF strategy

The future is digital, electric and clean

SKF's strategy is centred around the rotating shaft and the two value propositions – Product and Rotating Equipment Performance. SKF has also identified six strategic focus areas that are central to realize the vision and the mission.



SKF's strategy is the foundation from which the Group works towards its vision of "a world of reliable rotation" and its mission of becoming "the undisputed leader in the bearing business." Sustainability is embedded in SKF's business. Everyone working in SKF has a role to play in tackling the environmental challenges – and that is what "Striving for green" symbolizes (read more on page 37).

The strategic focus areas will guide SKF to successfully leverage the opportunities created by digitalization. At the same time, they will help SKF to reduce its own and the customers' environmental impact and energy consumption, and to take a greater part in the circular economy.

Digital sales

By scaling the product value proposition through digitalization of the full value chain, a better customer experience will be achieved at a significantly lower cost.

From

Sales process without a fully connected value chain.

Today

Developing a fully connected value chain based on a digital platform.

Tomorrow

- Improved customer and user experience by leveraging digital tools throughout the company.
- Significantly reduced cost to serve customers.

In a traditional setting, industrial companies run a dated sales process without a fully connected value chain. This creates inefficiencies, since most processes and customer interactions are manual.

SKF is developing a fully connected value chain, based on the company's digital platform. This will reduce waste, for both the customer and for SKF, and improve the customer experience. It will also enable SKF's product sales to continue to be the backbone of the customer offering and REP sales, while being delivered much more efficiently.

New PIM system implemented

Today's marketplace is largely online, and companies need to provide online e-commerce sites with instant and relevant information. In 2019, SKF launched a new Product Information Management (PIM) system that combines technical data with commercial features and pictures. The PIM system will feed distributors' e-commerce sites, SKF's present web-based applications and future consumer channels with relevant product information. The system will also enable SKF's innovations in digital interaction in the coming years.

Enabling digital sales through digital engineering

Digital engineering is a way of creating, capturing and integrating product data using digital tools to develop innovative solutions in a virtual environment. By connecting the design of products to the people using them, digital sales are enabled through the entire value chain.

In 2019, SKF partnered with Tacton to build product configurators with integrated design automation and future connections to digital sales. SKF also launched the new version of Bearing Select, an easy-to-use, online tool for bearing selection and calculation.

Launch of vehicle aftermarket eShop

In March 2019, SKF's first direct B2C eShop (e-commerce) with automotive aftermarket components was launched in the United Kingdom. This was followed by Germany in October, bringing SKF closer to automotive end customers in the largest market in Europe. The roll-out across additional markets in Europe and North America has started.

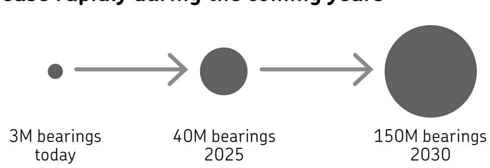
New business models

By creating and capturing customer value through fee-based business models with incentives based on Key Performance Indicators (KPI) such as uptime and productivity, the interests of SKF and the customers are aligned to reduce cost, waste, safety risk and environmental impacts.

From	Today	Tomorrow
Selling bearings only.	Selling reliable rotation.	• Product sales are still the foundation, but performance-based contracts represent a growing portion of sales. • Increased number of connected bearings. • Several strategic OEM and aftermarket partnerships that speed up SKF's technology and business development.

A combination of environmental considerations, digitalization and the shift from transactional to fee-based business models will revolutionize the way SKF does business and provides value to customers. Expanding the portfolio of fee-based REP contracts – achieving reliable and sustainable rotation – will help reduce the impact of commoditization within the transactional, industrial component business.

The number of SKF's connected bearings is expected to increase rapidly during the coming years



The number of connected bearings will increase as the REP business develops, which provides the Group with another benefit. The data that is collected from customers gives additional insights which can be leveraged in combination with SKF's application knowledge and expertise in bearing life models and lubrication.

Digitalization as an enabler

The scope for performance improvement through fee-based business models has been enhanced by digitalization. SKF provides inexpensive, easy-to-use, condition monitoring units and automatic, fully integrated lubrication systems. These are connected with the SKF Cloud and the customer's existing production management system to generate useful real-time data which can be acted upon remotely.

Entry-level hardware and software make it simple for any company to adopt a digital approach, and solutions are scalable to suit all sizes of operation. All systems are connected to SKF REP centers, where data scientists and application engineers monitor three million connected bearings.

SKF helps customer save 8 million EUR per year
SKF has placed 8,000 sensors on the production lines at a mining company, monitoring 2,400 critical assets, such as pumps, fans, gearboxes and large rotating grinding mills. A continuous service agreement is in place with the mine owners and, as a result of digitalization, SKF has been able to document that the predictive maintenance measures being carried out are saving the company almost eight million EUR per year.

Acquisitions strengthening the REP offering
SKF made three acquisitions in 2019 that strengthen the REP offering: RecondOil, Presenso Ltd and Form Automation Solutions (FAS). SKF RecondOil is working with industrial lubrication fluid and oil filtration. By enabling oil to be re-used and, consequently, be rented or sold repeatedly in a circular economy, the solution contributes to creating new business models within this area.

SKF Presenso develops and deploys artificial intelligence (AI)-based predictive maintenance software. With an increasing number of connected bearings there is a need to develop automated, predictive maintenance solutions where SKF's application knowledge is built in. Combining the expertise from SKF Presenso's data driven and SKF's application driven analytics will strengthen the REP offering.

FAS has developed GoPlant, a mobile-based asset inspection and data collection solution used in industrial applications. This technology turns the manual data collection process into actionable information for the operator, which will support SKF in helping customers improve the performance and output of their machinery.

How fee-based business models work

In the traditional transaction-based model, suppliers' profits depend on numbers of parts sold and not on improvements in machine performance. This represents a fundamental conflict of interest, as longer component life means fewer sales for the supplier. With a forward-thinking, fee-based REP service, both SKF as a supplier and the customers are benefiting from maximizing machinery's productivity, reliability and efficiency.

With a REP contract, the customer pays a fixed fee for service and/or equipment and it may also have an additional component linked to agreed targets, related to for example machine performance, production output or other KPIs. An all-inclusive fee may cover supply of bearings, seals, lubrication and condition monitoring. SKF's engineering expertise in this specialized area ensures the ideal specification and application of all elements. This is important as 90% of industrial bearings fail because they are either wrongly specified by the customer, or installed, lubricated or used in the wrong way. REP can be applied to both long-established and modern equipment.

Analyzing data at the Barcelona Metro network

Overall demand for public transport in and around Barcelona exceeded the levels it was predicted to reach in 2020 already in 2018. For operators, this growth creates pressure to continually improve the reliability and availability of vehicle services, whilst keeping costs under control.

At the end of 2018, Barcelona Metro installed SKF's Multilog IMx-Rail condition monitoring technology. The system includes sensors and electronics from which data is processed and then analyzed by SKF's software system. By using smart algorithms, the software system identifies, locates and accurately records rail track abnormalities that might generate wear or damage to the train's wheels, passenger discomfort or noise on parts of the track in real time, spotting problems faster. This allows metro operators to optimize track maintenance planning and execution.

Innovation

Through innovation, SKF develops technology that strengthens the two value propositions and the company's position as a market leader. It also helps to enable cleantech and reduces environmental impacts of all industries.

From	Today	Tomorrow
Minimal focused innovation targeting end-users.	Application driven innovation.	• An ability to turn bearing failure modes into new product and service offerings. • Technology leadership and preferred development partner within electrification. • Innovation and product development closer, both geographically and in focus, to the customer.

Historically, SKF's bearings have been manufactured and sold via distributors. This means that the products could end up in machinery for which they were either over – or under – engineered, adding unnecessary cost or putting the customers' machine performance at risk. There was minimal focused innovation targeting end-users or considerations to use business models other than existing ones.

SKF's R&D processes are now changing to ensure this does not happen in the future. Focus is on increasing mean-times between failures and a seamless integration of bearing performance data into the customers' and SKF's own design processes. These technologies will not only strengthen, but also enable the continued development of SKF's two value propositions.

From complex to simple

SKF innovates to help customers make better-informed decisions that deliver on their business objectives. Although the innovations are often pioneering and complex, SKF's products and solutions need to be easy-to-use. Two examples of this from 2019 when it comes to maintenance are IMx-8 and SKF's handheld and mobile data collection hardware offering.

SKF's Multilog Condition Monitoring System IMx-8 is an innovative eight-channel version of the Multilog IMx machine health monitoring system platform. It is SKF's most compact, easy-to-use, machine health monitoring tool to date. The IMx-8 is internet-enabled, providing remotely accessible machine health data in real time for expert analysis.

SKF Enlight ProCollect is a new portable vibration monitoring solution. The solution incorporates an updated version of SKF's robust QuickCollect hand-held sensor, together with the new mobile app, SKF ProCollect. ProCollect has been designed to simplify the collection, interpretation and communication of both operational and machine condition data. Furthermore, the new software links seamlessly to SKF's advanced, web-based monitoring platform, SKF Enlight Centre.

From "do it yourself" to "not invented here"

Accepting that others are sometimes ahead within a certain area is not easy, but necessary. When this happens, it is also important to accept that there are others that should do this for, or together with, you. That is why partnerships are a central part of SKF's R&D strategy.

The acquisition of Presenso Ltd in 2019 is an example of this. SKF Presenso is a pioneer in the application of AI for predictive asset management. Their approach is to apply AI to analyze sensor behaviour and automatically detect abnormalities and patterns, predicting and alerting about upcoming failures. By combining SKF Presenso's data driven analytics with SKF's application driven analytics, unique solutions for the market will be able to be developed.

From not EV to EV

The technological shift towards electric vehicles (EV) is positive for SKF. The Group's exposure to automotive powertrain applications is low and, in addition, EVs have more bearings with more advanced technology than the conventional car with an internal combustion engine. The latter is explained by the high speed of the electric motors used in EV powertrains. This requires the use of customized bearings. Ceramic, instead of steel, ball bearings are most capable of dealing with all the specific conditions.

Innovation is crucial to position SKF as an expert component supplier. SKF has a very strong position in developing electric powertrain components, being the preferred development partner among most of the major OEMs in the development of components for automotive electrification.

From wires to wireless

Digitalization is an important strategy for SKF, and wireless is one tactic within that. In service, a bearing may be digitized by measuring its vibration signature, temperature and lubrication state. The measurements are analyzed to predict a potential problem and provide information that can be used to take corrective action. This is part of SKF's REP offer, and wireless devices make the process more scalable.

SKF is innovating in the wireless predictive maintenance area through the quality and capability of the measurements, long experience in rotating equipment to apply wireless in tough applications, and the use of wireless devices in fee-based service models, instead of simply providing instruments. An example of this is the SKF Insight Rail™ product, where wireless Industry 4.0 is being deployed in the market with several train operators, widening SKF's connected bearing footprint in railways. In 2019, SKF also began transferring this IIoT experience in moving vehicles to heavy industrial fixed assets, in the form of the SKF Enlight Collect IMx-1 System.

The world's first hybrid bearing life model

It has been difficult for engineers to predict whether a hybrid bearing, such as a ceramic ball bearing, will outperform a steel one in a given application, or whether the possible performance benefits that hybrid bearings enable are worth the extra investment they require. The conventional equations engineers use to calculate the rating life of a bearing do not reflect the real-world performance of hybrid designs.

In 2019, SKF unveiled the pioneering Generalized Bearing Life Model (GBLM) that, for the first time, enables the working life of hybrid bearings to be determined more realistically. This means that, using GBLM, SKF engineers have been able to determine the real-world benefits hybrid bearings have. This development will ensure that customers and distributors choose the right bearing for the right application, every time.

In 2019, SKF opened an office at Lindholmen Science Park, Gothenburg's most knowledge-intensive and expansive area. At the office, SKF's team involved in innovation and R&D, as well as other employees, can work together in the creative and international working environment that has developed there.

World-class manufacturing

SKF is working with technology step-up and footprint transformation to provide competitive products closer to the customer, significantly reducing the energy and CO_2 needed to produce and transport the products.

From	Today	Tomorrow
Labour-intensive production.	Automated factories with a region-for-region footprint approach.	• Fewer but automated factories, with higher flexibility, closer to the customers. • Increased percentage of region-for-region manufacturing. • Fewer, more skilled roles in the factories, requiring skills within automation, additive manufacturing and digitalization.

To become the undisputed leader in the bearing business requires the cleanest, smartest, safest, most efficient and flexible factories in the world. Furthermore, these factories need to be close to the customer, to ensure short lead times and shorter transportation requirments.

SKF continues to invest in flexible, automated, connected factories, as well as localizing our manufacturing on a region-for-region approach. Investments in our factories will enable cost reductions, both from a material and headcount point of view. The skills requirements and shift needed within our factory organization will continue to create development opportunities and attract new types of workers.

Safety always comes first

SKF works to ensure safe and healthy workplaces by following the requirements set out in its management system. Unit managers and their teams are accountable for overall health and safety in their operations.

0.77
ACCIDENT RATE PER 200,000 HOURS WORKED 2019

Increased investments in manufacturing technology step-up

SKF is accelerating its investments, in line with the region-for-region manufacturing strategy, in moving production capacity to Asia, as well as in investments in property, plant and equipment (PPE). Investments in PPE increased from SEK 2.6 billion in 2018 to 3.5 billion in 2019. Since 2016, these investments have increased by more than 80%.

New factory in China

In 2019, a new tapered roller bearings (TRB) factory in Changshan, China, was inaugurated, with consolidation into one site of the main TRB productions. Following an investment of around SEK 200 million, this modern and efficient factory will improve SKF's competitiveness in the industrial drives and automotive segments in China.

Investment in DGBB manufacturing

SKF invested in 2019 around SEK 450 million to improve the competitiveness of the deep groove ball bearings (DGBB) offering. In line with the Group's region-for-region manufacturing strategy, parts of the DGBB manufacturing in Bari, Italy, and spherical roller bearing (SRB) in Luton, United Kingdom, were relocated to Asia, closer to its customer base. The DGBB manufacturing in China will be consolidated into a new factory and an automated production channel will be implemented in Bari.

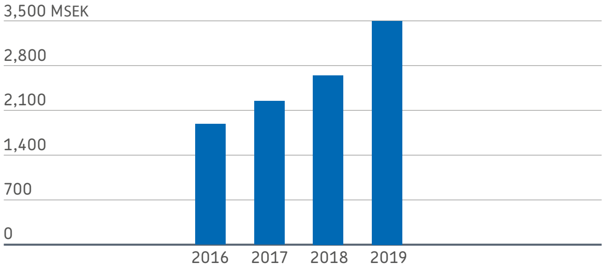
Advanced technology development

In 2019, SKF made several new breakthroughs on advanced technology development. Further digitalization and designing for the factory of the future was made in cooperation with Siemens, where a pilot project is running in the Airasca factory, in Italy. With the acquisition of SKF RecondOil, reconditioning and reuse of oil is enabled in SKF's own factories. In addition, close to zero reset-time for machines when shifting from production of one type of bearing to another means much greater flexibility and improved customer service levels.

Focus on workforce readiness and competence

Operations development is also about making sure that the technological development and world-class activities in the manufacturing area are sustainable and generate the planned profit improvements. SKF has created SKF "DIGI Forum" to spread awareness, get buy-in from employees and to make sure that the company has the right organizational set-up and people with the right skills. These are vital factors to reach the full potential of the employees and the invested installations. SKF "DIGI Forum" is run jointly by management and union representatives to oversee the impact of digitalization on the workforce and enforce communication and training activities through the manufacturing academy programs.

PPE investments 2016–2019



Solar power purchase

SKF's factories in Bangalore and Mysore, India, have made solar power purchase agreements since mid-2018. In 2019, 18 GWh of renewable power was procured. This means that both Bangalore and Mysore plants are now using more than 80% renewal energy. The CO_2 emission reduction achieved was approximately 15,000 metric tons, which is equivalent to the annual emissions from more than 10,000 new European cars. In addition, electrical energy costs have been reduced, while production results have improved.

Major footprint and world-class projects in 2019

- Full digitalization of two channels in the Cassino factory, Italy, with automatic resetting implemented. This is an on-going expansion across SKF's ball bearing factories.
- State-of-the-art cylindrical roller channel started up in the Schweinfurt factory, Germany, with significantly improved cost base and flexibility. The factory will also expand to support the capacity increase in the wind market and the operations in Dalian, China.
- SKF's first railway bearing unit channel installed in Russia for local customer supplies.
- First phase of the roller channel for spherical rollers implemented in Poland, with the second under preparation.
- Completed consolidation of spherical bearing production in Flowery Branch and Hanover, USA, into one factory.
- A slewing bearing service centre started in St Cyr sur Loire, France. A new slewing bearing line is also under preparation in the Sumter factory, USA.
- Goods to Man logistics projects implemented both in SKF's Italian and German warehouses, reducing the logistic costs and improving safety.
- State-of-the-art 4.0 manufacturing in Valenciennes for the Leap aero engine inaugurated together with SKF's customer Safran.
- A new factory for ball bearings production in China under production.

Future workforce

SKF is working on dimensioning the workforce size, as well as developing skills and leadership for the needs of the digital world with a collaborative approach with unions.

From

Working in the pre-digital age.

Today

Working in the digital age.

Tomorrow

- Continuous and proactive re-dimensioning of the workforce.
- Investments to develop new skills.
- A more agile way of working.
- Fun, positive and empowering work environment.
- Attract the most creative, astute and diverse students.

Being a global company with a presence in nearly every industry offers great possibilities, but also makes SKF sensitive to global trends. SKF needs to adapt its ways of working, to ensure that the company is agile and can respond quickly to external change. SKF must invest in new skills and developing its people–its greatest competitive advantage. In this section, you will meet some of the people who constitute the future workforce of SKF.

SKF believes that the future will require continuous and proactive adaption of the workforce and investments in people. SKF must be a company that attracts the most creative and diverse talents and believes that the workplace must be fun, positive and empowering. A truly inclusive atmosphere brings us together. At the same time, SKF must leverage the opportunities of the circular economy and stay at the forefront of technology and digitalization.

To meet these future requirements, SKF needs the right leadership. Not just from the top, but at every level of the organization. Being a leader in SKF means leading yourself as much as leading others. With clarity, passion, empathy and fearlessness.

Claudia Garcia

Director Customer Solutions and Customer Experience, USA

"In my experience, the key to being agile is not the methodology, the terminology, the processes or the structure. It is a change of mindset."

Claudia embodies that mindset. She thinks that by applying it to everything we do, we can be in constant motion. Correcting and adapting, but never stopping.

"Our customers and their expectations are changing every day. Having an agile mindset allows us to be flexible and react, making SKF sustainable by ensuring that we deliver the required customer experience even when expectations constantly evolve."

Homlse Mu

Manufacturing Technology Manager, China

Homlse has always taken an active part in driving change. "I believe that engineering is an amazing tool to alter the track of human beings. Within SKF, I feel we can make some real change".

Digitalization is making manufacturing totally transparent and more efficient, and our demand chain more flexible and reliable.

"During my career at SKF, I have built production channels, robots and automation units. I now get to see them running 24 hours/day by diligent operators. It makes me feel extremely happy."

Jean-Luc Gardelle

Director Industrial Sales, France

Jean-Luc has been a people manager in SKF for 25 years. He leads with passion and energy, and emphasizes how important it is to give purpose to the team.

"It makes people willing to try new things and stimulate them to trust that change happens for a good reason and a better future".

As a manager Jean-Luc believes in giving people freedom to achieve goals in their own way: try, learn, fail sometimes.

"In this way, we can develop new ways of thinking and doing. All of us being ordinary people, but together we can achieve great things."

Jessica Zhou

Director Customer Experience Excellence, China

"I strongly believe in the direction that SKF is moving; digitalization and fee-based business models. The sense of urgency drives us to run fast, as the Chinese market is highly digital and agile. Our customers are not waiting for us. Therefore, we must accelerate".

Jessica is sure that SKF can elevate the customer experience and, at the same time, improve working capital with end-to-end demand management.

"Digitalization will also drive our internal processes to be even more connected, and consequently eliminate waste."

Lucas Souza

E-commerce and CRM coordinator, Brazil

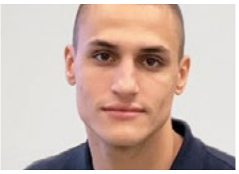
"Digitalization enables us to learn even more about our customers. In this way, we can always deliver the best solution to every specific customer, to help them improve their efficiency on all levels, and not only sell products" says Lucas.

The currently most fascinating part of SKF is, according to Lucas, our REP center, where we use our expertise and our big amount of data to ensure a high performance of bearings for our customers.

"We are investing time and money in technology, innovation and employees, which strengthens us day by day. In such a volatile market, we remain solid as a company".

Shady Abdalla

Operator, Sweden



Shady works as an operator in the Gothenburg World-class channel, where the spherical roller bearings are manufactured. A great team atmosphere and being part of a company that is at the forefront of innovation and digitalization makes him really enjoy his daily work.

"Digitalization has improved our efficiency. It has affected our documentation in a positive way, and we have a better overview of what is happening in the factory. Moving forward, it will make us more sustainable too".

Reverse mentoring – turning things around

SKF is running an initiative for reverse mentoring, where a young professional is mentoring a more senior colleague. The new generation entering the company has a different view on leadership and communication, while more experienced employees bring industry and business insights to the table. This is a win-win dialogue for Alessandra Doriguzzi Bozzo, Application Engineer, Automotive, and Ezio Miglietta, Country Manager Italy,

"The Reverse Mentoring Programme wasn't easy, especially at the beginning. I felt responsible to drive the discussions and give Ezio a different perspective and new ideas. Ezio, proved that managers at every level are able to listen and be curious, which wasn't something I took for granted."

Alessandra Doriguzzi Bozzo

"I left the driving seat to Alessandra. I had to control the temptation to act as a coach instead of being on the receiving end. We focused on topics of mutual interest, such as how to engage and retain millennials, reward systems and gamification. I would definitely recommend this to other colleagues."

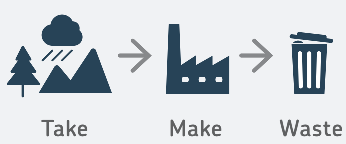
Ezio Miglietta

Cleantech

SKF provides solutions to reduce customers' environmental impact and energy consumption through the company's value propositions and by taking a greater part in the circular economy.

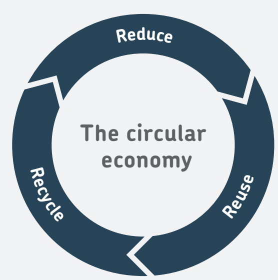
From

Linear economy.



Today

Circular economy.



Tomorrow

- SKF's brand and business are synonymous with technology development within the clean-tech industry.
- Development of start-up technologies and companies to support the growth of the REP business.

SKF's journey to become a cleantech company is reinforced. SKF will continue to look for companies developing such technologies. As customers want help to reduce their environmental impact, SKF will continue to add technologies that have a natural fit with the REP and remanufacturing offers. REP is not just about production output, it is also about striving for a better green performance; using less oil, running equipment longer, reducing CO_2 emissions and creating a safer working environment for customers and for SKF.

SKF Remanufacturing

Remanufacturing means rebuilding a product to specifications of the original manufactured product using a combination of reused, repaired and new parts. Remanufacturing is found in many SKF business models, usually in combination with condition monitoring and predictive maintenance, but increasingly also as a stand-alone product.

Remanufacturing is one of the key strategies for achieving a circular economy; to reduce, reuse and recycle material. One essential benefit of remanufacturing is that already processed material is used for a longer time. For example, a bearing that is normally replaced after three years, could be remanufactured twice and last up to nine years, providing the function of three new bearings.

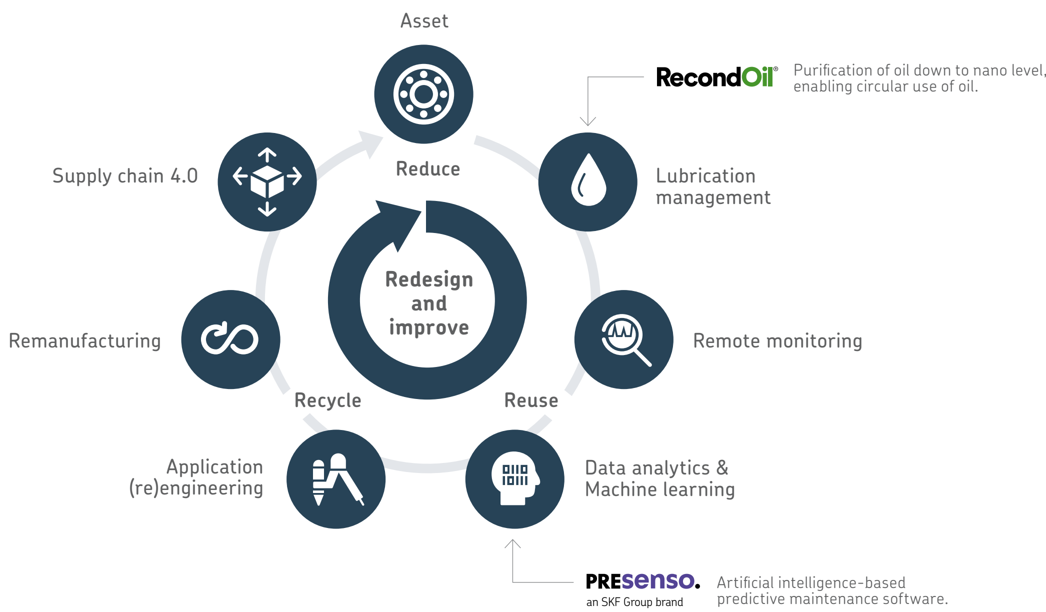
The remanufactured bearings and units from SKF function as new and are delivered to customers with the same warranty as new bearings. For the customer, this brings benefits such as reduced lead times, lean operations and often lower costs. The remanufactured bearings cut emissions in the production phase by up to 90%, compared with a new bearing.

Contributing to the circular economy

As well as reducing costs and increasing profitability, SKF's REP fee-based approach reduces waste in the value chain and lowers environmental impacts. REP contributes to the circular economy through remanufacturing or recycling of bearings, as well as filtration and regeneration of lubricants. It also lowers material and energy consumption more generally thanks to longer-lasting components and more efficient machine performance.

Acquisitions realizing the circular economy

In 2019, SKF acquired companies that have a natural fit with the REP and remanufacturing offers, while contributing to realize the circular economy. SKF RecondOil's solution gives SKF the ability to recondition oil and lubricants, and brings lubricants to the circular economy. SKF Presenso's approach is to apply AI to analyze sensor behaviour and automatically detect abnormalities and patterns, predicting and alerting on upcoming failures. This will accelerate SKF's development within AI predictive maintenance solutions and provide necessary scalability to REP contracts.



Investing in green projects

In 2019, SKF was one of the first industrial companies ever, to issue a green bond. The bond will raise 300 million euro to fund eligible green projects in accordance with the Group's Green finance framework, which was also launched in 2019.

In line with the framework and SKF's climate objectives, investments will be made in green projects. The aim is to reduce CO_2 emissions and impact from SKF's own operations and supply chain operations, as well as to support customers to reduce their emissions. This will be done through capital investments in manufacturing, plant and property, and R&D related to cleantech industries.

By launching a Green finance framework and issuing the green bond, and thereby engaging in green financing, SKF has taken further steps to integrate sustainability in financing operations. The bond was oversubscribed more than four times and had the lowest printed coupon and the longest duration in SKF's history.

More information about SKF's Green finance framework and green bond can be found at https://investors.skf.com/en/green-finance-framework.

Striving for green

The challenges the world faces are huge but solvable. What is needed is a rapid deployment of technical and system transformations on an unprecedented scale. As a global company, SKF sees its contribution to this transformation as a responsibility and as a great opportunity, which the Group is uniquely positioned to tackle. There is no longer any contradiction between environmental and commercial targets. They are one and the same.

SKF was founded based on an innovation which enabled a massive increase in energy efficiency and reliability for industry. Ever since, SKF has added new technologies which increase reliability and uptime, reduce waste and consequently decrease the CO_2 and environmental footprint of the Group's and customers' operations.

Everyone working at SKF has a role to play in tackling the climate crisis – and that is what "Striving for green" symbolizes. Striving for green is first and foremost an attitude that starts by questioning and seeking to understand the environmental impacts the Group can influence, then translates that into action – making positive and proactive choices to reduce that impact. To give some examples of what this attitude means:

- SKF people working with customers on REP solutions will strive to help the customer optimize the economic and the environmental performance of the customer process.
- SKF people working in manufacturing will strive to eliminate waste – material, energy and costs to lower the CO_2 footprint of SKF production.
- SKF people working in purchasing will strive to understand the CO_2 impact of different supplier options, and then factor this into supplier selection processes.

SKF has been effectively managing and driving down energy and CO_2 emissions from its operations for nearly two decades and this focus has accelerated in recent years. Since 2015, the CO_2 from the operations has reduced by 36% while the revenue has grown by 13%. This "de-coupling" of CO_2 from economic growth is crucial and it shows that sustainable growth is possible. During 2019, SKF has sharpened the energy targets for the factories and for the Group as a whole. A number of SKF factories are close to being CO_2 neutral and some already are. SKF's factory in Steyr Austria has been CO_2 neutral for several years, and in 2020 SKF's factory in Tudela, Spain became the first of the Group's Automotive factories to achieve CO_2 neutrality.

SKF has made cleantech one of its strategic focus areas and will continue to add green technologies such as SKF RecondOil to the value propositions.

The green bond issued by SKF during 2019 is another example of SKF's commitment to strive for green.

Global Goals – action is urgent!
SKF is dedicated to deliver sustainable results via its business and business conduct. SKF Care is the Group's sustainability framework covering the business, environment, employee and community dimensions. The globally recognized agenda for 2030 energizes SKF to do more and deliver more value for business partners, employees and surrounding communities. All 17 Global Goals include elements related to SKF Care and are relevant for the Group, including themes such as health, safety, climate, equality, education, development, environmental management, clean air, anti-corruption and compliance.

The most relevant goals for SKF are:
#5 Gender equality
#7 Affordable and clean energy
#8 Decent work and economic growth
#12 Responsible consumption and production
#13 Climate action
#16 Peace, justice and strong institutions

Adding green technologies to the value propositions

A circular economy of oil

About 19 million tonnes of oil are used for industrial lubricants every year. Often this oil is used only once, which is an inefficient and unsustainable way of using a valuable, non-renewable resource.

SKF RecondOil offers industrial oil as a service, a concept that combines SKF's lubrication management expertise, SKF RecondOil's innovative oil regeneration systems and the patented Double Separation Technology (DST). These are delivered through subscription or performance-based contracts featuring the Group's extensive experience of REP and cutting-edge oil formulation expertise.

With DST, particles and other impurities, down to a nano-sized level, can be captured and separated from the oil. This enables circular recovery and reuse of oils, with all original properties retained. As such, industrial oil can be turned into an asset that can be used repeatedly, with maintained performance. Today, there are DST-treated oils that have outlived their original estimated life span more than 30 times.

This is the case for a metal company in Sweden. With the installation of SKF RecondOil in a production line, the customer has avoided replacing more than 10 cubic meters of oil per year. Thanks to the super-clean oil and reduced downtime, productivity has increased by 25%.

SKF RecondOil offers customers access to sustainable lubrication management solutions that help save costs related to purchasing and disposing of oil. The solutions also help to conserve natural resources, since the need for new oil is reduced. This means that industrial oil lubrication no longer has to be viewed as a costly, environmentally harmful consumable, but instead can be seen as an asset and enabler of a sustainable, circular process.

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

World leader on the bearing market

The global bearing market has an estimated value of between SEK 405 and 425 billion. SKF has become the 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, the company was well-established on all five continents.

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

To maintain competitiveness, SKF is focused on leveraging global and regional economies of scale. The strategic direction is 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 declined by 1 to 3% in 2019.

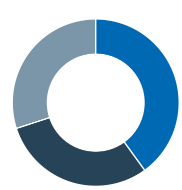
The decline was mainly seen in the automotive market, but also in off-highway and machine tool markets. Strong growth was seen in renewable and railway sectors.

Global competition

Like most global industries, SKF's industry is exposed to fierce competition. SKF is the world leader on the bearing market with other major international companies including the Schaeffler Group, Timken, NSK, NTN, and JTEKT.

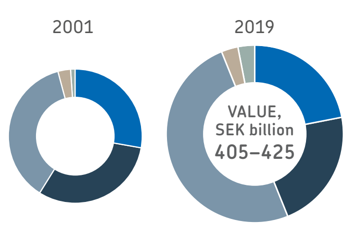
SKF estimates that the top six world bearing manufacturers represent about 60% of the global rolling bearing market. The group of Chinese bearing companies, including small and larger ones, represents around 20%, with the main part of their sales in Asia. The remaining 20% includes many smaller regional and niche bearing competitors.

Market value by customer industries[1)]



1) Total world demand of bearings 2019.

Market value by region and growth



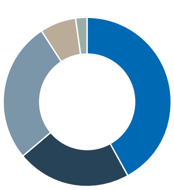
Asia's share of the world bearing market has continued to grow rapidly and now accounts for around 50%, compared with less than 40% almost 20 years ago.

Region	Approximate share of the total world bearing market	Market value, SEK billion	2019 market development
Europe	22% of which Germany accounts for ~33%	90–100	Slight decline
North America	22%	85–95	Slight decline
Asia and Pacific	50% where China has a share of ~30% of the total world market	200–220	Slight growth
Latin America	3% of which Brazil accounts for ~50%	8–12	Flat development
Middle East and Africa	3%	8–12	Slight decline

SKF's global presence 2019

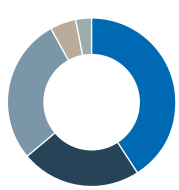
	Europe	North America	Asia and Pacific	Latin America	Middle East and Africa
Net sales by customer locations	33,573 MSEK	20,645 MSEK	24,865 MSEK	4,666 MSEK	2,264 MSEK
Change from 2018	–2.8%	–0.1%	+3.3%	+12.1%	+0.5%
Employees	Average 20,835	Average 5,904	Average 11,452	Average 2,916	Average 452
Men	79%	74%	78%	89%	76%
Women	21%	26%	22%	11%	24%
manufacturing units	54	20	25	4	0

Net sales by geographic area



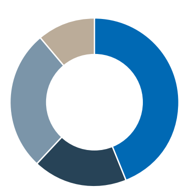
- Europe, 42%
- North America, 22%
- Asia and Pacific, 27%
- Latin America, 7%
- Middle East and Africa, 2%

Net sales by geographic area – Industrial



- Europe, 41%
- North America, 23%
- Asia and Pacific, 28%
- Latin America, 5%
- Middle East and Africa, 3%

Net sales by geographic area – Automotive



- Europe, 44%
- North America, 18%
- Asia and Pacific, 27%
- Latin America, 11%
- Middle East and Africa, 0%

EUROPE Population **747 million** | Urbanization **74%** | GDP growth **1.3%** | GDP/capita **36,569 USD**[1)]

Enabling tidal energy

Tidal energy has been identified as a potentially important global source of sustainable renewable energy. SKF is, together with Scottish company Orbital Marine Power Ltd, involved in a project to use floating tidal turbine technology to reduce the costs of generating electricity.

SKF has supplied Orbital Marine with components and sub-system assemblies for the first, small-scale and full-scale prototype units, which have been tested successfully at the European Marine Energy Centre in Orkney, Scotland. SKF was selected as technical partner to optimize Orbital Marine's design for the complete powertrain system. By delivering a key enabling solution, SKF drives cost reductions and accelerates the rollout of Orbital Marine's floating tidal technology.

Market characteristics
Western Europe dominates the region by size and is still growing over time – even though the market slightly declined in 2019 mainly due to the light vehicles market. Eastern Europe has showed the highest growth in the last years.

Largest markets
Germany, France, Italy

SKF's position
Leading position with strong presence in all industry segments, especially in industrial distribution.

Largest customer industries
Light vehicles, industrial distribution, vehicle aftermarket, industrial drives

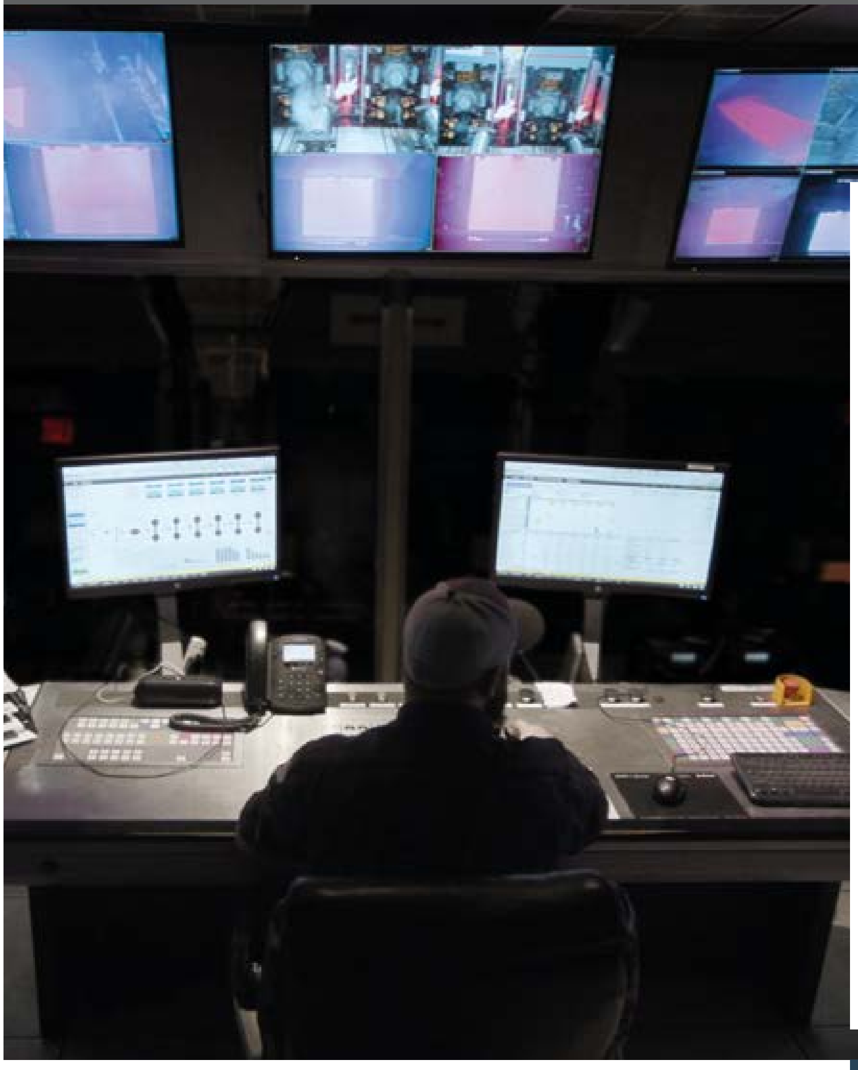
Important activities 2019

- Continued customized offers within agriculture with good growth.
- Solved issue for customer in the metal industry through IMx-S online monitoring system.
- Simplified for distribution customers, e.g. increased amount of electronic data interchange between SKF and distributors to support automation of transactional processes.
- Improved quality of inventory in the aftermarket through tools for stock analysis and automatic replenishment.
- Increased customer demand for Rotating Equipment Performance (REP) Center services to avoid unplanned stops and optimize asset utilization.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2019

NORTH AMERICA

Population **369 million** | Urbanization **82%** | GDP growth **2.1%** | GDP/capita **61,117 USD**[1)]



Maximize output and profitability

Big River Steel in Arkansas, USA, relies on continuous equipment uptime to meet their production goals. Failures of critical rotating machinery cost millions. SKF's solution for monitoring rotating assets and predicting failures helped Big River Steel to maximize machine productivity and optimize output.

This REP agreement created a true partnership to achieve best-in-class productivity. Catastrophic failures can be avoided by identifying issues early in critical rotating equipment and implementing solutions that minimize downtime. Catching problems early allows for streamlined inventory orders and well-planned maintenance activities that reduce costs, improve worker safety and boost productivity.

Market characteristics
The North American region is highly dependent on the U.S. market, which is the second largest bearing market in the world. The region relies on key industries, e.g. light vehicles, off-highway and industrial distribution.

Largest market
USA

SKF's position
SKF has a strong position in most industry segments, e.g. industrial distribution, vehicle aftermarket, industrial drives, aerospace, renewable energy, and off-highway.

Largest customer industries
Light vehicles, industrial distribution, vehicle aftermarket, off-highway.

Important activities 2019

- Focus on REP and product portfolio refinement to drive customer engagement and growth.
- Continuous focus on customers to deliver efficiency and improvement.
- Continued growth with Tesla drive-train business and additional growth for an upcoming electric truck with a major U.S. manufacturer.
- SKF Pulse wins Plant Engineering product of the year.
- Elgin's SKF Aerospace Sealing Solution operations recognized by Sikorsky as an Elite Supplier.
- PEER Bearing earned recognition in the John Deere Achieving Excellence Program as a Partner-level Supplier.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2019

ASIA AND PACIFIC

Population **4,364 million** | Urbanization **49%** | GDP growth **4.7%** | GDP/capita **7,075 USD**[1)]

Stators for industrial motors ready for assembly in Wolong.

Quiet running bearings

To comply with the critical noise and vibration standards in China, SKF has developed low noise deep groove ball bearings (DGBB). The bearings were tested with Wolong, one of the biggest industrial electrical motor OEMs in China. Following these tests, SKF strengthened the partnership and business with Wolong.

The new assortment of DGBB has helped SKF increase the market share of OEM customers. Besides being aligned with local national standards, these bearings make electric motors operate quietly and with increased efficiency. The strong commitment to invest in local production delivers much better service and responsiveness and also reduces waste in the value chain.

Market characteristics
Asia is a high growth market, mainly driven by the development in China and India. Asia is the single most important regional market for electrical (China) and two-wheelers (India, Japan and Indonesia) segments, as well as for DGBB demand. Asia accounts for the highest global bearing demand of many other global industries such as light vehicles, trucks, railway, lift and escalators.

Largest markets
China, Japan, India

SKF's position
SKF has a leading position with a strong presence in most industry segments, especially in industrial distribution, renewable energy, railway, heavy industries, trucks and two-wheelers. In India, SKF's footprint with six factories makes the company well-positioned to meet growing local demand. China and India are the two largest markets for SKF in Asia.

Largest customer industries
Light vehicles, industrial distribution, industrial drives, electrical.

Important activities 2019

- New factory inaugurated in China focusing on tapered roller bearings to improve competitiveness in general machinery and automotive segments.
- REP Center inaugurated in Australia, China, Chinese Taiwan, Indonesia, Thailand and Philippines.
- Truck Hub Units 2 for China National Heavy Duty Truck Group Co., Ltd. launched.
- Performance-based contracts signed with key customers in metals, cement and mining industries.
- Railway Competence Centre established to effectively develop solutions to meet the largest customers in Asia.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2019

LATIN AMERICA

Population **653 million** | Urbanization **81%** | GDP growth **0.1%** | GDP/capita **9,044 USD**[1)]

Strengthened position within the global mining segment

Compañía Minera Antamina S.A. is one of the largest Peruvian producers of copper and zinc concentrates. Antamina needed a strategic partner to reduce operating costs and improve the reliability and availability of their critical equipment.

In 2019, Antamina and SKF signed a performance-based contract that strengthens SKF's strategic position within the mining segment globally. It also provides opportunities to introduce new technologies such as SKF RecondOil, in line with SKF's strategic focus area, cleantech, and vibrational online monitoring systems, as well as bearing remanufacturing.

Market characteristics
SKF is growing despite the critical political situation and currency devaluation in many countries. Growth rates differ strongly between the countries. Brazil is the major market and makes up more than 50% of regional demand. The dependency on the industrial and automotive aftermarket is large since there are relatively few large, global OEMs present in the region.

Largest markets
Brazil, Argentina

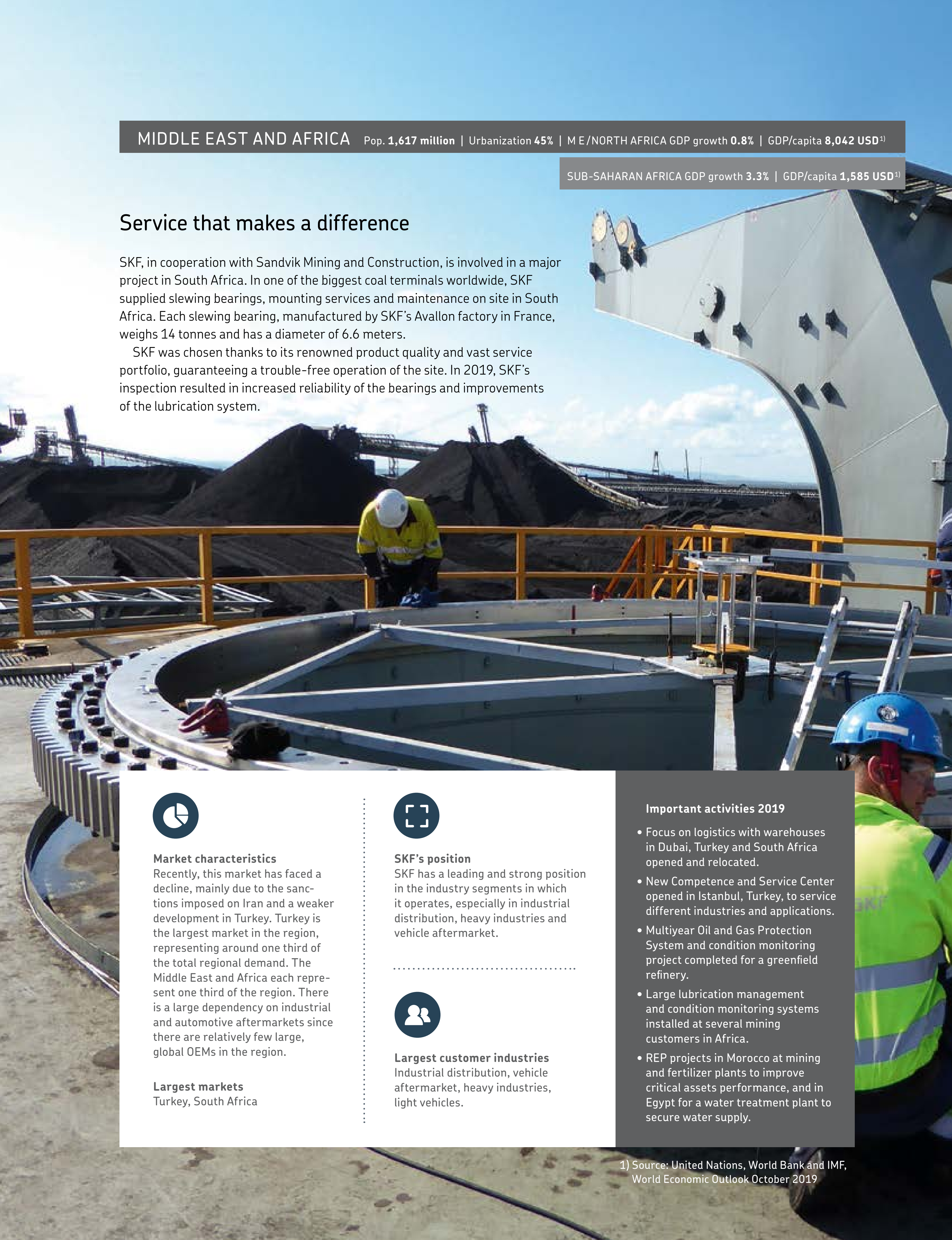
SKF's position
A leading position in the larger industry segments, especially in industrial distribution, renewable energy, heavy industries, off-highway, light vehicles, vehicle aftermarket and trucks.

Largest customer industries
Light vehicles, industrial distribution, vehicle aftermarket, heavy industries.

Important activities 2019

- Strong development of the REP offering with almost half the service contracts being performance-based.
- Almost 300 tonnes of bearings were remanufactured leading to significantly reduced CO_2 emissions and water and energy consumption.
- Investments in a new production channel, facilities for remanufacturing and a new REP Center in the factory in Tortuguitas, Argentina.
- Investments in automated production channels in the Cajamar factory, Brazil.
- Implementation of around 50 SKF Centers, a network of repair shops for cars and trucks.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2019



MIDDLE EAST AND AFRICA

Pop. **1,617 million** | Urbanization **45%** | M E/NORTH AFRICA GDP growth **0.8%** | GDP/capita **8,042 USD**[1)]

SUB-SAHARAN AFRICA GDP growth **3.3%** | GDP/capita **1,585 USD**[1)]

Service that makes a difference

SKF, in cooperation with Sandvik Mining and Construction, is involved in a major project in South Africa. In one of the biggest coal terminals worldwide, SKF supplied slewing bearings, mounting services and maintenance on site in South Africa. Each slewing bearing, manufactured by SKF's Avallon factory in France, weighs 14 tonnes and has a diameter of 6.6 meters.

SKF was chosen thanks to its renowned product quality and vast service portfolio, guaranteeing a trouble-free operation of the site. In 2019, SKF's inspection resulted in increased reliability of the bearings and improvements of the lubrication system.

Market characteristics
Recently, this market has faced a decline, mainly due to the sanctions imposed on Iran and a weaker development in Turkey. Turkey is the largest market in the region, representing around one third of the total regional demand. The Middle East and Africa each represent one third of the region. There is a large dependency on industrial and automotive aftermarkets since there are relatively few large, global OEMs in the region.

Largest markets
Turkey, South Africa

SKF's position
SKF has a leading and strong position in the industry segments in which it operates, especially in industrial distribution, heavy industries and vehicle aftermarket.

Largest customer industries
Industrial distribution, vehicle aftermarket, heavy industries, light vehicles.

Important activities 2019

- Focus on logistics with warehouses in Dubai, Turkey and South Africa opened and relocated.
- New Competence and Service Center opened in Istanbul, Turkey, to service different industries and applications.
- Multiyear Oil and Gas Protection System and condition monitoring project completed for a greenfield refinery.
- Large lubrication management and condition monitoring systems installed at several mining customers in Africa.
- REP projects in Morocco at mining and fertilizer plants to improve critical assets performance, and in Egypt for a water treatment plant to secure water supply.

1) Source: United Nations, World Bank and IMF, World Economic Outlook October 2019

Supporting Gothia Cup

SKF main partner until 2022

Gothia Cup is the largest youth football tournament in the world. In 2019, more than 4,300 games were played by almost 1,700 teams from 75 countries all over the world. SKF has been involved with Gothia Cup since 2006 and became main partner the following year. In 2019, SKF extended its sponsorship and will continue as main partner until 2022.

SKF will also continue to arrange the SKF Meet the World tournaments. This is the Group's largest company-wide social responsibility project and involves local SKF offices and employees arranging local qualification tournaments for Gothia Cup in their respective countries.

These tournaments have since 2007 given more than 4,000 children from different backgrounds all over the world the opportunity to participate in Gothia Cup.

10 REDUCED INEQUALITIES

17 PARTNERSHIPS FOR THE GOALS


SKF
SKF

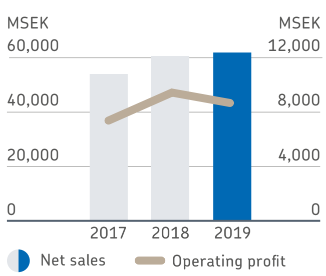
Industrial and automotive

Industrial

The underlying margin for the industrial business was 14.7%, which is higher than last year (14.4%), with organic sales growth of 0.1%.

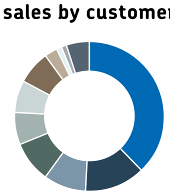
The understanding of new materials and material flow in bearings is progressing rapidly with the use of image processing technology and Artificial Intelligence (AI). This opens up possibilities for even better prognostics. The acquisition of AI startup Presenso Ltd included a strong patent portfolio in the field of AI and prognostics. During 2019, SKF's new life model was released. This is necessary to making use of new Industrial Internet of Things (IIoT) technology. It will also enhance AI for machine reliability.

Net sales and operating profit[1]

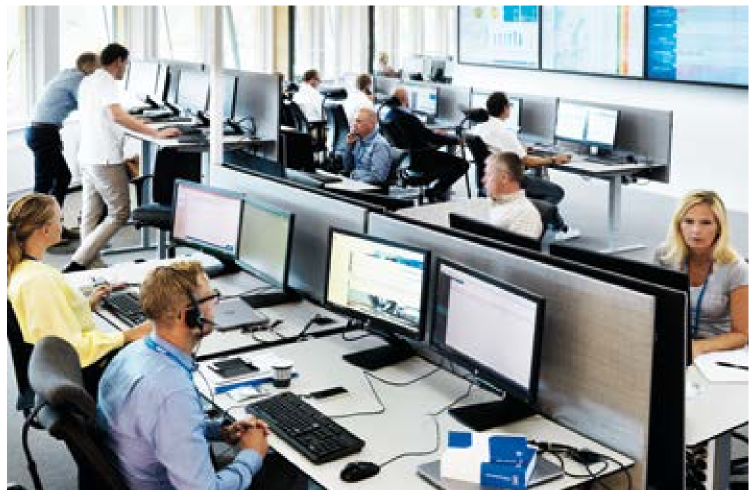


1) Previously published figures have been restated according to the new segment information.

Net sales by customer industry



- Industrial distribution, 38%
- Industrial drives, 13%
- Aerospace, 9%
- Energy, 9%
- Heavy industries, 7%
- Off-highway, 7%
- Railway, 7%
- Marine, 3%
- Agriculture, food and beverages, 1%
- Electrical, 1%
- Other industrial, 5%



Improved output with reduced environmental impact

In 2019, SKF and BillerudKorsnäs partnered to improve the performance of Karlsborg Mill. Real-time data from a new system with 480 connected condition monitoring points at Karlsborg is analyzed at SKF's Rotating Equipment Performance (REP) Center in Gothenburg, Sweden. These insights, combined with SKF's knowledge of the rotating shaft and lubrication management, will help to improve output and reduce the mill's overall consumption of bearings, seals and lubrication fluids. In doing so, SKF supports the mill's ambitions to minimize the environmental impact of its operations, whilst also reducing costs.

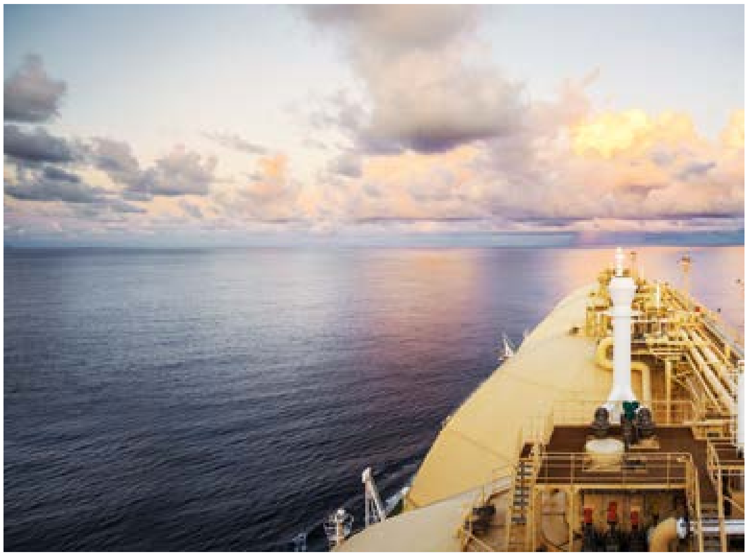
Strengthening the wind energy industry

SKF has, in partnership with French wind power producer, Boralex, developed a new dashboard to help wind farm operators optimize the proficiency of wind turbines. The dashboard will also improve operators' ability to reduce costs and make long term planning decisions. The decisions are based on in-depth data drawn from a range of critical sources, including condition monitoring systems, estimated remaining useful life and the lead time of replacement parts.

Keeping the oceans clean

New, strict environmental regulations over the cleaning of ballast water, from both the International Maritime Organization (IMO) and the U.S. Coast Guard (USCG), mean that ship owners and operators may have to adopt new technologies. SKF has developed a new UV-based system called BlueSonic BWMS, which is a chemical-free method that uses ultrasound to clean the lamps that kill microbes.

In 2019, SKF BlueSonic BWMS passed the land-based tests, which is a great step forward towards IMO- and USCG Type Approval. Following that, the system has undergone extensive testing onboard a container vessel. SKF aims to receive certification by both IMO and USCG by early 2020.



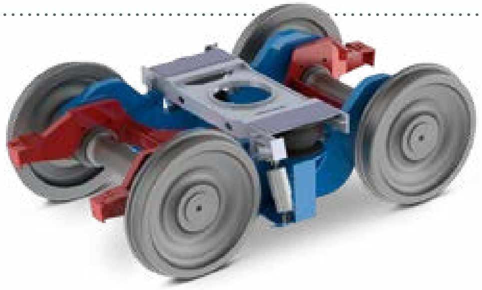
Strong growth in the aerospace market

The aerospace market developed strongly in 2019. SKF gained market shares by winning important projects with major aircraft and engine manufacturers. In China, for example, SKF had a record year both on existing and new programs with all key customers. SKF is supporting the growth of the aerospace market and its business by investing in its manufacturing footprint and in technology step-up. For example, new Industry 4.0 channels were almost fully completed in various factories in 2019.

With the latest hybrid bearing technology and composite materials, SKF has developed a range of products for fixed-wing, helicopter, engine and gearbox applications. These improve engine performance, reduce fuel consumption, emissions and costs.

Bearings for proactive food safety

With a significant increase in food and beverage recall since 2012, proactive food safety has become the foremost concern in the food and beverage industry. In 2019, SKF launched the new Food Line ball bearing units – Blue Range, which expand hygienic-design possibilities, while delivering improved reliability, reduced maintenance costs and increased sustainability for food and beverage companies.



Improved rail freight transports

SKF and Advanced Truck Systems (ATS) are collaborating to equip the new two-piece bogie system from ATS with high capacity wheel bearings and a condition monitoring system to reduce on-track failures and enable predictive maintenance. SKF's solutions contribute to reduced life cycle cost, as well as making rail freight transports even more sustainable in the biggest freight market in the world.

Automotive

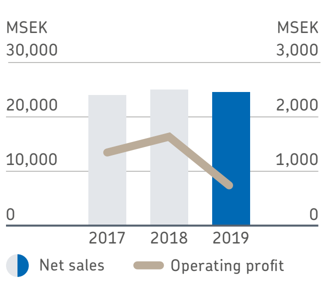
Highest bearings order in-take ever

The underlying margin for the automotive business in 2019 was 4.5% (6.9% last year), due to a fall in organic sales.

SKF's automotive bearing business, focusing on automotive original equipment manufacturers (OEMs), managed to reach the highest order in-take ever, including new business for Hub Bearing Unit 3, Deep Groove Ball Bearings in electrified applications and Truck Hub Units.

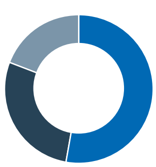
In 2019, SKF's automotive bearing business also focused on efficiency and on cutting costs. Investments in Industry 4.0 in the factory in Airasca, Italy, as well as in CO_2 footprint and cost reduction in all locations, were implemented. In addition, projects with agile teams to support and speed up innovation were started.

Net sales and operating profit[1)]



1) Previously published figures have been restated according to the new segment information.

Net sales by customer industry



First direct e-commerce business with automotive aftermarket components

The automotive aftermarket experienced an overall stagnating business in the main markets in 2019. SKF repositioned its three product lines: engine, chassis and heavy duty, with growth starting in the second quarter. The first direct e-commerce business with automotive aftermarket components was launched in 2019 in the U.K., followed by Germany. Roll out in additional European countries and in North America has started. The cost position started to improve significantly during 2019, which is important to regain competitiveness and for future growth, and progress was made in purchasing and logistics.

New business in important seals segments

SKF's seals business operated in a challenging market environment in 2019. Despite a strong sales decline, the operating margin was better than in 2018 due to highly improved sales profitability. In addition, SKF won new business in segments and programs important for the future, such as next generation transmission and key chassis applications.

In 2019, there were several investments within SKF's World-class manufacturing concept, as well as a technology step-up to support newly acquired business, extend factory capacity and improve quality. SKF also worked on a strategy and value chain optimization, to increase the speed of customer service and to drive overall effectiveness through the company's seals operation. In addition, several cost competitiveness activities were launched.

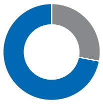
Electric vehicles and increased efficiency

Although sales of electric vehicles (EVs) will continue to increase dramatically, passenger vehicles with internal combustion engines are expected to remain the major part of the automotive market during the coming years. Regardless of the powertrain architecture, friction is the great enemy. Power loss due to friction is increasing the CO_2 emissions of traditional and hybrid powertrains, and can reduce the mileage achievable from a single charge in battery electric vehicles.

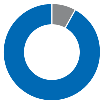
During 2019, SKF has been working to develop low-friction tapered roller bearings. These have, in specific applications, been shown to reduce power losses by up to 50% in comparison with conventional bearings. Key to this success is the fact that SKF can create tailored products based on the needs of a specific application. 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. SKF is developing designs for bearings – and their associated polymer cages and lubricants – that ensure they can withstand the higher speeds, acceleration and temperatures generated by these motors.

Industrial

Share of net sales 72%



Share of operating profit 92%



Main achievements in 2019

- Doubled test capacity for SKF's railway homologation with the majority of test rigs now located in China.
- SKF's research operations relocated into a state-of-the art building in Houten, the Netherlands.
- Release of the ProCollect maintenance routing app for industry and marine, accompanied by a new version of the QuickCollect sensor.
- A range of fiber-optic sensing solutions for pumps and compressor process control was released and, for the first time, applied on large size bearings for the process industry.

Focus in 2020

- Continued consolidation and modernization of the R&D footprint.
- Continued expansion of SKF's AI Center of Excellence in Haifa, Israel.
- Roll out of "hybrid" algorithms, developed by combining AI technology with SKF field experience and new life model physics, to more customers.
- New retrofittable tool within fiber-optic sensing to improve output and quality in the process industry.
- Completed field trials of multiple new solutions for the Chinese metals industry, leading to the launch of new products for continuous casting and rolling mills.

Automotive

Share of net sales 28%

Share of operating profit 8%

Main achievements in 2019

- Significant new business wins within Car Hub Bearing Unit 3, Deep Groove Ball Bearing in electrified car applications and Truck Hub Unit.
- Implementation of Turn Around Plan by strengthening the focus on strategic product lines and cleaning-up non-core business.
- Direct B2C e-commerce business launched for automotive aftermarket components in various EU countries.

Focus in 2020

- Continued focus on cost reductions throughout the entire business process.
- Further roll out of eCommerce activities.
- Open two new factories in China and Mexico.
- Strengthen seals product innovation around e-drive applications.
- Digitalization of the value chain in the aftermarket business.

Risk management in SKF

Risk management
SKF's core business is based on well established technology and the company is diversified in terms of products, markets, manufacturing location and currencies used. This diversification reduces SKF's overall exposure to business risks and positions the Group's overall risk profile as moderate compared to companies that are more dependent on specific sectors and regions or operating in faster moving technology areas.

SKF manages, mitigates or avoids a wide range of risks as well as short and long term uncertainties. SKF applies an integrated approach to business risk management. Risk identification, evaluation and response are carried out within the operations through a number of means, such as Group policies, training, internal controls, reporting reviews and approval processes. All are coordinated and overseen by the related Group functions. Sustainability is an integrated part of SKF's business and is therefore included in the risk management framework.

Operational environmental, health, safety and human rights risks are managed via SKF's groupwide management procedures covering all significant sites. The system for environment, health and safety (EHS) is certified in accordance with ISO 14001 (environment) and OHSAS 18001 (health & safety). The latter will soon be replaced with ISO 45001. SKF's ISO 5001 certification (energy management) covers factories making up 90% of SKF's energy use. SKF's Code of Conduct reflects relevant aspects from the SA8000 standard and the UN Guiding Principles on Business and Human Rights. SKF has established a product material compliance approach to help SKF's business to comply with directives and legislation such as REACH, RoHS, WEEE and DoddFrank regarding conflict minerals.

The operations discuss risks with Group management whenever there is a need. The main risks identified by the operations are consolidated and evaluated at Group level every twelve months by the Group risk management team. The Group risk management team consists of senior employees with knowledge and experience in the respective risk areas. The work is led by the Group risk manager. The consolidated risks are presented to Group management.

Opportunities
SKF has many opportunities associated with the trends that are impacting the bearing industry. The main areas of opportunity are described on pages 16–19.

Uncertainties in the business
The SKF Group operates in many different industries and geographical areas. A general economic downturn on a global level 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. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the profitability or demand for the products and services sold by the Group could mean lower residual profits and lower dividend income for the parent company, as well as a need for write downs of values of the shares in the subsidiaries.

SKF is subject to two investigations in Brazil by the General Superintendence of the Administrative Council for Economic Defense. One investigation regarding an alleged violation of antitrust rules concerning bearing manufacturers, and another investigation regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. An enquiry has been initiated by the Competition Commission of India against several different companies, including SKF, regarding an alleged violation of antitrust rules in India. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers.

Bosch AG has initiated a lawsuit against SKF with a claim for damages as a consequence of the settlement decision by the European Commission for violation of European competition rules.

Strategic risks

Risk	Mitigation
Digitalization Digitalization drives a more agile and dynamic pricing behavior in the market.	New pricing tools and processes. Show and prove value of SKF product offer. Increase fee-based business (REP).
Disruptive business models New online channels disrupting existing channels to the market.	Work with current partners to ensure that they create value to the customers and ensure they can sell SKF products online. Offer products through new channel partners. Increase fee-based business (REP).
Customer requirements Inability to understand and deliver according to customers' needs. Failure to stay competitive (cost, product development, lead time, quality etc.).	A process has been established to collect general customer requirements for review, action decision and deployment across the full SKF value chain (sales, manufacturing, sourcing). SKF is continuously working with efficiency, cost, innovation and quality.
Climate change Inability to reduce CO_2 emissions in SKF operations and supply chain in line with stakeholder expectations.	SKF has climate objectives and mitigation measures based on life cycle thinking, to reduce CO_2 emissions over the entire value chain. The objectives and mitigation activities are continuously updated to meet expectations.
Failure to maintain and attract competent workforce Demographic profile of the labour market, skills shift to enable the opportunities with digitalization and competence deficit in the labour market.	SKF has a strategic approach to future skills, recruitment and to further develop our position as being an employer of choice. For more information, please refer to page 131.

Operational risks

Risk	Mitigation
Cyber intrusion and data leakage Through digitalization digital information is easier to steal, change, spread and misuse. Increased digitalization makes SKF more vulnerable to so-called ransomware which can encrypt or destroy IT assets.	Continuous investments in resources, skills and security solutions to protect SKF from intrusion. The SKF IT security management system is based on ISO 27000.
IT development SKF rapid digitalization where existing, sometimes old, IT infrastructure shall be kept up to date and sometimes be integrated with new IT systems, such as the ERP system.	SKF is mitigating this risk with multiple programs, including modernizing the ERP suite to secure a safe transition to a modern IT environment. SKF works with trusted IT partners who employ best practice procedures such as ITIL, ISO 20000 and ISO 9001.

Operational risks continued

Risk	Mitigation
Delivery problems Losses or disturbances in SKF manufacturing units, warehouses or logistics services.	There are many reasons for delivery problems and SKF is mitigating each of them, including better planning, building inventory to prepare for factory moves, supplier risk management, rebalancing of regional sourcing and transfer to modern IT environments.
Customer claims and product liability The highest risk for large customer claims and product claims is in the aerospace, automotive, railway, energy and marine segments.	The processes for developopming new products and handling customer complaints have been improved and responsibilities have been clarified. A special engineer to order (ETO) process has been deployed for high risk applications.

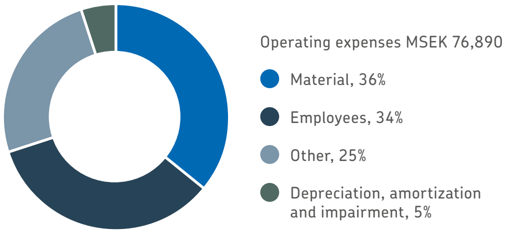
Compliance risks

Risk	Mitigation
Antitrust Illegal cooperation and information exchange between competitors in the EU and the U.S. are the antitrust violations where the consequences are the most serious. SKF is also exposed to antitrust risks in the distribution business.	Policies & 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.
Corruption The regions in which SKF's exposure to corruption is the highest are Latin America, Middle East, Africa, Eastern Europe, the CIS countries and Asia. The highest risk for corruption is when SKF uses a distributor or another type of intermediary to sell, purchase or in other ways interact with state owned entities.	Validation and risk assessment of business partners. Internal controls. Ethical requirements in contracts with suppliers, distributors and agents. Audits and investigations of SKF units, as well as business partners, using internal and external resources. Dedicated compliance resources in India, China and CIS.
Other compliance risks Data privacy, export control and risks related to environment, health and safety.	SKF has a dedicated compliance program in place, including supporting IT systems and dedicated resources, to manage these risks.

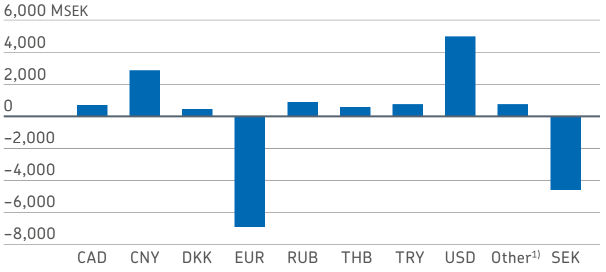
Financial risks

Risk	Mitigation
Fraud SKF is subject to internal and external fraud risks. Internal fraud primarily in the sales and purchasing processes, and external fraud, primarily through social engineering techniques to obtain payments.	SKF has implemented relevant fraud controls. Policies and instructions combined with management commitment and a strong tone from the top. Employee training, audits and the SKF Ethics & Compliance Reporting Line.
Currency and interest SKF is subject to transaction and translation of currency exposure, as well as interest rate risks.	The Group finance function follows up, on a monthly basis, the currency exchange and interest rate development and ensures that mitigating measures are implemented.
Tax SKF is involved in cross-border transactions worldwide. The national and international tax environment is constantly changing. SKF is, as any other global company, exposed to risk of double taxation and tax audits.	The Group tax function is responsible for maintaining the Group's tax and transfer pricing policies, which are updated regularly. Through close monitoring of the developments in the international tax environment, the Group tax function strives to ensure compliance with both national and international regulations.

Cost split 2019

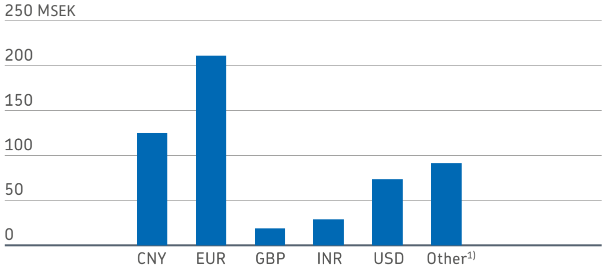


Net currency flows 2019, MSEK



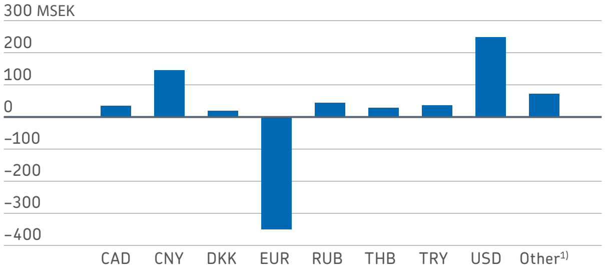
1) Other is a sum comprising 11 different currencies.

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



1) Other is a sum comprising 42 different currencies.

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



1) Other is a sum comprising 11 different currencies.

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 2019, the share price for the SKF A share increased by 43.5%, and the share price for the SKF B share increased by 43.9%. The total number of SKF shares traded on Nasdaq Stockholm was 460,946,055. SKF's B shares are also traded on Chi-X Europe Limited, Cboe Europe Equities and Turquoise. The total number of shares traded on these three marketplaces combined in 2019 was 327,531,010. 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 2019, 895,275 shares were converted. A shares were as of 31 December 2019 7.1% (7.3) 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 6.25 per share be paid for 2019, which is in line with SKF's dividend policy. The total return from investing in the SKF A share over the past three years was 25.2% and for the SKF B share 25.5%.

Ownership structure

SKF had 53,623 shareholders on 31 December 2019. Around 57.2% of the share capital was owned by foreign investors, around 36.2% by Swedish companies, institutions and mutual funds and around 6.6% 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 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.

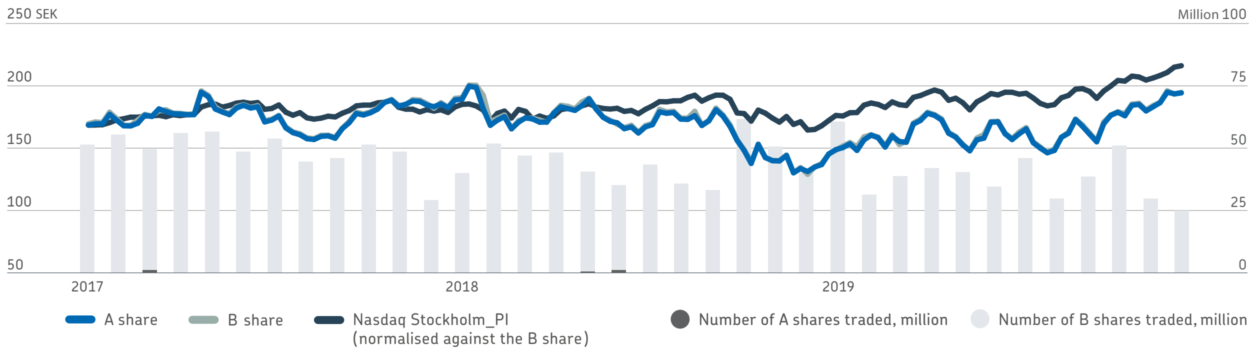
Sustainability indexes

SKF is included in the FTSE4Good Index – one of the pioneering indices in responsible investment. It focuses on environmental, social and governance (ESG) topics. SKF is also included in Euronext Vigeo Eiris Index: Europe 120 – which includes Europe's 120 most advanced companies within ESG performance. SKF is ranked as top performer in the latest (October 2018) Vigeo Eiris Mechanical Components & Equipment Sector Report. SKF leads the sector both globally and in Europe. The SKF B share is a constituent of the Ethibel Sustainability Index Excellence Europe since September 2017.

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 preemption 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 2017–2019

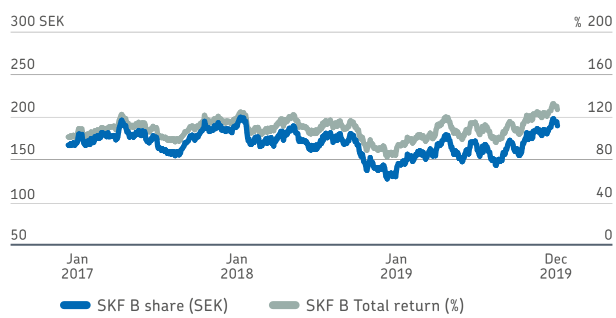


Data per share

SEK per share unless otherwise stated	2019	2018
Earnings per share	12.20	16.00
Dividend per A and B share	6.25[1]	6.00
Total dividends, MSEK	2,732	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	189.40	134.5
Equity per share	78	74
Yield (B), %	3.3[1]	4.5
P/E ratio, B (share price/earnings per share)	15.5	8.4
Cash flow from operations, per share	20.67	18.3
Cash flow, after investments before financing, per share	10.88	18.3

1) According to the Board's proposal for the year 2019.

Total return 2017–2019

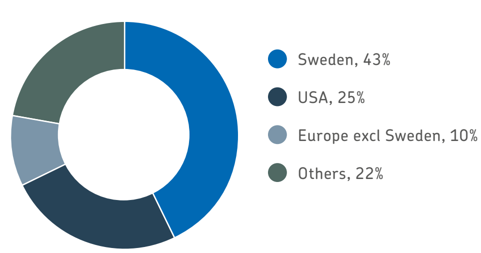


The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	62,936,151	13.8	29.1
Harris Associates	32,136,845	7.1	4.3
Alecta pensionsförsäkring	2,955,552	0.6	3.0
Merian Global Investors	2,335,013	0.5	2.7
AFA Försäkring	5,272,914	1.2	2.6
Livförsäkringsbolaget Skandia	3,357,466	0.7	2.5
Swedbank Robur Fonder	15,220,091	3.3	2.0
Fidelity International	13,233,381	2.9	1.8
SEB-Stiftelsen	1,500,000	0.3	1.7
BlackRock	12,588,702	2.8	1.7

Source: Monitor, Modular Finance as of 31 December 2019.

Geographic ownership 2019



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 percent 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 was made in the beginning of 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 the 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.

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.

Financial position and dividend policy

Financial performance management model

SKF's financial performance management model is a simplified, economic value-added model, called Total Value Added (TVA), promoting a greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital in the country where business is conducted. 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 for the equity part and on actual borrowing cost. The TVA performance for the Group correlates well with the share price trend over a longer period of time. This model is a key component in the variable salary schemes.

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 of around 80%. 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, 2019, the gearing was 47.1% (45.0), the equity/assets ratio 39.7% (40.7) and the net debt/equity ratio 59.3% (49.1).

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December, 2019, the average maturity of SKF's loans was five years. SKF has four notes issued on the European bond market. EUR 205 million due 2020, EUR 296 million per 2022, EUR 300 million per 2025, and one with an outstanding amount of EUR 300 million, due 2029.

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 standardised loan documentation similar conditions also apply to other loan agreements. In addition to the bonds mentioned above, SKF also has two loans, one of EUR 200 million due in 2021 and one of USD 100 million due in 2027.

In addition to its own liquidity, AB SKF had two committed credit facilities, one of EUR 500 million with a due date in 2024 and one of EUR 250 million with a due date in 2020.

Credit rating

On 31 December, 2019, 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 taking into account 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 SKF's average net profit calculated over a business cycle. 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 6.25 (6.00) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2020, see page 115, Proposed distribution of surplus.

Financial statements

Contents

Amounts in MSEK unless otherwise stated. Amounts in parentheses refer to comparable figures for 2018.

The Administration Report is presented on pages 6–7, 14–62, 104 and 115. It has been audited by SKF's external auditors. See the **Auditor's Report** on pages 144–147. According to the Swedish accounting 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 116.

Consolidated income statements

MSEK	Note	January–December 2019	2018
Net sales	2	86,013	85,713
Cost of goods sold	5, 6	–65,071	–64,829
Gross profit		**20,942**	**20,884**
Selling expenses	6	–11,414	–11,008
Administrative expenses	6	–405	–319
Other operating income and expenses, net	7	272	1,492
Operating profit		**9,395**	**11,049**
Financial income and expenses, net	8	–926	–861
Profit before taxes		**8,469**	**10,188**
Income tax	9	–2,677	–2,603
Net profit		**5,792**	**7,585**
Net profit attributable to:			
Shareholders of AB SKF		5,557	7,285
Non-controlling interests		235	300
Basic earnings per share (SEK)	17	12.20	16.00
Diluted earnings per share (SEK)	17	12.19	15.97

Consolidated statements of comprehensive income

MSEK	Note	January–December 2019	2018
Net profit		**5,792**	**7,585**
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	18	–2,469	–529
Income tax	9	719	36
		–1,750	**–493**
Items that may be reclassified to the income statement			
Currency translation adjustments		835	1,115
Assets at fair value through other comprehensive income	14	–13	–63
Cash flow hedges	27	—	1
Income tax	9	54	56
		876	**1,109**
Other comprehensive income, net of tax		**–874**	**616**
Total comprehensive income		**4,918**	**8,201**
Total comprehensive income attributable to			
Shareholders of AB SKF		4,666	7,881
Non-controlling interests		252	320

Comments on the consolidated income statements

General
The Group's income statement for 2019 included the result of a smaller divested business in Asia for the period 1 January–31 March. It also included the result of the acquired companies as follows: a metal stamping branch for the period 1 April–31 December, RecondOil 1 June–31 December, Presenso Ltd 1 October–31 December, and Form Automation Solution (FAS) 1 November–31 December.

Net sales
In 2019, net sales amounted to MSEK 86,013 (85,713) corresponding to an increase of 0.4% compared to 2018. The change of the Swedish krona towards other currencies had a positive impact in 2019 of 4.7%. Structural changes accounted for –2.3%. Net sales in local currencies decreased with –2.0%, driven by lower sales volumes in North America and Europe whereas sales volumes in Latin America, Asia-Pacific and Middle East & Africa was positive.

Sales development percent y-o-y, %	Q1	Q2	Q3	Q4	Full year
Organic	0.3	–1.6	–3.0	–2.9	–2.0
Structure	–2.5	–2.6	–2.6	–1.8	–2.3
Currency	5.7	3.5	4.2	4.8	4.7
Total	**3.5**	**–0.7**	**–1.4**	**0.1**	**0.4**

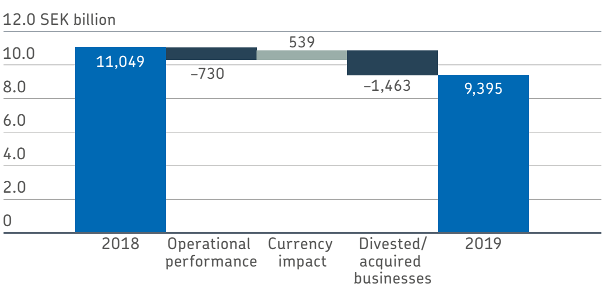
Operating profit
Operating profit for the year was MSEK 9,395 (11,049). Operating profit in 2019 was positively impacted by sales price and cost reductions. Operating profit was negatively impacted by sales and manufacturing volumes, general inflation, material cost increases and divested companies. In 2018, operating profit was positively impacted by the gain from the divestment of the L&AT business by MSEK 1,261. Operating profit included MSEK –571 (–369) related to restructuring and cost reduction activities and MSEK –170 net (–283) related to impairments and customer settlements, partly offset by a VAT credit.

Financial income and expenses, net
The financial income and expenses, net for 2019 was MSEK –926 (–861). The financial net for 2019 was negatively impacted by the accounting for leases according to IFRS 16 with MSEK –126. For more information about the changes year-over-year, see Note 8.

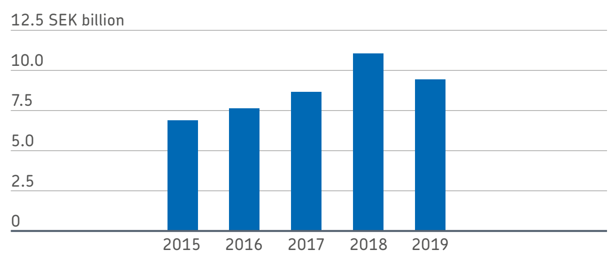
Taxes
The effective tax rate for the year was 32% (26). The tax rate in 2019 was negatively impacted by an adjustment related to the U.S. tax reform as well as other tax effects related to prior years and withholding tax on divided. Adjusted for this the tax rate would have been 28%. Last year's tax rate was positively impacted by divestments of businesses. Excluding this the tax rate for 2018 was 28%. For more information see Note 9.

Values by quarter MSEK	Q1	Q2	Q3	Q4	Full year
Net sales	21,278	22,488	21,039	21,208	86,013
Operating profit	2,658	2,539	2,288	1,910	9,395
Profit before taxes	2,442	2,261	2,044	1,722	8,469
Basic earnings per share (SEK)	3.77	3.32	2.84	2.27	12.20

Operating profit development y-o-y



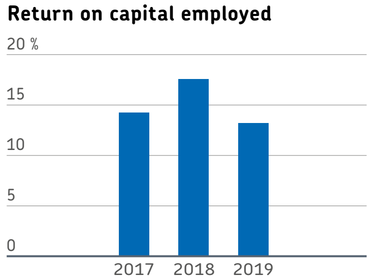
Operating profit



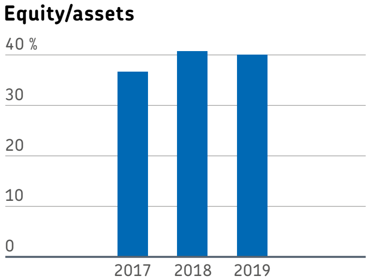
Consolidated balance sheets

MSEK	Note	As of 31 December 2019	2018
ASSETS			
Non-current assets			
Goodwill	10	11,251	10,347
Other intangible assets	10	7,146	7,375
Property, plant and equipment	11	18,420	16,688
Right-of-use assets	12	2,991	—
Long-term financial assets	14	1,281	1,155
Deferred tax assets	9	4,437	3,563
Other long-term assets		738	809
		46,264	**39,937**
Current assets			
Inventories	13	18,051	17,826
Trade receivables	14	14,006	13,842
Other short-term assets	15	4,546	3,912
Other short-term financial assets	14	4,811	1,266
Cash and cash equivalents	14	6,430	10,390
		47,844	**47,236**
Total assets		**94,108**	**87,173**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		35,512	33,536
Equity attributable to non-controlling interests	27	1,854	1,916
		37,366	**35,452**
Non-current liabilities			
Long-term financial liabilities	20	13,080	14,850
Long term lease liabilities	12,20	2,327	—
Provisions for post-employment benefits	18	15,366	12,894
Deferred tax provisions	9	960	1,118
Other long-term provisions	19	1,821	1,878
Other long-term liabilities		48	94
		33,602	**30,834**
Current liabilities			
Trade payables	20	8,266	7,831
Short-term provisions	19	653	663
Other short-term financial liabilities	20	3,610	2,307
Other short-term liabilities	21	10,611	10,086
		23,140	**20,887**
Total equity and liabilities		**94,108**	**87,173**

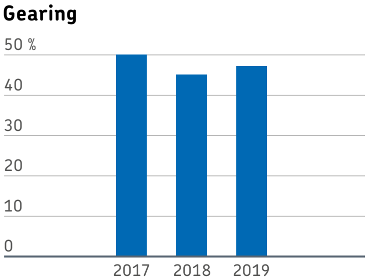
Return on capital employed



Equity/assets



Gearing



Comments on the consolidated balance sheets

Net working capital
On 31 December 2019, net working capital as percentage of sales was 27.7% (27.8) consisting of the following components:

- Inventories amounted to MSEK 18,051 (17,826) being 21.0% (20.8) of annual sales. Inventories increased by MSEK 530 due to a weaker Swedish krona and decreased due to volumes by MSEK –305 net of divestments and acquisitions.
- Trade receivables amounted to MSEK 14,006 (13,842) which is 16.3% (16.1) of annual sales. The change in trade receivables was attributable to currencies with MSEK 370 and to volume decrease with MSEK –206, net of divestments and acquisitions. The average days of outstanding trade receivables were 64 days (62).
- Trade payables amounted to MSEK 8,266 (7,831) corresponding to 9.6% (9.1) of annual sales. The change attributable to currencies was MSEK 150 and the remaining MSEK 285 was due to volume increase, net of divestments and acquisitions.

Plant and property
On 31 December 2019, plant and property amounted to MSEK 18,420 (16,688). This was as a percentage of annual sales 21.4% (19.5). The change attributable to currencies was MSEK 324.

Net debt
Net debt amounted to MSEK 22,176 (17,400) at the end of 2019. The increase was mainly attributable to the accounting for leases according to IFRS 16 and provisions for post-employment benefits.

Post-employment benefit provisions totaled MSEK 15,313 (12,833) at year end, representing a net increase of MSEK 2,480 (604), which was attributable to:

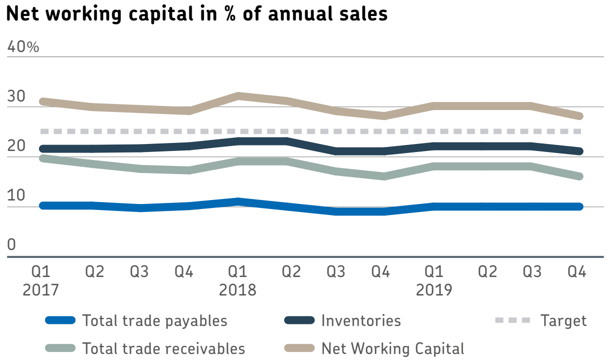
- Cash payments of MSEK –917 (–845)
- Actuarial gains and losses of MSEK 2,469 (529)
- Expenses of MSEK 732 (737)
- Acquired/divested businesses of MSEK 16 (–311)
- The remainder was attributable to currency translation differences.

Loans totaled MSEK 14,970 (16,149), at the end of 2019, representing a decrease of MSEK 1,179. The decrease was primarily attributable to net repayments of MSEK 1,546 and positive currency translation effects of MSEK 371 mainly related to EUR.

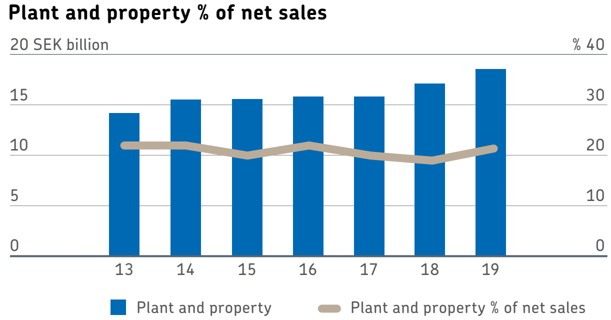
Equity
During the year, equity increased from MSEK 35,452 to MSEK 37,366. Net profit amounted to MSEK 5,792 (7,585) and dividends paid were MSEK 2,790 (2,621). Currency translation had a positive effect of MSEK 835 (1,115). Remeasurements had a net of tax effect of MSEK –1,696 (–437).

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 of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business. On 31 December 2019, the gearing was 47.1% (45), the equity/assets ratio 39.7% (40.7) and the net debt/equity ratio 59.3% (49.1).

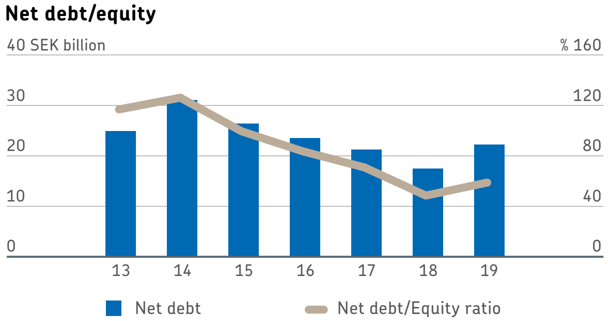
Net working capital in % of annual sales



Plant and property % of net sales



Net debt/equity



Consolidated statements of cash flow

MSEK	Note	January–December 2019	2018
Operating activities			
Operating profit		9,395	11,049
Adjustments for			
Depreciation, amortization and impairment	6	3,496	2,472
Net gain on sales of businesses and property, plant and equipment		12	–1,518
Other non-cash items		566	557
Income taxes paid		–2,114	–2,711
Contributions to and payments under post-employment defined benefit plans	18	–917	–845
Associated companies		12	6
Changes in working capital			
Inventories		277	–525
Trade receivables		177	–377
Trade payables		326	–76
Other operating assets and liabilities, net		–1,163	514
Interest and other financial items		–657	–201
Net cash flow from operating activities		**9,410**	**8,345**
Investing activities			
Additions to intangible assets	10	–240	–184
Additions to property, plant and equipment	11	–3,461	–2,647
Sales of property, plant, equipment, and intangible assets	10, 11	48	455
Acquisitions of businesses, net of cash and cash equivalents	3	–696	—
Divestments of businesses, net of cash and cash equivalents	4	–87	2,360
Investment in/sale of equity securities		–21	–3
Net cash flow used in investing activities		**–4,457**	**–19**
Net cash flow after investments before financing		**4,953**	**8,326**
Financing activities			
Proceeds from medium- and long-term loans		3,757	3,952
Repayments of medium- and long-term loans		–5,303	–6,053
Other financing items		–137	–482
Payments of leases		–834	—
Cash dividends to shareholders of AB SKF and non-controlling interests		–2,790	–2,621
Redemption of shares		–242	—
Investments in financial assets		–8,680	–1,387
Sales of financial assets		5,232	1,508
Net cash flow used in financing activities		**–8,997**	**–5,083**
Net cash flow		**–4,044**	**3,243**
Cash and cash equivalents at 1 January		10,390	7,112
Cash effect excluding acquired/sold businesses		–4,051	3,396
Cash effect from acquired/sold businesses		7	–153
Translation effect		84	35
Cash and cash equivalents on 31 December		**6,430**	**10,390**

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 4,953 (8,326) in 2019. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to MSEK 5,736 (5,966).

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.

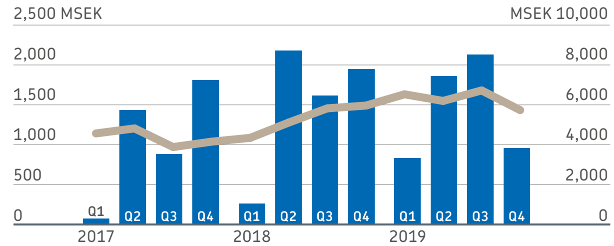
Interest and other financial items included interest paid of MSEK –694 (–646), interest received of MSEK 153 (129), and the remainder related primarily to realized derivatives on commercial flows between Group companies.

During the year the Group acquired RecondOil, Presenso Ltd, Form Automation Solutions (FAS) and a metal stamping branch, which generated a net cash outflow of MSEK –696. The Group also divested a smaller unit in Asia and adjusted the consideration for previous year's L&AT divestment, which resulted in a cash outflow of MSEK –87.

Cash flow used in financing activities

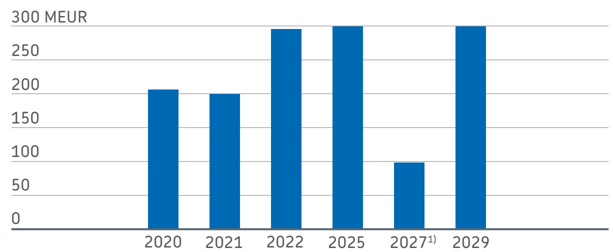
The Group's debt structure improved in 2019 by the repayment of the MEUR 192 bond due during the year and by changing the maturity profile of the debt by issuing a new bond with maturity 2029 and partially repaying bonds maturing 2020 and 2022. The effect of closing derivatives and interest costs related to the change in the profile of the debt amounted to MSEK –137 and is reported as other financing items.

Cash flow after investments before financing[1)]



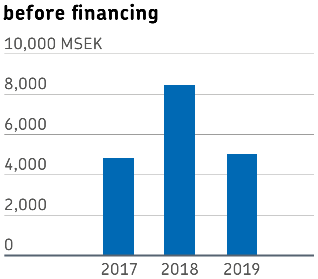
1) Excl. acquisitions/divestments

Current debt structure

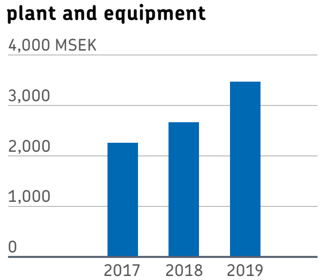


1) MUSD

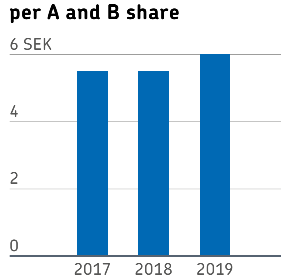
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2019, which is subject to approval at the Annual General Meeting in March 2020, includes an ordinary dividend of SEK 6.25 per share, see Note 16.

Cont. Comments on the consolidated statements of cash flow

Change in net debt

MSEK	2019 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2019 Opening balance
Loans[1]	14,970	–1,546	5	–9	371	16,149
Post-employment benefits, net[2]	15,313	–917	16	3,088	293	12,833
Lease liabilities	3,011	–834	–1	520	96	3,230
Other short-term financial assets[3]	–4,688	–3,488	14	–22	—	–1,192
Cash and cash equivalents	–6,430	4,051	–7	—	–84	–10,390
Net debt	**22,176**	**–2,734**	**27**	**3,577**	**676**	**20,630**[5]
Derivatives[4] included in Other financing items	447	—	—	7	—	440

MSEK	2018 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2018 Opening balance
Loans[1]	16,149	–2,101	—	3	768	17,479
Post-employment benefits, net[2]	12,833	–845	–311	1,225	535	12,229
Other short-term financial assets[3]	–1,192	145	—	2	–17	–1,322
Cash and cash equivalents	–10,390	–3,396	153	—	–35	–7,112
Net debt	**17,400**	**–6,197**	**–158**	**1,230**	**1,251**	**21,274**
Derivatives[4] included in Other financing items	440	–335	—	302	—	473

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 –3,488 (145) is explained by investment in financial assets of MSEK –8,661 (–1,326) and sale of financial assets of MSEK 5,173 (1,471).

4) Financing activities to hedge short and long term loans. Other financing items in cash flow includes cash flow from derivatives as stated in the table and interest premium for the repayment of loans.

5) Lease liabilities of MSEK 3,230 have been added to the opening balance of 2019 compared to the closing balance of 2018. See Note 12 for more information.

Consolidated statements of changes in equity

MSEK	Share capital	Share premium	FV OCI reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	Equity attributable to owners of AB SKF								
Opening balance 1 January, 2018	**1,138**	**564**	**206**	**–1**	**213**	**25,916**	**28,036**	**1,787**	**29,823**
Net profit	—	—	—	—	—	7,282	7,282	303	7,585
Hyperinflation adjustment[3]	—	—	—	—	—	113	113	–2	111
Components of other comprehensive income									
Currency translation adjustments	—	—	—	—	1,097	—	1,097	18	1,115
Change in FV OCI assets and cash flow hedges	—	—	–63	—	—	—	–63	—	–63
Release of FV OCI assets and cash flow hedges	—	—	—	1	—	—	1	—	1
Remeasurements	—	—	—	—	—	–529	–529	—	–529
Income taxes	—	—	—	—	56	36	92	—	92
Transactions with shareholders									
Non-controlling interest[1]	—	—	—	—	—	–25	–25	–73	–98
Cost for Performance Share Programmes, net[2]	—	—	—	—	—	36	36	—	36
Dividends	—	—	—	—	—	–2,504	–2,504	–117	–2,621
Closing balance 31 December, 2018	**1,138**	**564**	**143**	**0**	**1,366**	**30,325**	**33,536**	**1,916**	**35,452**
Net profit	—	—	—	—	—	5,557	5,557	235	5,792
Hyperinflation adjustment[3]	—	—	—	—	—	133	133	–1	132
Components of other comprehensive income									
Currency translation adjustments	—	—	—	—	817	—	817	18	835
Change in FV OCI assets and cash flow hedges	—	—	–13	—	—	—	–13	—	–13
Release of FV OCI assets and cash flow hedges	—	—	—	—	—	—	—	—	—
Remeasurements	—	—	—	—	—	–2,468	–2,468	–1	–2,469
Income taxes	—	—	—	—	54	719	773	—	773
Transactions with shareholders									
Non-controlling interest[1]	—	—	—	—	—	–30	–30	–254	–284
Cost for Performance Share Programmes, net[2]	—	—	—	—	—	–62	–62	—	–62
Dividends	—	—	—	—	—	–2,731	–2,731	–59	–2,790
Closing balance 31 December, 2019	**1,138**	**564**	**130**	**—**	**2,237**	**31,443**	**35,512**	**1,854**	**37,366**

1) See Note 27 for details.
2) See Note 23 for details.
3) See Note 1 for details.

FV OCI reserve
The 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 3 March, 2020. 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 26 March, 2020.

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 the Swedish krona 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	2019	2018	2019	2018
Argentina	1	ARS	0.20	0.33	0.16	0.23
China	1	CNY	1.37	1.31	1.33	1.31
EMU countries	1	EUR	10.58	10.28	10.44	10.26
India	100	INR	13.42	12.75	13.07	12.80
Brazil	1	BRL	2.40	2.39	2.31	2.31
United Kingdom	1	GBP	12.04	11.60	12.21	11.34
USA	1	USD	9.44	8.70	9.32	8.97

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 is; 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 are 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 are 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 realisability of deferred tax assets (Note 9)
- Judgements used in the recognition 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)

New accounting principles

New accounting principles 2019

IASB issued several new and amended accounting standards that were endorsed by EU, effective date 1 January 2019. As presented in previous report, IFRS 16 Leasing had an impact on the SKF Group's financial statements, see Note 12 for more information and updated accounting principles.

New accounting principles 2020

IASB issued several amended accounting standards that were endorsed by EU, effective date 1 January 2020. None of these are expected to have a material effect on the SKF Group's financial statements.

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 make 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 consist 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 consist 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.

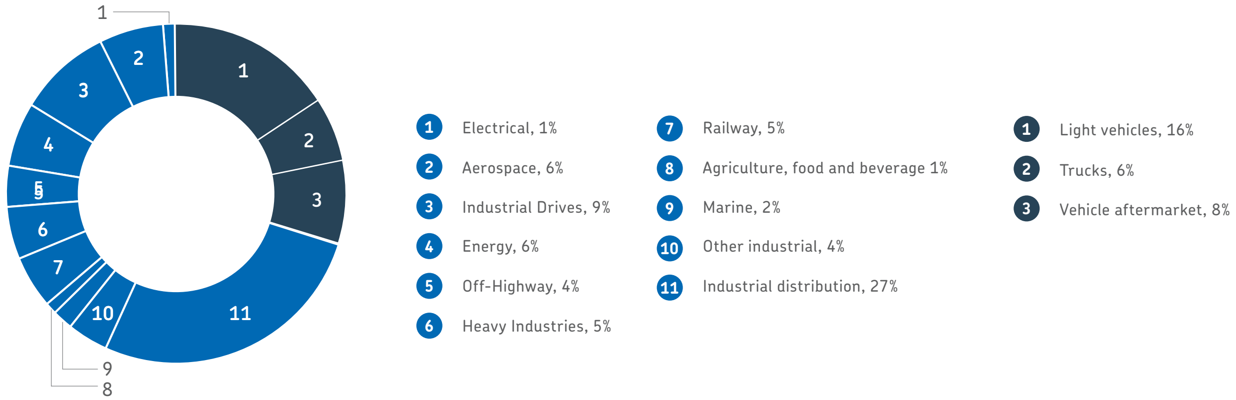
Automotive sells to customers in the global automotive market, directly or indirectly through SKF's distributor network. Key customers are manufacturers of cars, light and heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

For more information on the customer industries and related products, see pages 50–53.

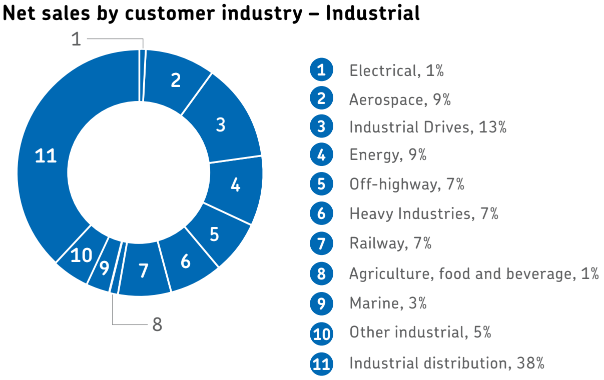
Previously published segment figures for 2018 have been restated to reflect a change in classification of smaller customers.

Cont. Note 2

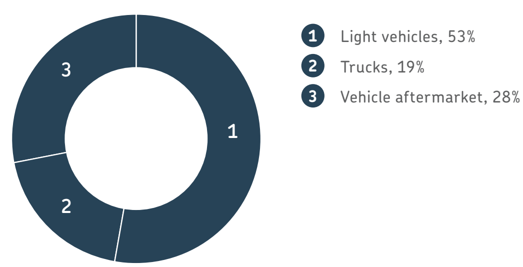
Net sales – Total



Net sales by customer industry – Industrial



Net sales by customer industry – Automotive



	Net sales		Contribution to profit before tax	
MSEK	2019	2018	2019	2018
Industrial	61,597	60,704	8,664	9,465
Automotive	24,416	25,009	731	1,584
Subtotal operating segments	**86,013**	**85,713**	**9,395**	**11,049**
Financial net	—	—	–926	–861
Total	**86,013**	**85,713**	**8,469**	**10,188**

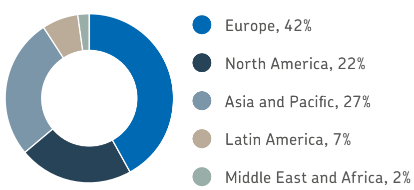
	Depreciation and amortization		Impairments		Additions to property, plant and equipment, intangible assets and right-of-use assets	
MSEK	2019	2018	2019	2018	2019	2018
Industrial	2,720	1,883	132	120	3,536	2,304
Automotive	618	445	26	24	647	527
Eliminations and unallocated items	—	—	—	—	—	—
Total	**3,338**	**2,328**	**158**	**144**	**4,183**	**2,831**

	Assets		Liabilities	
MSEK	2019	2018	2019	2018
Industrial	56,797	49,744	11,995	10,841
Automotive	14,812	15,269	4,711	5,192
Subtotal operating segments	**71,609**	**65,013**	**16,706**	**16,033**
Financial and tax items	17,722	17,470	34,229	30,846
Eliminations and other unallocated items	4,777	4,690	5,807	4,842
Total	**94,108**	**87,173**	**56,742**	**51,721**

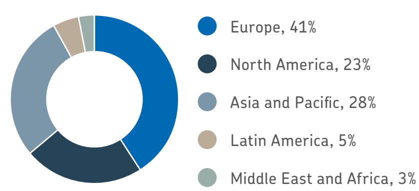
Geographic disclosure MSEK	Net sales by customer location		Non-current assets	
	2019	2018	2019	2018
Sweden	2,000	2,232	4,356	3,990
Europe excl. Sweden	31,573	32,320	14,580	12,237
North America (incl. Mexico)	20,645	20,666	13,273	11,976
Asia-Pacific	24,865	24,080	5,691	4,942
Middle East/Africa	2,264	2,252	350	81
Latin America	4,666	4,163	1,703	1,508
Eliminations	—	—	540	425
Total	**86,013**	**85,713**	**40,493**	**35,158**

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (20) were located in USA, 17% (16) in China, and 10% (12) 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, 33% (34) were located in USA, 16% (16) in Germany, and 10% (10) in China.

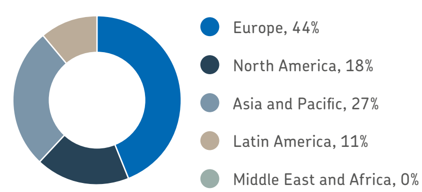
Net sales by geographic area



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	2019	2018
Total fair value of net assets acquired		
Intangible assets, excluding goodwill	30	—
Property, plant and equipment	71	—
Current assets	114	—
Non-current liabilities	–33	—
Current liabilities	–26	—
Fair value net assets acquired	**156**	**—**
Goodwill	573	—
Total acquisition cost	**729**	**—**
Deferred consideration	–23	—
Cash and cash equivalents acquired	–10	—
Cash outflow	**696**	**—**

In 2019, SKF had a total net cash outflow of MSEK 696 for the acquisition of RecondOil, Presenso Ltd, Form Automation Solutions (FAS) and a metal stamping branch.

RecondOil was acquired in June and is a Swedish cleantech start-up that has developed a chemical filtration and rejuvenation process for industrial lubrication fluid and oil. The acquisition will strengthen the Group's lubrication business and REP offer and the goodwill amounted to MSEK 297.

Presenso Ltd was acquired in October and is a company based in Israel that develops and deploys artificial intelligence (AI)-based predictive maintenance software. SKF Presenso's AI capability enables production plants to find and act on anomalies that were previously difficult to detect, automatically and without the need to employ data scientists. SKF Presenso's competence will be used to strengthen the Group's REP offer and the goodwill amounted to MSEK 246. FAS was acquired in November and is a U.S.-based software development start-up company. FAS has developed GoPlant, a mobile-based asset inspection and data collection solution used in industrial applications. The technology will be integrated into SKF's existing mobile solutions and REP offering.

SKF did not make any acquisitions in 2018.

4 Divestment of businesses

MSEK	2019	2018
Goodwill	—	400
Other intangible assets	16	25
Property, plant and equipment	29	328
Deferred tax assets	6	132
Other non-current assets	—	24
Current assets	61	1,389
Deferred tax provisions	—	–23
Non current liabilities	–1	–387
Current liabilities	–94	–577
Non-controlling interest	–4	—
Net assets disposed of	**13**	**1,311**
Profit/loss	–13	1,202
Total consideration	**—**	**2,513**
Cash and cash equivalents divested	–3	–153
Cash in-/outflow for previous year's divestments	–84	—
Total cash inflow	**–87**	**2,360**

During 2019, the Group divested a smaller business in Asia for a total cash flow of MSEK –3, resulting in a net loss of MSEK –17. Additionally, the Group had a cash outflow of MSEK –84 for adjusted consideration to previous year's L&AT divestment

During 2018, the Group divested businesses for a total cash flow of MSEK 2,360 resulting in a net gain of MSEK 1,202.

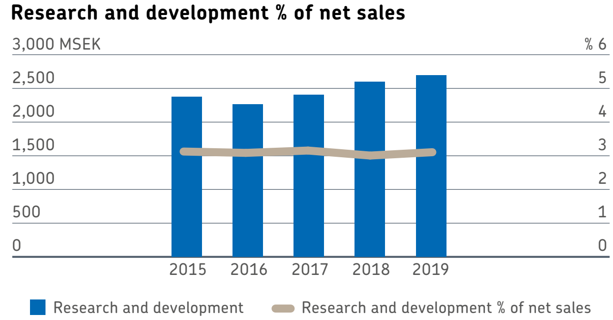
In December 2018, SKF completed the divestment of the L&AT business to Triton corporation. The total consideration of the divestment amounted to MSEK 2,469.

SKF has also completed divestments of smaller businesses during 2018, two in the USA and one in Europe, amounting to a total consideration of MSEK 44.

5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled MSEK 2,691 (2,591), corresponding to 3.1% (3.0) of annual sales.

Research and development % of net sales



6 Expenses by nature

MSEK	2019	2018
Employee benefit expenses including social charges[1)]	26,227	24,724
Raw material and components consumed, including traded products	27,917	26,563
Change in work in process and finished goods	104	169
Depreciation, amortization and impairments	3,496	2,472
Other expenses, primarily purchased services, shop supplies and utilities	19,146	22,228
Total operating expenses	**76,890**	**76,156**

1) The reporting of employee benefits was changed during 2019. 2018 has not been restated. In 2018, certain employee benefit expenses were classified as other expenses.

Depreciation, amortization and impairments were accounted for as (MSEK)	2019				2018			
	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	2,291	103	80	2,474	1,753	118	38	1,909
Selling expenses	435	509	78	1,022	83	374	106	563
Total	**2,726**	**612**	**158**	**3,496**	**1,836**	**492**	**144**	**2,472**

7 Other operating income and expenses

MSEK	2019	2018
Other operating income		
Exchange gains on trade receivables/payables	258	796
Profit from sale of property, plant and equipment	34	274
Profit from associated companies	12	14
Profit from divestment of businesses	—	1,216
Other[1)]	461	170
Total	**765**	**2,470**
Other operating expenses		
Exchange losses on trade receivables/payables	–342	–898
Loss from sale of property, plant and equipment	–36	–14
Loss on divestment of businesses	–13	–14
Other	–102	–52
Total	**–493**	**–978**
Other operating income and expenses, net	**272**	**1,492**

1) 2019 includes VAT credit.

8 Financial income and financial expenses

MSEK	2019	2018
Interest income	122	118
Interest expense	–748	–599
Net gains/losses:		
Net interest cost on post-employment benefits	–317	–281
Exchange differences, net	170	25
Other financial income including dividends	1	42
Other financial expense	–154	–166
Financial net	**–926**	**–861**

Interest expense amounted to MSEK –748 (–599) and included MSEK –137 (–135) related to the debt repurchase during the year, while the effect from the related derivative was MSEK 0 (62). Total net expense for the debt repurchase amounted to MSEK –137 (–73). Other financial expense included 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.

	2019			2018		
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	–8	—	—	–7	—	—
Derivatives held for trading	1	–139	396	1	–139	266
Derivatives held for hedge accounting	—	—	–1	—	—	–1
Financial assets classified as amortized cost	129	—	327	124	—	447
Financial assets classified as fair value through other comprehensive income	—	—	5	—	—	5
Other financial liabilities, primarily loans	—	–609	–556	—	–460	–650
Other liabilities including post-employment benefits	—	—	–471	—	—	–447
Total	**122**	**–748**	**–300**	**118**	**–599**	**–380**

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.

	2019			2018		
Tax expense (MSEK)	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	–2,991	—	–2,991	–2,628	—	–2,628
Deferred taxes	314	773	1,087	25	92	117
Total	**–2,677**	**773**	**–1,904**	**–2,603**	**92**	**–2,511**

Taxes charged to other comprehensive income included MSEK 719 (36) related to remeasurements of post employment benefits and MSEK 54 (56) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (MSEK)	2019	2018
Tax calculated using statutory tax rate in Sweden	–1,812	–2,241
Difference between statutory tax rate in Sweden and foreign subsidiaries	–301	–297
Other taxes	–109	–162
Tax credits and similar items	79	55
Non-deductible/non-taxable profit items	–308	27
Tax loss carry-forwards	18	9
Current tax referring to previous years	–228	16
Other	–16	–10
Tax expense Income Statement	**–2,677**	**–2,603**

The corporate statutory income tax rate in Sweden was 21.4% (22.0). The actual tax rate on profit before taxes was 31.6% (25.6). The tax loss carry-forwards included losses created during the year not recognized as tax assets.

	2019		2018	
Gross deferred taxes per type (MSEK)	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangibles and other assets	–40	1,497	–67	1,445
Property, plant and equipment	–60	890	–2	854
Inventories	–574	381	–447	363
Trade receivables	–56	4	–66	3
Provisions for post-employment benefits	–3,393	49	–2,593	40
Other accruals and liabilities	–815	32	–695	25
Tax loss carry-forwards	–1,122	—	–1,061	—
Tax credit carry-forwards	–136	—	–180	—
Other	–232	98	–87	23
Gross deferred taxes	**–6,428**	**2,951**	**–5,198**	**2,753**
Net deferred taxes presented in the Consolidated balance sheet	–4,437	960	–3,563	1,118

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 235 (322), whereof MSEK 133 (187) related to tax loss carry-forwards and MSEK 102 (135) 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 (38) related to tax losses and will expire during the period 2020 to 2024. The remaining unrecognized assets will expire after 2024 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was MSEK 16 (18) 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 71 (–22) 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 2019, the Group had tax loss carry-forwards amounting to MSEK 5,841 (5,712), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2020–2023	—
2024	223
2025 and thereafter	261
Never	5,357

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. Until 2018, the ERP system (Unite) followed another amortization pattern, as described below under Internally developed intangibles. 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 Unite has during 2019 been changed to a straight-line amortization, keeping the original useful life. For 2019, and the rest of the useful life, the amortization rate is 10%. For 2018, the yearly amortization was around 3% of the net book value at the end of 2017. Capitalized costs during 2018 started to be amortized during 2019 and the original useful life for the asset remains, which expects to end in 2028.

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

Cont. Note 10

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 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 years 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	2019 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2019 Opening balance
Acquisition cost								
Goodwill	12,099	—	573	—	—	3	356	11,167
Patents, tradenames and similar rights	3,004	—	29	—	—	1	103	2,871
Internally developed software	2,600	192	1	–1	—	—	3	2,405
Customer relationships	4,854	—	—	—	—	—	151	4,703
Leaseholds	271	20	–10	—	—	—	5	256
Product development	358	24	—	—	—	—	7	327
Technology	1,248	—	—	—	—	—	38	1,210
Other intangible assets	119	4	–19	—	—	—	4	130
Total	**24,553**	**240**	**574**	**–1**	**—**	**4**	**667**	**23,069**

MSEK	2019 Closing balance	Amorti-zations	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2019 Opening balance
Accumulated amortization and impairments								
Goodwill	848	—	–1	—	1	1	27	820
Patents, tradenames and similar rights	474	21	—	—	—	—	8	445
Internally developed software	1,015	171	1	–1	77	—	3	764
Customer relationships	2,849	296	—	—	—	–5	74	2,484
Leaseholds	91	15	–1	—	—	—	1	76
Product development	214	14	—	—	—	—	4	196
Technology	578	90	—	—	—	—	14	474
Other intangible assets	87	5	–12	—	—	5	1	88
Total	**6,156**	**612**	**–13**	**–1**	**78**	**1**	**132**	**5,347**
Net book value	**18,397**							**17,722**

MSEK	2018 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2018 Opening balance
Acquisition cost								
Goodwill	11,167	—	–884	—	—	6	797	11,248
Patents, tradenames and similar rights	2,871	—	–12	—	—	—	216	2,667
Internally developed software	2,405	131	–23	—	—	—	7	2,290
Customer relationships	4,703	—	–53	—	—	—	335	4,421
Leaseholds	256	35	–40	–12	—	—	9	264
Product development	327	18	–6	—	—	—	16	299
Technology	1,210	—	–9	—	—	–15	84	1,150
Other intangible assets	130	—	—	—	—	12	3	115
Total	**23,069**	**184**	**–1,027**	**–12**	**—**	**3**	**1,467**	**22,454**

MSEK	2018 Closing balance	Amorti-zations	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2018 Opening balance
Accumulated amortization and impairments								
Goodwill	820	—	–503	—	—	1	69	1,253
Patents, tradenames and similar rights	445	41	–11	—	—	—	—	415
Internally developed software	764	57	–23	—	91	—	7	632
Customer relationships	2,484	283	–28	—	—	—	153	2,076
Leaseholds	76	13	–27	–3	—	—	4	89
Product development	196	24	–6	—	—	—	8	170
Technology	474	72	–4	—	—	–6	31	381
Other intangible assets	88	2	—	—	—	6	2	78
Total	**5,347**	**492**	**–602**	**–3**	**91**	**1**	**274**	**5,094**
Net book value	**17,722**							**17,360**

Impairment losses

Impairments amounted to MSEK –78 in 2019, related mainly to the scrapping of licenses from the Unite Programme.

Impairments amounted to MSEK –91 in 2018, which referred to the scrapping of an internally developed planning module.

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 1,231 (1,183), Kaydon Friction MSEK 611 (587), PEER MSEK 232 (223), GBC MSEK 213 (204) and others MSEK 82 (91).

Significant intangibles

Internally generated software related primarily to the development of Unite to create and deploy improved processes and solutions across the Group. The balance of capitalized expenditures in 2019 was MSEK 1,585 (1,635), including amortizations of MSEK –163 (–50). Remaining useful life is nine years. An impairment of MSEK –77 has been made during the year related to the scrapping of old licenses when upgrading Unite. In 2018, an impairment of MSEK –91 was made related to the scrapping of a develop planning module.

Other individual intangible assets that are material for the Group include the customer relationships for Lincoln amounting to MSEK 806 (916) having a remaining useful life of six years, and for Kaydon amounting to MSEK 780 (837) having a remaining useful life of nine 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.

	2019		2018	
	Industrial	Automotive	Industrial	Automotive
Goodwill, MSEK	10,905	346	9,819	528
Tradenames, MSEK	2,156	213	2,084	204
Average revenue growth rate	4.2%	2.2%	4.0%	1.7%
Discount rate, pre tax	11.3%	11.4%	12.1%	12.8%
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.

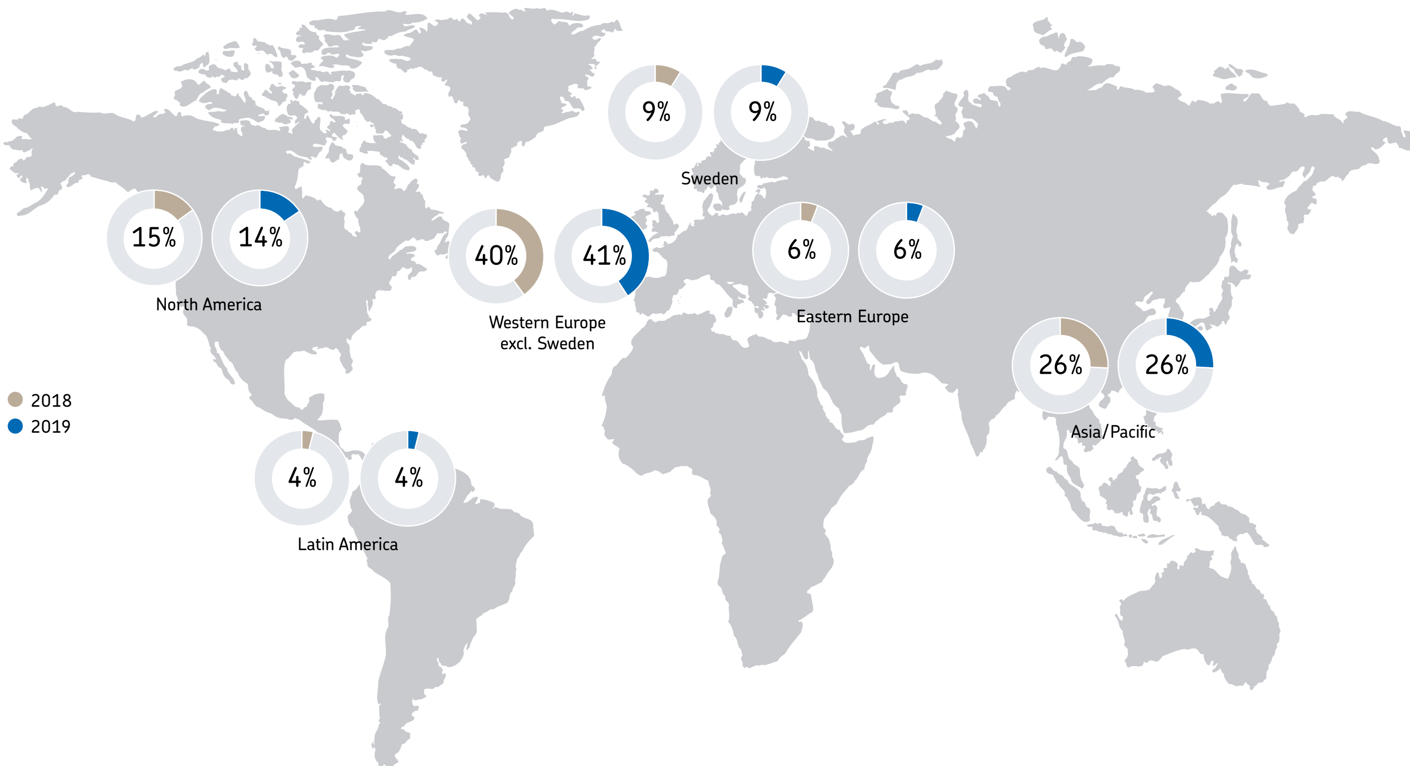
The useful lives are:
- 33 years for buildings and installations;
- 10–20 years for machinery and supply systems;
- 10 years for control systems within machinery and supply systems;
- 4–5 years for tools, office equipment and vehicles.

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 2018–2019



MSEK	2019 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1]	Translation effects	2019 Opening balance
Acquisition cost								
Buildings	9,255	542	–27	–11	—	97	138	8,516
Land and land improvements	763	16	0	–1	—	–39	21	766
Machinery and supply systems	32,976	1,065	44	–120	—	203	676	31,108
Machine toolings and factory fittings	4,281	276	2	–43	—	7	84	3,955
Assets under construction including advances[2]	2,853	1,562	—	–1	—	–1,454	60	2,686
Total	**50,128**	**3,461**	**19**	**-176**	**—**	**–1,186**	**979**	**47,031**

MSEK	2019 Closing balance	Depre- ciation	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2019 Opening balance
Accumulated depreciation and impairments								
Buildings	4,534	285	–7	–9	10	-91	88	4,258
Land improvements	300	9	—	—	—	–5	7	289
Machinery and supply systems	23,626	1,521	–12	–92	56	–897	491	22,559
Machine toolings and factory fittings	3,248	132	–4	–33	—	–154	70	3,237
Total	**31,708**	**1,947**	**–23**	**–134**	**66**	**–1,147**	**656**	**30,343**
Net book value	**18,420**							**16,688**

MSEK	2018 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other[1]	Translation effects	2018 Opening balance
Acquisition cost								
Buildings	8,516	224	–181	–95	—	173	239	8,156
Land and land improvements	766	27	–22	–28	—	–24	32	781
Machinery and supply systems	31,108	810	–728	–232	—	532	1,139	29,587
Machine toolings and factory fittings	3,955	127	–175	–67	—	–32	160	3,942
Assets under construction including advances[2]	2,686	1,459	–26	—	—	–1,030	70	2,213
Total	**47,031**	**2,647**	**–1,132**	**–422**	**—**	**–381**	**1,640**	**44,679**

MSEK	2018 Closing balance	Depre- ciation	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2018 Opening balance
Accumulated depreciation and impairments								
Buildings	4,258	258	–107	–55	—	–49	154	4,057
Land improvements	289	54	—	—	21	–20	9	225
Machinery and supply systems	22,559	1,367	–523	–189	28	–290	834	21,332
Machine toolings and factory fittings	3,237	157	–174	–52	4	–138	137	3,303
Total	**30,343**	**1,836**	**–804**	**–296**	**53**	**–497**	**1,134**	**28,917**
Net book value	**16,688**							**15,762**

1) Includes reclassification between categories and adjustment for change in accounting policy referring to IFRS 16.
2) Contractual commitments for acquisition of PPE not yet booked amounted to MSEK 250 (670).

12 Right-of-use assets

Accounting policy
As of 1 January 2019, SKF applies IFRS 16 for accounting of leases and the following policy applies: 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.

Transition balance
SKF applied the modified retrospective method when transitioned to IFRS 16 on 1 January 2019, meaning that SKF did not recalculate the financial statements for 2018. The lease liability is the present value of all future payments until lease end date. The practical expedient to set the right of use asset (before adjustments for any prepayments) equal to the lease liability was applied for the transition.

The Group's average discount rate used for transition was 5.1%.

Reconciliation from IAS 17 to IFRS 16	MSEK
Operating lease obligation according to IAS 17 as of 31 December 2018	3,951
Discounting effect to net present value	–664
Finance leases	40
Short term and assets of low value exceptions	–89
Signed but not yet commenced leases	–210
Reasonable certain to use extension/termination options	190
Indexations	12
Lease liability according to IFRS 16 as of 1 January 2019	3,230

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.

Previous accounting policy, applicable to balances prior to 1 January 2019
A lease agreement that, according to management's judgement, transfers substantially all benefits and risks of ownership to the Group, is accounted for as a finance lease. Operating leases' rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

MSEK	2019 Closing balance	Additions	Modifications	Impairments	Translation effects	2019 Opening balance
Acquisition cost						
Premises	3,099	298	55	—	81	2,665
Vehicles	428	131	12	—	4	281
Forklifts	177	41	—	—	2	134
Machinery	34	1	–3	—	1	35
Office equipment	19	—	3	—	—	16
Other	4	11	–106	—	—	99
Total	**3,761**	**482**	**–39**	**—**	**88**	**3,230**

MSEK	2019 Closing balance	Depreciation	Modifications	Impairments	Translation effects	2019 Opening balance
Accumulated depreciation and impairments						
Premises	521	534	–20	13	–6	—
Vehicles	173	175	—	—	–2	—
Forklifts	57	51	6	1	–1	—
Machinery	12	12	—	—	—	—
Office equipment	7	7	—	—	—	—
Other	—	—	—	—	—	—
Total	**770**	**779**	**–14**	**14**	**–9**	**—**
Net book value	**2,991**					**3,230**

Lease expenses for short-term leases, low value-assets and variable lease payments amount to MSEK 396. The lease expenses correspond in all material aspects to the cash flow for those leases.

Interest expenses related to leases amount to MSEK 126.

MSEK	2019
Short-term lease expenses	265
Low-value asset lease expenses	80
Variable lease payments not included in lease liability	18
Other	33
Total	**396**

2018 in accordance with IAS 17

In 2018, net rental expenses related to operating leases was MSEK 937. The most significant operating leases involved the use of buildings, other office locations as well as machines primarily in the U.S., Germany, China, France and Singapore. Contingent rentals and sub-lease revenues were not significant.

	2018	
Future minimum lease payments at 31 December (MSEK)	Finance Leases	Operating Leases
Within one year	16	870
Later than one year but within five years	28	1,776
Later than five years	1	1,305
Total	**45**	**3,951**
Interest	–5	
Present value of minimum lease payments under finance leases	**40**	
Current portion	15	
Non-current portion	25	

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	2019	2018
Finished goods	10,688	10,209
Raw materials and supplies	5,749	5,908
Work in process	1,614	1,709
Total	**18,051**	**17,826**

Inventory values are stated net of a provision for net realisable value of MSEK 1,523 (1,421). The amount charged to expense for net realisable provisions during the year was MSEK 114 (110). Reversals of net realisable provisions during the year were MSEK 26 (21).

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. Equity securities without a quoted price are held at cost if the fair value cannot be measured reliably. 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 taking 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 2019

			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	14,006	—	—	—	14,006	14,006
Cash and cash equivalents	3,096	—	3,334	—	6,430	6,430
Equity securities	—	354	—	—	354	—
Marketable securities	—	—	—	800	800	—
Trading derivatives	—	—	—	100	100	100
Debt securites	—	22	260	—	282	260
Other loans and receivables	4,556	—	—	—	4,556	4,451
Carrying amount	**21,658**	**376**	**3,594**	**900**	**26,528**	**25,247**
Fair value	**21,658**	**376**	**3,594**	**900**		

Financial assets per category 2018

			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	13,842	—	—	—	13,842	13,842
Cash and cash equivalents	4,390	—	6,000	—	10,390	10,390
Equity securities	—	342	—	—	342	—
Marketable securities	—	—	—	684	684	—
Trading derivatives	—	—	—	75	75	75
Debt securites	—	21	164	—	185	164
Other loans and receivables	1,136	—	—	—	1,136	1,029
Carrying amount	**19,368**	**363**	**6,164**	**759**	**26,654**	**25,500**
Fair value	**19,368**	**363**	**6,164**	**759**		

Financial assets categorized as amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes 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	2019	Level 1	Level 2	Level 3	2018
Fair value through other comprehensive income								
Equity securities	288	—	—	288	299	—	—	299
Debt securities	22	—	—	22	21	—	—	21
Fair value through profit or loss								
Trading securities	985	—	75	1,060	768	—	80	848
Cash and cash equivalents	3,334	—	—	3,334	6,000	—	—	6,000
Trading derivatives	—	100	—	100	—	75	—	75
Total	**4,629**	**100**	**75**	**4,804**	**7,088**	**75**	**80**	**7,243**

Financial assets recorded at fair value, which includes 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 66 (43) 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
2019	14,006	11,859	1,497	365	143	142
2018	13,842	11,728	1,434	326	171	183

The average days outstanding of trade receivables in 2019 were 64 days (62). Trade receivables as a percentage of annual net sales totaled 16.3% (16.1). Trade receivables included receivables sold with recourse amounting to MSEK 119 (70). 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)	2019	2018
Opening balance 1 January	**451**	**397**
Additions	66	159
Reversals	–94	–97
Changes through the income statement	**–28**	**62**
Allowances used to cover write-offs	–21	–17
Acquired/ divested companies	—	–1
Currency translation adjustments	11	10
Closing balance 31 December	**413**	**451**

15 Other short-term assets

MSEK	2019	2018
Value added taxes receivables, net	1,754	962
Income tax receivables	762	1,095
Prepaid expenses	559	567
Accrued income	286	268
Advances to suppliers	97	61
Other current receivables	1,088	959
Total	**4,546**	**3,912**

16 Share capital

	Number of shares authorised and outstanding			
	A Shares	B Shares	Total	Share capital (MSEK)
Opening balance 1 January 2018	35,055,803	420,295,265	455,351,068	1,138
Conversion of A shares to B shares	–1,700,000	1,700,000	—	—
Closing balance 31 December 2018	**33,355,803**	**421,995,265**	**455,351,068**	**1,138**
Conversion of A shares to B shares	–895,275	895,275	—	—
Closing balance 31 December 2019	**32,460,528**	**422,890,540**	**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, 194,476,219 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 22,630 (18,155), see page 115. The Board has decided to propose to the Annual General Meeting, on 26 March 2020, a dividend of SEK 6.25 per share to be paid to the shareholders. The proposed dividend for 2019 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 30 March 2020. The total proposed dividend to be paid is MSEK 2,846 (2,732). 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 4 April 2019, a dividend of SEK 6.00 per share was paid to the shareholders.

17 Earnings per share

	2019	2018
Net profit attributable to owners of AB SKF (MSEK)	5,557	7,285
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	**12.20**	**16.00**
Dilutive shares from Performance Share Programmes	530,654	658,586
Weighted average diluted number of shares	455,881,722	456,009,654
Diluted earnings per share (SEK)	**12.19**	**15.97**

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.

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)	2019 USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	469	735	816	—	287	953	3,260
Present value of funded defined benefit obligation	9,203	—	11,104	4,530	2,519	1,822	29,178
Less: Fair value of plan assets	–8,069	—	–3,205	–3,634	–705	–1,512	–17,125
Total	**1,603**	**735**	**8,715**	**896**	**2,101**	**1,263**	**15,313**
Reflected as							
Other long-term assets	—	—	—	—	—	–53	–53
Provisions for post-employment benefits	1,603	735	8,715	896	2,101	1,316	15,366
Total	**1,603**	**735**	**8,715**	**896**	**2,101**	**1,263**	**15,313**

Amounts recognized in the consolidated balance sheet (MSEK)	2018 USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	440	732	726	—	260	894	3,052
Present value of funded defined benefit obligation	8,243	—	9,289	3,728	2,087	1,612	24,959
Less: Fair value of plan assets	–7,473	—	–2,770	–2,891	–669	–1,375	–15,178
Total	**1,210**	**732**	**7,245**	**837**	**1,678**	**1,131**	**12,833**
Reflected as							
Other long-term assets	—	—	—	—	—	–61	–61
Provisions for post-employment benefits	1,210	732	7,245	837	1,678	1,192	12,894
Total	**1,210**	**732**	**7,245**	**837**	**1,678**	**1,131**	**12,833**

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 88% 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, 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 2019, this reimbursement right totalled MSEK 20 (22).

Germany

The major German pension plans represent around 87% 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 no additional service cost is accrued from 2018 and they are covered by defined contribution pension solutions. The remaining participants of the major German pension plan are still entitled to a defined benefit pension solution.

United Kingdom

The major plans in the U.K. represent around 91% 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	2019 Present value of obligation	2019 Fair value of plan assets	2019 Total	2018 Present value of obligation	2018 Fair value of plan assets	2018 Total
Opening balance 1 January	**28,011**	**–15,178**	**12,833**	**27,956**	**–15,727**	**12,229**
Interest expense/(income)	832	–515	317	755	–474	281
Current service cost	390	—	390	410	—	410
Past service cost	20	—	20	40	—	40
Other	–3	8	5	3	3	6
Subtotal expenses	1,239	–507	732	1,208	–471	737
Difference between actual return and interest income	—	–1,641	–1,641	—	807	807
Actuarial (gains)/losses – demographic assumptions	–109	—	–109	12	—	12
Actuarial (gains)/losses – financial assumptions	4,131	—	4,131	–599	—	–599
Experience adjustments	88	—	88	309	—	309
Other	—	—	0	—	—	—
Subtotal remeasurements in OCI	4,110	–1,641	2,469	–278	807	529
Employer contribution	—	–297	–297	—	–273	–273
Employee contribution	35	–4	31	27	-4	23
Benefit payments	–1,727	1,076	–651	–1,537	942	–595
Subtotal cash flow[1)]	–1,692	775	–917	–1,510	665	–845
Sold businesses	16	—	16	–625	314	–311
Other	–120	7	–113	–40	19	–21
Translation differences	874	–581	293	1,300	–785	515
Closing balance 31 December	**32,438**	**–17,125**	**15,313**	**28,011**	**–15,178**	**12,833**

1) Cash outflows for 2020 are expected to be some MSEK 730 which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Components of total post-employment benefit expenses (MSEK)	2019	2018
Post-employment defined benefit expense	732	737
Post-employment defined contribution expense	713	669
Total post-employment benefit expenses	**1,445**	**1,406**
Whereof amounts charged to:		
Cost of goods sold	673	697
Selling expenses	423	377
Administrative expenses	32	51
Financial expenses	317	281
Total	**1,445**	**1,406**

Plan asset composition (MSEK)	2019 Quoted	2019 Unquoted	2019 Total	2018 Quoted	2018 Unquoted	2018 Total
Government bonds	516	310	826	595	225	820
Corporate bonds	6,928	–44	6,884	6,963	–38	6 925
Equity instruments	5,496	546	6,042	4,279	543	4 822
Real estate	252	828	1,080	221	777	998
Other, primarily cash and other financial receivables	1,722	571	2,293	1,071	542	1,613
Total	**14,914**	**2,211**	**17,125**	**13,129**	**2,049**	**15,178**

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 the

Cont. Note 18

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.

	2019					
Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	3.3	3.1	1.0	1.9	1.6	1.3
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	3.2
Longevity male/female[3)]	20.6/22.6	20.6/22.6	20.1/23.7	21.5/23.4	22.0/25.0	20.5/22.0
Weighted average duration of the plan (in years)[4)]	11.8	8.9	20.1	20.1	21.3	11.6

	2018					
Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	4.3	4.2	1.8	2.9	2.5	2.1
Pension increase rate[1)]	n/a	n/a	2.0	3.6	2.0	n/a
Salary growth rate[2)]	n/a	n/a	2.7	3.6	3.5	3.3
Longevity male/female[3)]	20.6/22.7	20.6/22.7	20.0/23.5	21.8/23.6	22.2/24.6	19.4/22.8
Weighted average duration of the plan (in years)[4)]	10.2	8.4	18.1	19.1	22.5	11.3

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 DBO Defined benefit obligations, MSEK
Discount rate	+1%	–4,234
	–1%	5,538
Salary growth rate	+0.5%	603
	–0.5%	–545
Pension increase rate	+0.5%	1,212
	–0.5%	–1,050
Longevity	+1 year	1,211
	–1 year	–1,212

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. For more information, see page 54. 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	2019 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2019 Opening balance
Claims	388	111	–55	–270	5	–1	598
Other employee benefits	832	90	–104	–7	85	23	745
Restructuring	558	412	–312	–30	–10	19	479
Other	696	288	–148	–130	–43	10	719
Total	**2,474**	**901**	**–619**	**–437**	**37**	**51**	**2,541**

MSEK	Of which current
Claims	98
Other employee benefits	40
Restructuring	344
Other	171
Total current part of other provisions	**653**

Claims decreased during 2019 with MSEK –210, related to warranty claims.

In 2019, the total restructuring cost amounted to around MSEK 571, whereof MSEK 412 refers to provisions, and includes the consolidation of factories in North America and Europe. This cost includes voluntary and involuntary termination benefits spread over a several number of countries. The majority of the remaining restructuring provisions are expected to be settled in 2020 and 2021.

The largest items in other employee benefits are jubilee bonus in Italy, part-time retirement programmes in Germany and special employer's contribution in Sweden.

Other provisions primarily include insurance and worker's compensation as well as environmental commitments.

Contingent liabilities at nominal values (MSEK)	2019	2018
Guarantees	23	25
Tax claims	1,413	800
Other contingent liabilities	22	22
Total	**1,458**	**847**

The increase in contingent liabilities during 2019 refers to tax and VAT claims in various countries around the world.

20 Financial liabilities

Accounting policy
Financial liabilities are recognized in the balance sheets 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 analyzes based on observable market data.

		2019		2018	
MSEK	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
MEUR 257		—	—	2,706	2,729
MEUR 200	2021	2,088	2,089	2,052	2,054
MEUR 296	2022	3,079	3,267	5,105	5,453
MEUR 300	2025	3,215	3,242	3,068	3,097
MUSD 100	2027	931	1,106	895	1,012
MEUR 300	2029	3,113	3,352	—	—
Long-term lease liabilities	2021 and thereafter	2,327	2,327	—	—
Other long-term loans	2021–2027	167	167	148	148
Derivatives held for hedge accounting	2021–2025	16	16	468	468
Derivatives held for trading	2021	471	471	408	408
Subtotal long-term financial liabilities		**15,407**	**16,037**	**14,850**	**15,369**
Short-term financial liabilities					
MEUR 192		—	—	1,969	2,000
MEUR 205	2020	2,142	2,184	—	—
Trade payables	2020	8,266	8,266	7,831	7,831
Short-term lease liabilities	2020	684	684	—	—
Short-term loans	2020	236	236	206	206
Derivatives held for hedge accounting	2020	442	442	—	—
Derivatives held for trading	2020	106	106	132	132
Subtotal short-term financial liabilities		**11,876**	**11,918**	**10,138**	**10,169**
Total		**27,283**	**27,955**	**24,988**	**25,538**

Derivatives are measured at fair value and fall into Level 2 of the fair value hierarchy for both 2018 and 2019. 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.

Two of the loans are subject to fair value hedging. The fixed EUR interest on the MEUR 300 and the MEUR 205 loans have been swapped into floating USD interest rate.

Part of the long-term loan, MEUR 30 of outstanding MEUR 296 with due date 2022 have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of this financial liability amounted to MSEK 335 (4,554) 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	2019	2018
Employee related accruals	3,787	3,914
Accrual for rebates	1,004	968
Income tax payable	1,015	522
Deferred income	278	331
Customer advances	929	687
Value added taxes payable, net	594	665
Other current liabilities	1,072	1,176
Other accrued expenses	1,932	1,823
Total	**10,611**	**10,086**

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 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 2019 FAM is the major shareholder of the Parent company, holding 29.1% (28.8) of the voting rights and 13.8% (13.8) of the share capital.

Investments in associated companies include a 25% shareholding of Simplex Turbolo Co. Ltd. in the U.K. Other investments include primarily a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, and a 20% share in CoLinx, LLC in the U.S.

Transactions with Associated companies (MSEK)	2019	2018
Sales of goods and services	64	65
Purchases of goods and services	396	384
Receivables as of 31 December	6	6
Liabilities as of 31 December	22	26

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 2019, 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 apply in relation to members of Group Management appointed after the adoption of the principles, 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 support the SKF Group's mission and business strategy. 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 consists primarily of the following components: fixed salary, variable salary, performance shares, 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.

Fixed salary
The fixed salary of a Group Management member shall be at a market competitive level. It will be based on competence, responsibility, experience and performance. The SKF Group uses an internationally well-recognized evaluation system, International Position Evaluation (IPE), in order to evaluate the scope and responsibility of the position. Market benchmarks are conducted on a regular basis.

The performance of Group Management members is continuously monitored and used as a basis for annual reviews of fixed salaries.

Variable salary
The variable salary of a Group Management member runs according to a performance based programme. The purpose of the programme is to motivate and compensate value creating achievements in order to support operational and financial targets.

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF financial performance management model called Total Value Added (TVA). TVA 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.

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 50% and 70% for Group Management members.

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 will not exceed 70% of the accumulated annual fixed salary of Group Management members.

Performance Shares
The Annual General Meeting 2019 decided on the introduction of SKF's Performance Share Programme 2019. 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 2019–2021 compared to the financial year 2018. 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.

Other benefits
The SKF Group provides other benefits to Group Management members in accordance with local practice. The accumulated value of other benefits shall, in relation to the value of the total remuneration, be limited and shall, as a principle, correspond to what is customary on the relevant market.

Other benefits can for instance be a company car, medical insurance and home service.

Pension
The SKF Group strives 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 is 65 years.

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, according to the contract, 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 maximised to two years' fixed salary.

The Board of Directors' right to deviate from the principles of remuneration

In certain cases, the Board of Directors may deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration for Group Management

The Board of Directors of AB SKF 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 employment conditions of the President.

The principles of remuneration for Group Management are presented to the Board of Directors that submits a proposal for such principles to the Annual General Meeting for approval. The Board of Directors must approve the employment conditions of the President.

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 2019 it was decided that the Board be entitled to a firm allotment of SEK 7,257,000 to be distributed with SEK 2,133,000 to the Chairman of the Board and with SEK 732,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that an allotment of SEK 1,087,000 for committee work shall be divided with SEK 248,000 to the Chairman of the Audit Committee, with SEK 176,000 to each of the other members of the Audit Committee, with SEK 145,000 to the Chairman of the Remuneration Committee and with SEK 114,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Alrik Danielson, President and Chief Executive Officer of AB SKF, received from the company in year 2019 as salary and other remunerations a total of SEK 26,556,356, of which SEK 13,388,356 was fixed annual salary, SEK 8,575,000 was variable salary related to 2018 year's performance, and SEK 4,593,000 was alottment of shares under the Performance Share Programme 2016.

The variable salary for the year 2019 was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called TVA, see page 60.

Alrik Danielson is covered by the SKF Performance Share Programme 2019.

In the event of termination at the request of AB SKF, a notice period of six months will apply after which period Alrik Danielson will receive severance payments amounting to a maximum of one and a half years' salary. Alrik Danielson's retirement age is 65 years. The pension arrangement is a combination of the ITP scheme and a defined contribution of 40% of the annual fixed salary above 30 income base amounts.

Alrik Danielson'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 2019 (exclusive of the President) salary and other remunerations amounting to a total of SEK 79,911,155 of which SEK 50,516,303 was fixed annual salary, SEK 17,769,459 was variable salary related to 2018 year's performance, and SEK 11,625,393 was alottment of shares under the Performance Share Programme 2016.

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 established according to the Group's financial performance management model, TVA, which is a simplified economic value-added model, see page 60.

SKF's Performance Share Programmes are further described on pages 96 and 98–99.

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). Certain members of Group Management have defined benefit pension solutions on parts of their salary relating to previous agreements. 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 2019[3]	Fixed salary and other benefits[1]/fixed Board remuneration: Amounts expensed in 2019[3]	Short-term variable salary: Amounts paid in 2019 related to 2018[3]	Short-term variable salary: Amounts expensed in 2019[3]	Performance Share Programmes: Amounts paid in 2019 related to prior years[3]	Performance Share Programmes: Amounts expensed in 2019[3]	Remuneration for committee work: Amounts paid in 2019[3]	Remuneration for committee work: Amounts expensed in 2019[3]	Gross pension costs[2]: Amounts expensed in 2019[3]	Total expensed in 2019	Total expensed in 2018
Board of directors of AB SKF											
Hans Stråberg	2,101,500	2,133,000	—	—	—	—	321,000	321,000	—	2,454,000	2,380,000
Peter Grafoner	355,000	—	—	—	—	—	—	—	—	—	820,000
Lars Wedenborn	721,000	732,000	—	—	—	—	362,000	362,000	—	1,094,000	1,060,000
Hock Goh	721,000	732,000	—	—	—	—	—	—	—	732,000	710,000
Nancy Gougarty	721,000	366,000	—	—	—	—	—	—	—	366,000	710,000
Ronnie Leten	721,000	732,000	—	—	—	—	290,000	290,000	—	1,022,000	990,000
Barb Samardzich	721,000	732,000	—	—	—	—	—	—	—	732,000	710,000
Colleen Repplier	721,000	732,000	—	—	—	—	—	—	—	732,000	710,000
Geert Follens	366,000	732,000	—	—	—	—	—	—	—	732,000	—
CEO[4]	13,388,356	14,423,564	8,575,000	5,337,498	4,593,000	4,205,500	—	—	5,010,528	28,977,090	30,280,914
Group Management[4,5]	50,516,303	50,702,152	17,769,459	14,859,392	11,625,393	9,353,643	—	—	20,312,407	95,227,594	91,210,203
whereof AB SKF	32,522,060	32,707,909	9,326,946	6,416,879	9,256,435	7,320,518	—	—	14,166,569	60,611,875	61,860,346
Total 2019	71,053,159	72,016,716	26,344,459	20,196,890	16,218,393	13,559,143	973,000	973,000	25,322,935	132,068,684	—
whereof AB SKF	53,058,916	54,022,473	17,901,946	11,754,377	13,849,435	11,526,018	973,000	973,000	19,177,097	97,452,965	—
Total 2018	60,786,959	63,097,167	20,657,064	29,045,911	5,036,374	16,198,447	1,050,000	1,050,000	20,189,590	—	129,581,117
whereof AB SKF	47,332,553	49,716,761	14,944,189	21,644,957	4,442,263	13,065,343	1,050,000	1,050,000	14,754,197	—	100,231,260

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) Total pension obligations, for SKF Group, related to Group Management (including CEO) were MSEK 209.
5) Exclusive of CEO.

SKF's Performance Share Programme

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 140 for SKF's Performance Share Programme 2019. 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 2017: Allotment of shares was made in February 2020. In total 647,652 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 2017–2019.

SKF's Performance Share Programme 2018: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2021, if all the conditions of the programme are met and the allotment is approved by the Board.

SKF's Performance Share Programme 2019: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2022, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2019 for all programmes were MSEK 81 (105) excluding social charges. The total provision for all programmes was MSEK 176 (219) and the total provision for social charges for all programmes was MSEK 42 (40).

	2019		2018	
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	10	80%	11	73%
Group Management incl. CEO	10	80%	9	78%
Parent Company				
Board of Directors of the Parent company incl. CEO	10	80%	11	73%
Group Management incl. CEO	8	75%	7	71%

24 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (MSEK)	2019	2018
Audit fees	48	47
Audit related fees	1	1
Tax fees	7	10
Other fees	2	1
	58	**59**
The Parent Company's share (MSEK)		
Audit fees	8	9
Audit related fees	1	1
Tax fees	—	—
Other fees to auditors	1	0
	10	**10**

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

Fees in 2019 to PwC AB included audit fees of MSEK 10, audit related fees of 1 MSEK, tax related fees of MSEK 0 and MSEK 1 for other fees.

25 Average number of employees

	2019		2018	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	698	69%	673	68%
Subsidiaries in Sweden	1,975	80%	2,032	80%
Subsidiaries abroad	38,886	79%	39,860	79%
	41,559	**79%**	**42,565**	**79%**

	2019		2018	
Geographic specification of average number of employees in subsidiaries abroad	Number of employees	Whereof men	Number of employees	Whereof men
France	2,148	81%	2,267	81%
Italy	3,263	78%	3,139	78%
Germany	5,237	88%	5,680	88%
Other Western Europe excluding Sweden	3,459	84%	3,484	84%
Central and Eastern Europe	4,055	64%	4,241	64%
USA	4,238	76%	4,377	77%
Canada	225	76%	245	78%
Mexico	1,441	70%	1,651	74%
Latin America	2,916	89%	2,719	89%
China	6,205	70%	6,265	70%
India	2,580	96%	2,451	95%
Other Asian countries/Pacific	2,667	81%	2,850	80%
Middle East and Africa	452	76%	491	77%
	38,886	**79%**	**39,860**	**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 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 of around 80%.

Key figures[1]	2019	2018
Total equity, MSEK	37,366	35,452
Gearing, %	47.1	45.0
Equity/assets ratio, %	39.7	40.7
Net debt/equity ratio, %	59.3	49.1
Return on capital employed, %	13.2	17.6

1) Definition of these key figures is available on page 160.

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 minimise 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 centralised at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorised 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 68,706 (67,567) to MSEK 4,626 (5,908). This amount represented the Group's main transaction exposure excluding hedges.

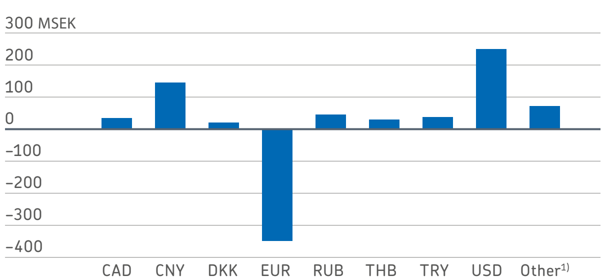
Net currency flows (MSEK)	2019	2018
CAD	656	845
CNY	2,834	2,815
DKK	380	403
EUR	–6,903	–5,560
RUB	835	606
THB	537	513
TRY	696	507
USD	4,918	4,109
Other[1]	673	1,670
SEK	–4,626	–5,908

1) Other is a sum comprising of 11 different currencies

Based on the assumption that the net currency flows will be the same as in 2019, 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

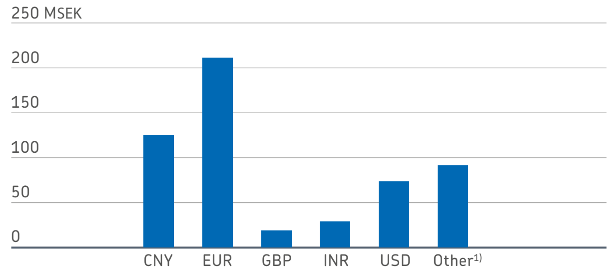


1) Other is a sum comprising 11 different currencies.

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 2019 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 102–103.

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



1) Other is a sum comprising 42 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 33,295 (28,982) and total interest bearing financial assets amounted to MSEK 12,045 (12,395). 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 90 (150). 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 355 (342), 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 18 (17) 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 committed credit facilities of MEUR 500 syndicated by ten banks that will expire in 2024, and one committed credit facilities of MEUR 250 that will expire in 2020.

A good rating is important in the management of liquidity risks. As of 31 December 2019 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 show 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 2019 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 2019. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2019 Cash flows			
MSEK	2020	2021	2022-2024	2025 and thereafter
Loans	–2,438	–2,313	–3,540	–7,461
Trade payables	–8,266	—	—	—
Derivatives, net	–518	–660	–321	–242
Lease liabilities	–690	–533	–950	–1,345
Total	**–11,912**	**–3,506**	**–4,811**	**–9,048**

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 26,172 (26,312) 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)	2019	2018
Trade receivables	14,006	13,842
Other receivables	5,636	2,005
Derivatives	100	75
Cash and cash equivalent	6,430	10,390
Total	**26,172**	**26,312**

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 77 (52) and derivative liabilities of around MSEK 1,027 (993) 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 2019, by using cross-currency interest rate swaps.

The MEUR 205 and MEUR 300 loans with fixed interest payments have been swapped into floating USD interest. Maturity and carrying amount are disclosed in Note 20. The hedge ratio is 1 to 1. Changes in the financial liabilities, repurchase of MEUR 52 in 2019, are reflected in the hedges with the same amount and the hedge ratio remains 100%.

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 –457 (–468) as fair value hedges as of 31 December 2019.

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

MSEK	Financial expense 2019	Financial expense 2018
Financial liabilities (hedged items)	–43	102
Cross-currency interest-rate swaps (hedging instruments)	43	–112
Difference (inefficiency)	**0**	**–10**

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 (571) were hedged by the Group against changes in the EUR/SEK exchange rates. EUR loans for an amount of MEUR 30 (426) and derivatives for an amount of MEUR 0 (145) were designated as hedge instruments.

The result of the hedges totalled MSEK –254 (–257) before tax in 2019 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	2019	2018
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	–457	–468
Economic hedges	Trading	–474	–411
Currency forwards/ currency options			
Net investment hedges	Hedge accounting	0	–1
Economic hedges	Trading	–9	–43
Share swaps			
Economic hedges	Trading	5	–10
		–935	**–933**

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 2019 the Group increased its' shareholding in India, and divested a smaller business in Asia, which reduced equity of non-controlling interests with –254 MSEK. In 2018, the Group acquired the shares of non-controlling interests in China and Ukraine which reduced equity of non-controlling interests with MSEK –73.

The largest non-controlling interest is SKF India Ltd. The non-controlling interests holds a 47.4% (47.7) shareholding in the company. This represents 3.0% (3.5) of the Group's total equity. The table below presents the summarized financial information of SKF India Ltd.

	January–December	
Summarized income statement (MSEK)	2019	2018
Net sales	3,945	3,765
Operating profit	592	659
Net income	**376**	**399**
Other comprehensive income	37	–14
Total comprehensive income	**413**	**385**
Profit allocated to NCI	178	190
Dividends paid to NCI	–38	–38

	As of 31 December	
Summarized balance sheet (MSEK)	2019	2018
Non-current assets	679	625
Current assets	2,513	2,721
Total assets	**3,192**	**3,346**
Equity attributable to shareholders of AB SKF	1,262	1,350
Equity attributable to NCI	1,138	1,230
Non-current liabilites	67	46
Current liabilities	725	720
Total equity and liabilities	**3,192**	**3,346**

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 6,665 (4,466).

Net investments in subsidiaries increased by MSEK 504 (–415) whereof MSEK –42 (–1,132) is attributable to impairments and MSEK 724 (884) is related to acquisitions and capital contributions. Disposals and capital repayments amounted to MSEK –178 (–167).

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 22,630.

Parent Company income statements

MSEK	Note	January–December 2019	2018
Revenue	2	6,073	7,011
Cost of revenue	2	–5,068	–5,729
General management and administrative expenses	2	–1,661	–1,572
Other operating income and expenses, net	2	–4	–27
Operating profit		**–660**	**–317**
Financial income and expenses, net	3	6,510	3,492
Profit after financial items		**5,850**	**3,175**
Appropriations	4	1,487	550
Profit before tax		**7,337**	**3,725**
Income taxes	5	–102	29
Net profit		**7,235**	**3,754**

Parent Company statements of comprehensive income

MSEK	Note	January–December 2019	2018
Net profit		7,235	3,754
Items that may be reclassified to the income statement			
Assets at fair value through other comprehensive income	9	–14	–63
Other comprehensive income, net of tax		**–14**	**–63**
Total comprehensive income		**7,221**	**3,691**

Parent Company balance sheets

MSEK	Note	As of 31 December 2019	2018
ASSETS			
Non-current assets			
Intangible assets	6	1,611	1,775
Property, plant and equipment	7	81	69
Investments in subsidiaries	8	22,438	21,934
Long-term receivables from subsidiaries		12,313	13,724
Investments in equity securities	9	289	299
Other long-term receivables		472	551
Deferred tax assets	5	208	252
		37,412	**38,604**
Current assets			
Short-term receivables from subsidiaries		6,585	5,217
Other short-term receivables		51	64
Prepaid expenses and accrued income		92	67
Cash and cash equivalents		8	2
		6,736	**5,350**
Total assets		**44,148**	**43,954**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		273	324
		2,329	**2,380**
Unrestricted equity			
Fair value reserve		108	122
Retained earnings		15,287	14,279
Net profit		7,235	3,754
		22,630	**18,155**
		24,959	**20,535**
Untaxed reserves	4	—	**24**
Provisions			
Provisions for post-employment benefits	10	378	347
Other provisions		6	205
		384	**552**
Non-current liabilities			
Long-term loans	11	12,312	13,723
		12,312	**13,723**
Current liabilities			
Short-term loans	11	2,142	1,968
Trade payables		355	234
Short-term liabilities to subsidiaries		3,392	6,300
Other short-term liabilities		142	107
Accrued expenses and deferred income		462	511
		6,493	**9,120**
Total shareholders' equity and liabilities		**44,148**	**43,954**

Parent Company statements of cash flow

MSEK	Note	January–December 2019	2018
Operating activities			
Operating loss/profit		–660	–317
Adjustments for			
Depreciation, amortization and impairments	6, 7	470	278
Impairments equity securities	8	42	1,132
Other non-cash items		154	151
Payments under post-employment defined benefit plans	10	–27	–29
Changes in working capital			
Trade payables		121	15
Other operating assets and liabilities, net		–1,330	–921
Interest received		289	342
Interest paid		–426	–516
Other financial items		–99	345
Net cash flow from operating activities		**–1,466**	**480**
Investing activities			
Additions to intangible assets	6	–286	–133
Additions to property, plant and equipment	7	–32	–13
Dividends received from subsidiaries	3	6,665	4,466
Investments in subsidiaries	8	–724	–884
Sales of shares in subsidiaries	8	3	714
Capital repayments from subsidiaries	8	175	—
Investments in equity securities	9	–3	–3
Net cash flow used in investing activities		**5,798**	**4,147**
Net cash flow after investments before financing		**4,332**	**4,627**
Financing activities			
Proceeds from medium- and long-term loans		3,222	3,165
Repayment of medium- and long-term loans		–4,816	–5,302
Cash dividends to AB SKF's shareholders		–2,732	–2,504
Net cash flow used in financing activities		**–4,326**	**–4,641**
Increase(+)/decrease(–) in cash and cash equivalents		**6**	**–14**
Cash and cash equivalents at 1 January		2	16
Cash and cash equivalents at 31 December		**8**	**2**

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, 2018	**1,138**	**918**	**338**	**185**	**16,699**	**19,278**
Net profit	—	—	—	—	3,754	3,754
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	–63	—	–63
Capitalized development reserve	—	—	–14	—	14	0
Transactions with shareholders						
Cost under Performance Share Programmes[2)]	—	—	—	—	70	70
Dividends	—	—	—	—	–2,504	–2,504
Closing balance 31 December, 2018	**1,138**	**918**	**324**	**122**	**18,033**	**20,535**
Net profit	—	—	—	—	7,235	7,235
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	–14	—	–14
Capitalized development reserve	—	—	–51	—	51	0
Transactions with shareholders						
Cost under Performance Share Programmes[2)]	—	—	—	—	–65	–65
Dividends	—	—	—	—	–2,732	–2,732
Closing balance 31 December, 2019	**1,138**	**918**	**273**	**108**	**22,522**	**24,959**

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 2,373 (2,267).

Of the total operating expenses, MSEK 3,694 (4,798) was invoiced from subsidiaries.

3 Financial income and financial expenses

MSEK	2019	2018
Income from participations in Group companies		
Dividends from subsidiaries	6,665	4,466
Other financial income from investments in subsidiaries	184	499
Impairment and disposals of investments in subsidiaries	–42	–1,132
	6,807	**3,833**
Financial income		
Interest income from subsidiaries	284	342
Other financial income	4	4
	288	**346**
Financial expenses		
Interest expenses to subsidiaries	–138	–190
Interest expenses to external parties	–283	–339
Other financial expense	–164	–158
	–585	**–687**

4 Appropriations

Appropriations (MSEK)	2019	2018
Paid/received group contribution	1,463	550
Untaxed reserves	—	—
Change in accelerated depreciation reserve	24	—
	1,487	**550**
Untaxed reserves in the balance sheet		
Accelerated depreciation reserve	—	**24**

5 Taxes

Taxes on profit before tax (MSEK)	2019	2018
Current taxes	—	—
Other taxes	–90	–41
Deferred tax	–12	70
	–102	**29**

Net deferred assets per type net (MSEK)	2019	2018
Provisions for post-employment benefits	76	65
Tax credit carry forwards	132	165
Tax loss carry forwards	—	20
Other	—	2
Deferred tax assets	**208**	**252**

Reconciliation of the statutory tax in Sweden and the actual tax (MSEK)	2019	2018
Tax calculated using the statutory tax rate in Sweden	–1,570	–820
Non-taxable dividends and other financial income	1,467	1,129
Tax referring to previous years	16	17
Other non-deductible and non-taxable profit items, net	–15	–297
Actual tax	**–102**	**29**

The corporate statutory income tax rate in Sweden is 21,4% (22).

6 Intangible assets

MSEK	2019 Closing balance	Additions	Impairments	Derecognitions	2019 Opening balance
Acquisition cost					
Goodwill	35	5	—	—	30
Technology and similar items	901	—	—	—	901
Internally developed software	2,252	281	—	–91	2,062
	3,188	**286**	**—**	**–91**	**2,993**

MSEK	2019 Closing balance	Amortization	Impairments	Derecognitions	2019 Opening balance
Accumulated amortization					
Goodwill	15	5	—	—	10
Technology and similar items	893	113	—	—	780
Internally developed software	669	255	77	–91	428
	1,577	**373**	**77**	**–91**	**1,218**
Net book value	**1,611**				**1,775**

MSEK	2018 Closing balance	Additions	Impairments	Derecognitions	2018 Opening balance
Acquisition cost					
Goodwill	30	5	—	—	25
Technology and similar items	901	—	—	—	901
Internally developed software	2,062	128	—	—	1,934
	2,993	**133**	**—**	**—**	**2,860**

MSEK	2018 Closing balance	Amortization	Impairments	Derecognitions	2018 Opening balance
Accumulated amortization					
Goodwill	10	5	—	—	5
Technology and similar items	780	114	—	—	666
Internally developed software	428	49	91	—	288
	1,218	**168**	**91**	**—**	**959**
Net book value	**1,775**				**1,901**

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	2019 Closing balance	Additions	Disposals	2019 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	95	8	—	87
Assets under construction including advances	34	24	–13	23
	134	**32**	**–13**	**115**

MSEK	2019 Closing balance	Depreciation	Disposals	2019 Opening balance
Accumulated depreciation				
Buildings	2	—	—	2
Machine toolings and factory fittings	51	7	—	44
	53	**7**	**—**	**46**
Net book value	**81**			**69**

MSEK	2018 Closing balance	Additions	Disposals	2018 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	87	13	–13	87
Assets under construction including advances	23	—	–2	25
	115	**13**	**–15**	**117**

MSEK	2018 Closing balance	Depreciation	Disposals	2018 Opening balance
Accumulated depreciation				
Buildings	2	1	—	1
Machine toolings and factory fittings	44	4	–1	41
	46	**5**	**–1**	**42**
Net book value	**69**			**75**

8 Investments in subsidiaries

Investments in subsidiaries held by the Parent company on 31 December (MSEK)	2019	Additions	Impairment	Disposals and capital repayments	2018	Additions	Impairment	Disposals and capital repayments	2017
Investments in subsidiaries	22,438	724	–42	–178	21,934	884	–1,132	–167	22,349

The Group is composed of 192 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) 2019	2018	Main activities[1]
SKF Argentina S.A.	Argentina	—	14,677,299	29.2%[2]	75	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) 2019	2018	Main activities[1]
Carried Forward					**360**	**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]	918	477	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100%	183	183	M
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	—	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	1,574	M,S
SKF Maintenance service GmbH	Germany	—	1	100%	6	6	S
SKF Hellas S.A.	Greece	—	2,000	100%	—	—	S
SKF Svéd Golyóscsapágy Zrt	Hungary	—	20	100%	—	—	S
SKF Technologies (India) Private Ltd.	India	—	3,066,500,101	94.65%[2]	352	352	M,S
SKF India Ltd.	India	—	22,666,055	45.85%[3]	87	90	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60%	24	24	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	5%[2]	1	1	S
SKF Industrie S.p.A	Italy	—	465,000	100%	912	912	M,S
SKF Presenso Ltd.	Israel	—	2,413,322	100%	220	—	S
SKF Japan Ltd.	Japan	—	32,400	100%	225	225	S
SKF Malaysia Sdn Bhd	Malaysia	—	1,000,000	100%	57	57	S
SKF de México, S.A. de C.V.	Mexico	—	375,630,290	99.9%[2]	303	303	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	—	4,100	48.8%[2]	7	1	S
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	—	61,500,000	100%	467	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]	3,870	3,870	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]	61	61	O
SKF Eurotrade AB	Sweden	556206-7610	83,500	100%	12	12	S,O
SKF Lager AB	Sweden	556219-5288	2,000	100%	—	—	O
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100%	—	—	O
SKF Verwaltungs AG	Switzerland	—	500	100%	502	502	O
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100%	171	171	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 Logistics Uruguay S.A.	Uruguay	—	—	—	—	174	S,O
SKF USA Inc.	USA	—	1,000	100%	4,155	4,155	M,S
SKF Venezolana S.A.	Venezuela	—	20,014,892	100%	—	—	O
					22,438	**21,934**	

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
Cooper Roller Bearings Co. Ltd.	United Kingdom	100%	United Kingdom	M
General Bearing Corporation	USA	100%	USA	S
General Bearing Intern Trading Ltd.	China	100%	Barbados	S
Industrial Tectonics Inc.	USA	100%	USA	M,S
Kaydon Corporation	USA	100%	USA	M,S
Kaydon Ring & Seals Inc	USA	100%	USA	M,S
Lincoln Helios (India) Ltd.	India	100%	Germany	M,S
Lincoln Industrial Corporation	USA	100%	USA	M,S
Lincoln Lubrication Equipment (Changshu) Co. Ltd.	China	100%	USA	M,S
Lincoln Lubrication (SA) Pty Ltd.	South Africa	100%	South Africa	S
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
RFT S.p.A.	Italy	100%	Italy	M,S
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 (Shanghai) Bearings 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 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	S
SKF Lubrication Systems CZ s.r.o	Czech Republic	100%	Germany	M
SKF Lubrication Systems Germany GmbH	Germany	100%	Germany	M,S
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 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 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
Stewart Werner Corporation of Canada	Canada	100%	USA	S
The Cooper Split Roller Bearing Corp	USA	100%	USA	S
Venture Aerobearings LLC.	USA	51%	USA	M,S
Vesta Si Sweden AB	Sweden	100%	Sweden	M
Zhejiang Xinchang Peer Bearing Co. Ltd.	China	100%	China	M,O

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	2019 Book value	2018 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	277	290
Other			SEK	12	9
				289	**299**

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)	2019	2018
Present value of funded pension obligations	454	408
Fair value of plan assets	–264	–249
Net obligation	**190**	**159**
Present value of unfunded pension obligations	188	188
Net provisions	**378**	**347**

Change in net provision for the year (MSEK)	2019	2018
Opening balance 1 January	347	309
Defined benefit expense	58	67
Pension payments	–27	–29
Closing balance 31 December	**378**	**347**

Components of expense (MSEK)	2019	2018
Pension cost	59	53
Interest expense	14	13
Return on plan assets	–15	1
Defined benefit expense	**58**	**67**
Defined contribution expense	106	86
Total post-employment benefit expense	**164**	**153**

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 2.32% (2.12). Expected cash outflows for 2020 are MSEK 140.

11 Loans

MSEK	Maturity	Interest rate	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Bonds						
MEUR 192	2019		—	—	1,968	2,000
MEUR 205	2020	2.38	2,142	2,184	2,628	2,729
MEUR 200	2021	0.29	2,088	2,089	2,052	2,054
MEUR 296	2022	1.63	3,079	3,267	5,106	5,453
MEUR 300	2025	1.25	3,101	3,242	3,042	3,097
MUSD 100	2027	4.06	931	1,106	895	1,012
MEUR 300	2029	0.88	3,113	3,352	—	—
			14,454	**15,240**	**15,691**	**16,345**

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

MSEK	2019	2018
Salaries, wages and other remuneration	755	777
Social charges (whereof post-employment benefit expense)	404 (153)	400 (129)

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	2019	2018
General partner	1	1
Other contingent liabilites	21	20
	22	**21**

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

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

Proposed distribution of surplus

Fair value reserve	SEK	107,746,341
Retained earnings	SEK	15,286,752,269
Net profit for the year	SEK	7,235,290,416
Total surplus	**SEK**	**22,629,789,026**
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 6.25 per share[1)]	SEK	2,845,944,175[2]
to be carried forward:		
Fair value reserve	SEK	107,746,341
Retained earnings	SEK	19,676,098,510
	SEK	**22,629,789,026**

1) Suggested record day for right to dividend, 30 March, 2020.
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 2019 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, 3 March, 2020

Hans Stråberg, *Chairman*
Lars Wedenborn, *Board member*
Hock Goh, *Board member*
Alrik Danielson, *President and CEO, Board member*
Ronnie Leten, *Board member*

Barb Samardzich, *Board member*
Colleen Repplier, *Board member*
Geert Follens, *Board member*
Jonny Hilbert, *Board member*
Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 3 March, 2020.

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized public accountant
Auditor in charge

Bo Karlsson
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 according to GRI Standards.

Topics related to the Annual Report
In addition to the information provided in this Annual Report, related Topics can be found at skf.com/ar2019.

- GRI content index[2)]
- CO_2 emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing units 2019

Statutory sustainability report
SKF has prepared a separate report according to the Swedish annual account act on sustainability reporting and reports on the topics:

- **Business model** pages 14–15
- **Anti-corruption** page 124
- **Climate and environment** pages 125–130
- **Employees** pages 131–137
- **Human rights and other relevant social topics** pages 138–141

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 54–57 and on page 118.

1) As defined by GRI Standards.
2) Documents subject to limited assurance by SKF's auditors.

General disclosures

Organizational profile

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
Hornsgatan 1 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. The Group is present in 130 countries. For more information please refer to SKF's global presence on pages 42–47.

102-05 Ownership and legal form
AB SKF, listed at Nasdaq Stockholm, Large cap. For more information about the SKF share, see pages 58–59.

102-06 Markets served
SKF is a global actor, with business across all geographical markets and major customer industries. Pages 42–47 and 50–53 provides an overview of geographies and industries served.

102-07 Scale of the organization
Represented in 130 countries, 43,360 employees, 15 technical centers and 103 manufacturing sites. Net sales in 2019 amounted to SEK 86,013 million.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 66. In 2019, SKF delivered 385,234 tonnes of bearings but also 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
2019	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,268	10,860	31	241	1,092	21,492
Asia and Pacific	3,268	6,615	10	179	2,161	12,233
North America (incl. Mexico)	1,953	3,378	24	1	184	5,540
Eastern and Central Europe	828	2,885	15	471	180	4,379
Latin America	624	2,255	3	19	49	2,950
Africa and Middle East	380	49	3	—	25	457
Total	**16,321**	**26,042**	**86**	**911**	**3,691**	**47,051**

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represents headcount per year end December 2019.

Employees by contract and region

2019	Full time	Part time
Western Europe	19,467	933
Asia and Pacific	9,914	158
North America	5,329	27
Eastern and Central Europe	4,194	5
Latin America	2,873	28
Africa and Middle East	427	5
Total	**42,204**	**1,156**

Employees by gender and contract

2019	Full time	Share	Part time	Share
Men	33,570	80%	509	44%
Women	8,634	20%	647	56%
Total	**42,204**	**100%**	**1,156**	**100%**

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local HR 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 103 manufacturing plants across the world. SKF directly employs over 27,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. 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 40 billion and roughly around 1,100 suppliers make up 80% of the total spend by volume. For more information please refer to the section Supplier assessments on pages 140–141.

102-10 Significant changes to the organization and its supply chain
In 2019, SKF acquired RecondOil, Presenso Ltd. and Form Automation Solutions (FAS).

102-11 Precautionary principle or approach
As required by the International Chamber of Commerce (ICC) 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 External initiatives
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 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 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.

102-13 Membership of associations
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 financial, economic, governance, environmental and social dimensions. SKF takes part in the UN Global Compact, 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.

Strategy

102-14 Statement from senior decision-maker
The President's letter is found on pages 8–11. Strategic priorities, trends, targets and achievements and outlook are described throughout the report.

102-15 Key impacts, risks, and opportunities
The United Nations Sustainable Development Goals help to highlight risks and opportunities for business globally. The goals also provide a lens as to the social change needed to achieve them. External drivers, trends and opportunities are described on pages 16–19, SKF's overall risk management approach is described on pages 54–57.

SKF's materiality analysis described on page 121 helps the organization identify sustainability risks in the value chain and supports the organization to filter out and aggregate the risks that if they are materialized, would have the most significant impact on the company, its operations and society. 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, on 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 17 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 human resources 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 2019, 340 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 (17%), conflict of interest (9%) and fraud (7%). In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management.

340

cases reported via the Group's whistle blowing system

Governance

102-18 Governance structure
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. 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.

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, report 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, establishing 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 EHS and Quality Board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, (soon to be 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.

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
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 many times in the form of continual dialogues. 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, Human Resources, Communication, Sales, Bearing Operations and Purchasing) including managing the direct dialogue and, identifying individuals from whom to seek feedback. SKF has not made a full stakeholder analyses during 2019, but has sought and received input which to some extent has changed the materiality matrix (see 102-49). The materiality matrix is used by SKF to ensure that sufficient focus and resources are put into the areas where the stakeholder interests are the highest and which have the highest impact on SKF, such as health and safety, climate and compliance.

Collective bargaining agreements
SKF holds collective bargaining agreements in most countries where present. In 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), they all have agreements. These countries make up over 95% of all blue-collar workers (around 27,000). 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 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: Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

	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; 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 Works 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 148–154. 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 110–112.

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 short-list 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.

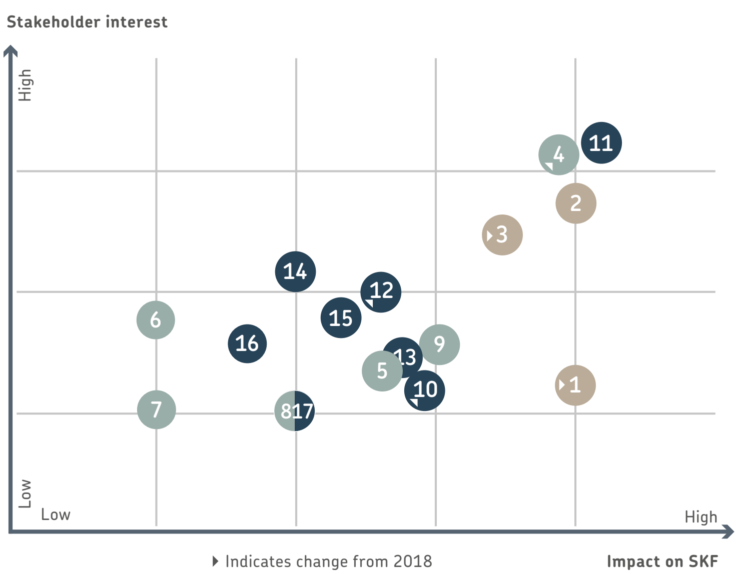
102-47 List of material topics
When combining the feedback above with previously collected input from other stakeholder groups as presented on page 120, the result is translated and presented in terms of GRI Standard topics. All these topics are considered material and relevant to report. As indicated below, several topics at the top right of the matrix stick out as highly material. The ambition however is not to provide an exact numeric score for each topic but instead provide an approximated rating.

The context, scope and boundaries of each topic are described further in the specific disclosures on pages 123–141, along with the management approach.

102-48 Restatements of information
On pages 127–128, as defined by the GHG reporting protocol, Energy and CO_2 statements relating to scope 1 and 2 emissions have been restated due to acquisitions and divestments.

The weight of sold bearings and units shown on page 128 had been restated back to 2015 due an error found. Recycled or reused (tonnes) material shown in table 306-2 on page 130 was also restated for 2018 due to a reporting error.

For all HR data, Mexico is since 2019 included in NAM (previously in LAM). The tables under 102-8: Employees by contract and region and Number of employees by contract and gender, have been restated due to simplification of reporting.



Economic topics
1 Economic performance
2 Anti-corruption and competition law
3 Customer sustainability performance

Environmental topics
4 Energy and climate
5 Materials
6 Water
7 Effluents and waste
8 Environmental compliance
9 Supplier environmental performance

Social topics
10 Employment and labor management relations
11 Occupational health and safety
12 Training and education
13 Diversity and equal opportunity
14 Non-discrimination
15 Human rights
16 Supplier social performance
17 Socioeconomic compliance

Last year, the circles were of different size indicating the risk or opportunity for SKF from the latest Group risk assessment. This dimension is no longer covered in the matrix. The main risks are shown on pages 54–57. Opportunities are described on pages 16–19.

102-49 Changes in reporting
SKF adopted the new GRI Standard 403 – Occupational Health and Safety 2018. As this is the first full year using this standard, a few more omissions are used where information is not yet available.

SKF has also created an own specific topic referred to as Customer sustainability performance. This topic will be gradually developed as SKF develops its method further to assess sustainability impact of its customer solutions.

Movement in the materiality matrix
Input received from stakeholders during 2019 has been added to complement previously collected feedback. The main new input sought pro-actively in 2019 comes from SKF employees, unions, suppliers and local communities. SKF has also taken into consideration the increased focus on climate action that customers, politicians and the general public is showing. This input has, together with a slightly changed view on the importance of certain areas for SKF, resulted in a few changes in the materiality matrix. The topics that have moved since 2018 are marked with an arrow in the materiality matrix.

102-50 Reporting period
1 January to 31 December 2019.

102-51 Date of most recent report
The previous report was published on 6 March 2019.

102-52 Reporting cycle
Annual

102-53 Contact point for questions regarding the report
Johan Lannering
Director, Group Sustainability & SKF Nova
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 index
A complete GRI index is available together with topics related to the Annual Report on skf.com/ar2019

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 report is audited with ISAE3000 and RevR12. The board also signs the report.

Sustainability disclosures in the SKF Annual Report 2019 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 142.

SKF's material topics

Economic Performance

Material topic – GRI 201: Economic Performance

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 72 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)	2019	2018
Net sales	86,013	85,713
Revenue from financial investments and other operating income	107	1,594
Economic value generated	**86,120**	**87,307**
Operating costs	–50,801	–51,796
Employee wages and benefits	–26,227	–24,724
Economic value distributed to providers of capital	–3,469	–3,331
Economic value distributed to government (income taxes)	–2,677	–2,603
Economic value distributed	**–83,174**	**–82,454**
Economic value retained	**2,946**	**4,853**

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 income taxes for Group. For the actual payment of taxes during the year, see consolidated statement of cash flow on page 68.

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 customer into some 40 different industries. SKF owns and operates around 100 manufacturing units in 22 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. SKF will start to report according to the Carbon Disclosure Project in 2020 and will continue to align with the TCFD.

Business risks and opportunities
SKF sees it as a key element in its strategy to identify industries that will benefit from new and tougher climate related regulations and changed customer preferences and needs. One example of this is SKF's early participation in the industrialization of wind energy. Another example is SKF's close partnerships with automotive customers in electrification and to improve energy efficiency of drivelines. Many industries, especially all those producing vehicles or input material to vehicles, will likely be 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. Due to the different position of SKF in the value chain and wide variety of business, scenario planning and estimated effects on the bottom line are not aggregated at Group level.

Please see pages 50–53 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 the absolute majority of energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. A 10% increase in costs related to energy would impact the Group's result by around SEK 130 million. For more on SKF's climate objectives, please refer to Energy and emissions on page 125.

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 Behaviour

Material topics – GRI 205: Anti-corruption and GRI 206: Anti-competitive Behavior

103-1 Materiality and boundaries
SKF addresses corruption and competition law as part of the Group's ethics and compliance programme. 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 higher 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. See page 56 and 118 for a general description of corruption risk in relation to other risks.

103-2–103-3 Management approach, its components and evaluation
SKF's ethics and compliance programme cover fraud, anti-trust, corruption, money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights. 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 programme and are available for employees on the Group's internal websites.

SKF's anti-corruption efforts are risk-based and 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: China, India, South-East Asia, Russia and CIS, Central and East Europe, Middle East and Africa, and Latin America. Together with Group Risk & Compliance, each region develops a compliance activity plan which is approved by the Audit Committee of AB SKF on a yearly basis.

A Group ethics and compliance risk assessment is performed annually. All relevant internal stakeholders (SKF Group staff functions of Group Audit, Human Resources, Environment, Health and Safety, Purchasing and Risk & Compliance) participate.

During 2019, a new mandatory anti-fraud e-learning course for employees working within sales was launched. As per January 2020, 6,132 employees (73% of the target group) has gone through it. Two new antitrust e-learning courses have been developed during 2019 and will be launched at the beginning of 2020. An anti-corruption e-learning course for SKF distributors has also been launched during 2019. 1,533 distributors have gone through it.

The efforts to increase the awareness, and the ease of use, of the SKF Ethics & Compliance Reporting Line has continued and has resulted in an increase of reported ethical concerns through this channel during 2019. Please refer to page 119 for an overview of cases reported. In order to simplify and facilitate for reporters, SKF has during 2019 implemented a new reporting tool. This new tool is hosted by an external party and allows anonymous reporting, as did the previously used tool.

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 main focus areas, is to create a commitment from local management to take ownership of compliance risk management, including development and implementation of mitigating activities. The main corruption risk for sales units is when distributors and other intermediaries are used for sales to state-owned entities. During 2019, SKF had a special anti-corruption focus on Central and East Europe, Middle East and Africa. A due diligence was performed on 100 of the distributors in Central and East Europe and Middle East representing 80% of the SKF sales to distributors in these regions. The sales units in Africa have made compliance risk assessments (covering all 41 countries in which these units have sales). Based on the assessments, mitigating activities have been put in place, including due diligence of 38 high risk distributors. Ethics and compliance training has been conducted for the two main management teams in Africa.

Full day ethics and compliance workshops have been conducted for the management teams in Malaysia, Indonesia, Taiwan and the Philippines. The main outcome was an increased compliance risk awareness and an agreed list of risk mitigating activities (per country). A comprehensive compliance risk assessment covering all units in India was made by the SKF India management team during 2019. The outcome of the risk assessment is used to strengthen and re-focus the compliance program in India.

At SKF's manufacturing units, risk-based ethics and compliance reviews are carried out, in conjunction with Group EHS audits. The purpose is to assist units in their work to identify and address specific ethics and compliance risks, including corruption. During 2019, 25 such reviews have been conducted around the world.

205-3 Confirmed incidents of corruption and actions taken
During 2019, 26 fraud and corruption incidents have been confirmed by Group Audit. As a result, 29 employees had to leave SKF. SKF also decided to terminate 20 distributors and other intermediaries for their involvement in unethical business practices. The majority of the confirmed incidents occurred in China and India. The main reasons for the historically high numbers of confirmed incidents are an increase in the number and quality of received concerns related to fraud and corruption, as well as higher awareness internally of the fraud and corruption risks that SKF and its distributors are exposed to. This has led to increased efforts and improved methods in preventing and detecting fraud and corruption.

206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices
For any ongoing investigations, please refer to Risk management on page 54.

Customer sustainability performance

103-1 Materiality and boundaries
For many years, SKF has focused on the environmental benefits of customer solutions, including energy use, CO_2 emissions, noise levels, water use, etc. This work has built up knowledge around lifecycle management and, e.g. how customer use phase emissions can be reduced or avoided. More than 60 solutions were assessed and promoted under the SKF BeyondZero concept as part of the climate objectives 2012-2016. Recent years' development with an increased understanding of the connection between economic, social and environmental risk and the launch of the SDGs from the United Nations has provided the SKF 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 the role of SKF in supporting customers with engineered solutions.

With SKF Care as the foundation and with the Global Goals as the opportunity map of the future, SKF has established two main ways it can have a positive impact:

1. The business we make – products, services and business models.
2. The way we make the business – the way of running operations as a responsible business partner, employer, and corporate citizen.

103-2–103-3 Management approach, its components and evaluation
SKF is establishing additional actions that the Group can take in collaboration with its customers to enable positive impact. These activities revolve around safety of machine operators, improvement of air quality, reducing water use, water treatment and other infrastructure and utilities, development of renewable energy, sustainable transport systems, increase life and resource utilization, reducing chemicals and soil contamination. Building on the previous work to assess environmental impacts of products and services under the SKF BeyondZero concept, the Group now continues its efforts to improve and quantify other sustainability impacts of customer solutions. This work is in progress and it is clear that SKF customer solutions can provide positive impacts in relation to a number of the SDGs.

To support this work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating 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 four areas: renewable energy generation, electric vehicles, recycling industry and bearing remanufacturing. The total revenues of these areas amounted to SEK 5.1 billion in 2019. Going forward, SKF aims to develop and implement additional follow up and reporting related to customer sustainability performance.

SEK billion	2019	2018
Total revenues from renewable energy, electric vehicles, recycling industry and bearing remanufacturing	5.1	4.1

Energy and emissions

Material topics – GRI 302: Energy and GRI 305: Emissions

103-1 Materiality and boundaries
Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy-efficienct and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions. The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

103-2–103-3 Management approach, its components and evaluation
The Group's climate objectives are described in brief on page 23. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO_2 emissions from manufacturing per tonne of bearings sold and
- 40% reduction of CO_2 emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and 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 2019, SKF used some 1,686 GWh of energy in its manufacturing operations, which has resulted in around 417,000 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 50001:2011. SKF is currently in the process of updating to ISO 50001:2018 standard. The certificate covers around 50 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 developed a new Group wide energy target during 2018. This applies to all units within the scope of the ISO 50001 standard. In 2019, SKF required an improvement in energy performance of 3% compared to Unit, Cluster, Area or Group energy base line. To drive even stronger focus on energy efficiency, this target has been strengthened in 2020 to a required improvement of 5%. 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. The 2019 performance against this target was –2.8% vs. the –3.0% target.

Goods transportation

SKF is directly managing the majority of goods transportation downstream and part of the transportation upstream. The Group works to reduce CO_2 emissions from transports in four main ways: optimize transport network and routing; use energy-efficient transport modes with low CO_2 intensity (e.g. ocean and rail instead of air where feasible); procure transport with high fuel efficiency and low-carbon fuels; and minimize mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint). As of 2017, the Group changed efficiency measure to CO_2 emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.

Raw material and components

The emissions from raw material and components are about as much as those from SKF's own operations, with the important difference being that it is not in the Group's direct control. As a main mean of cutting cost and emissions from the supply chain, SKF works to influence energy intensive suppliers 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.

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 125, 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 mitigating climate change.

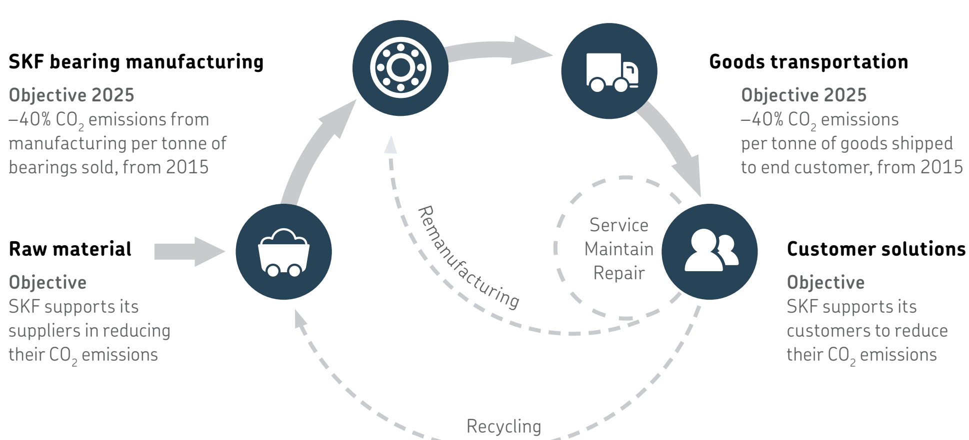
Lifecycle impact

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. First of all, 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, also 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 bi-annually 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

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Source, GWh	2019	2018	2017
LPG	19	20	20
Natural gas	285	300	300
Fuel oil	6	9	8
Renewable energy generated on-site	23	23	3
District heating and cooling	112	137	144
Electricity	1,241	1,316	1,329
Total energy use	**1,686**	**1,805**	**1,804**

302-3 Energy intensity

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

GWh per SEK billion	2019	2018	2017
Total energy use within the organization (GWh)	1,686	1,805	1,804
Revenues, net sales (SEK billion)	86,013	85,713	77,938
Energy intensity (GWh/SEK billion x 1,000)	**19.60**	**21.06**	**23.15**

302-4 Reduction of energy consumption

During 2019, SKF has implemented a new target and KPI to drive further reductions in electricity use at the main manufacturing sites. The KPI measures monthly electricity use in relation to a defined energy driver for each site that is ISO 50001 certified. The baseline is actual performance during the two previous years.

This KPI showed an improvement of 2.8% vs. a target of 3% – indicating an improvement in underlying energy efficiency with a saving of 29 GWh compared to the baseline.

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

During 2019, SKF did not purchase any carbon offsets. In general, SKF does not use carbon offsets to achieve the targets.

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Market-based emissions, tonnes	2019	2018	2017
Direct (Scope 1) GHG emissions CO_2e emissions scope 1,	57,879	61,558	61,682
Energy indirect (Scope 2) GHG emissions CO_2e emissions Scope 2, market-based	359,229	429,525	542,395
Total CO_2e emissions, market-based	**417,108**	**491,083**	**604,077**

Location based, tonnes	2019	2018	2017
Direct (Scope 1) GHG emissions CO_2e emissions Scope 1,	57,879	62,067	62,269
CO_2e emissions Scope 2, location-based	518,500	585,300	605,771
Total CO_2 emissions, location-based	**576,379**	**647,367**	**668,040**

Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2019	2018	2017
Direct (Scope 1) LPG (3.0 per tonne)	3,996	4,178	4,316
Fuel oil (3.2 per tonne)	1,536	2,256	2,051
Natural gas (0.002 per cubic meter)	52,347	55,124	55,315
Supplied (Scope 2), market-based Electricity	339,200	405,403	516,932
District heating and cooling	20,029	24,123	25,464
Total CO_2e emissions, market-based	**417,108**	**491,084**	**604,078**

Scope 1 emission factors have been gathered used from Folksams and Finanstidningens Environmental Index 2000.
Scope 2 emission factors have been gathered from SKF's contracts with electricity and district heating and cooling suppliers.

305-3 Other indirect (Scope 3) GHG emissions

Under Scope 3 emissions, SKF reports CO_2 emissions from goods transportation and business travel, which is only a smaller part of the total Scope 3 emissions. A significant part is related to raw material but these cannot be reported due to complexity of aggregating accurate data.

Goods transportation data and related CO_2 emissions

	2019	2018	2017	2016	2015
CO_2 emissions from transport Scope 3, (tonnes)	128,791	129,421	114,970	99,079	107,995
Transport works (tonnes shipped)	431,060	436,056	360,819	369,810	362,641

Shipped volumes and emissions per transport mode 2019

	Road	Sea	Air
Transport works, tonnes shipped, % of total	75.1	23.1	1.8
CO_2 emissions, % of total	35.2	36.4	31.1

Business travel

SKF monitors CO_2 emissions from its air travel in Europe, the U.S., China and some countries in Latin America. From 2019, SKF has updated the calculation method to the GHG Protocol to better align the reporting to peers. This means that previous data is not comparable and therefore not included in this year's report.

Data from other regions, including India has not yet been included because multiple travel agencies have been used, making reliable data collection very difficult for 2019. This affects the total reported volumes as significant volumes exist in excluded countries.

	2019
CO_2 emissions (tonnes) from air travel (Scope 3)	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)

Objective 2025

−40%

CO_2 emissions from manufacturing per tonne of bearings sold, from 2015

Status 2019

−36%

Intensity	2019	2018[1]	2017[1]	2016[1]	2015[1]
CO_2-emissions – bearing & units factories (tonnes)	350,804	408,685	496,256	480,496	481,383
Weight bearings and units sold[2] (tonnes)	385,234	395,435	372,251	338,472	336,729
GHG emissions intensity CO_2-emissions/tonnes sold products	0.91	1.03	1.33	1.42	1.43
% change vs 2015	–36	–28	–7	–1	—

1) All data has been restated to reflect acquisitions and divestments.
2) "Weight bearing and units sold" have been modified for a significant weight error found.

Goods transportation (Scope 3)

Objective 2025

−40%

CO_2 emissions per tonne of goods shipped to end customer, from 2015

Status 2019

−2%

	2019	2018[1]	2017[1]	2016[1]	2015[1]
GHG emissions intensity kg CO_2 emissions per tonnes shipped goods to end customer[2]	299	297	319	268	306
% change vs 2015	–2	–3	4	–12	—

1) All year have been restated to include express shipment.
2) The baseline for emissions from goods transportation has been restated to include express shipment.

305-5 Reduction of GHG emissions

Scope 1 and 2

Following the good trend of recent years, absolute CO_2 emissions were again significantly reduced in 2019. This is due to a combination of factors, mainly increased energy efficiency, increased share or renewable energy and the consolidation and closure of a number of facilities.

Scope 3 Goods transportation

For goods transportation, SKF's absolute emissions have increased by 19% since the baseline year 2015. This is explained by a significant increase in transport works (tonnes shipped increased by 22%). The relative emissions per tonnes shipped have been reduced by 2%, including express shipments. The restatement to include express shipments has worsened the performance since 2015.

During 2019, the overall weight shipped to customers has decreased and the demand for airfreight shipments has increased significantly, this led to a slight deterioration in performance compared to 2018.

Materials, Water, Effluents and waste, Environmental compliance

Material topics – GRI 301: Material, GRI 303: Water, GRI 306: Effluents and waste, GRI 307: Environmental compliance

103-1 Materiality and boundaries
Details can differ between the environmental topics, but overall SKF has a similar management approach to Materials, Water, Effluents and waste, and Environmental compliance. These topics are material first of all within SKF and its subsidiaries.

Materials The Group sourced about 472,000 tonnes of metal components in 2019. 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 up-stream are also avoided.

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. Indirect water use is relevant due 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.

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.

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/ar2019.

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 141.

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.

SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. The most important dimension of water for SKF is the water needed to generate energy for use over the value chain.

During 2017 and 2018, and based on an impact analysis at Group level, SKF has developed new KPIs to measure and drive a reduced environmental impact. The Group started to report according to the new parameters in 2018. It has been possible to define specific objectives for some of these KPIs. However, others are based on parameters not previously followed up and so the Group will need to monitor and establish a base line for these during 2019/2020 before defining specific objectives. The KPIs where objectives are defined are:
- 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 2019, SKF had eleven such sites.

KPIs where specific objectives are to be defined during 2020 cover the following aspects:
- Waste recycling excluding direct material waste.
- Waste recycling including direct material waste.
- Waste water 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.

Restatement and changes in reporting
SKF has during 2018 updated many of the environmental parameters and KPIs in the Group's management system. This means that several fractions cannot be reported for 2017.

Water use has been restated for 2017 due to a significant reporting error at one site.

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 favourable 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 out of a significant proportion of scrap steel, however an exact percentage cannot be provided.

Non-renewable material

Tonnes	2019	2018	2017
Metal as raw material from external suppliers	472,256	535,183	578,025
Rubber as raw material from external suppliers	3,966	4,645	5,540
Oils	8,139	8,874	8,808
Greases	2,209	2,479	2,645

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 has 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.

303-1 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 use targets are established at SKF sites with significant water risks. In 2019, SKF had eleven such sites.

Water (1,000 N cubic meters)	2019[3]	2018[3]	2017[3]
Water from municipal supply	1,867	2,063	n/a
Water use from other source[2]	922	951	n/a
Water withdrawal total[1]	2,789	3,014	3,230

1) 2017 is restated after significant reporting error was found.
2) Other source is mostly wells from which water is extracted.
3) All data has been restated to reflect acquisitions and divestments.

306-2 Waste by type and disposal method
During 2017 and 2018, SKF has updated its environmental KPIs which is reflected in this report. The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. A new KPI has been established where the Group shall move upwards in the waste hierarchy with the ultimate goal to reach zero waste. Due to some issues in stabilizing the data, a precise target has not yet been defined. This will be finalized during 2020.

The amounts of residual material and recycling rate are disclosed below and in more detail in the Environmental data spreadsheet available at skf.com/ar2019. SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill.

Non-hazardous waste	2019	2018[2]	2017[1]
Total residuals generated (tonnes)	139,146	120,237	n/a
Recycled or reused (tonnes)	114,990	105,833	n/a
Recycling rate (%)	83%	88%	n/a
Incinerated with energy recovery (tonnes)	10,144	4,742	n/a
Incinerated without energy recovery (tonnes)	1,650	870	n/a
Landfill, excl grinding swarf (tonnes)	12,362	8,792	n/a

1) 2018 was the first year of reporting according to these fractions.
2) Due to an error found in the 2018 data, the above figures have been restated.

Group target: 80% recycling of grinding swarf
On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles mixed with emulsion. The Group has set a target to reach and maintain 80% recycling, which was actually achieved the first time in 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 are able to use grinding swarf as input to their production, both as direct and indirect material. In 2019, the rate of recycled or reused grinding swarf decreased to 65%. This result was impacted by problems in the recycling supply chain in some regions most notably in the Ukraine. During 2020 SKF will focus on sharing good practice measures with all sites to increase the recyclability of this waste.

Hazardous waste, grinding swarf	2019	2018	2017
Grinding swarf generated (tonnes)	22,521	23,443	22,492
Recycled or reused (tonnes)	14,749	16,818	15,290
Recycling rate (%)	65%	72%	67%
Incinerated, heat recovery (tonnes)[1]	1,637	1,230	n/a
Incinerated, no recovery (tonnes)[1]	2,972	1,222	n/a
Landfill[1]	3,163	4,173	n/a

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 2019.

Employment

Material topic – GRI 401: Employment

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 work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage the need of future skills.

103-2–103-3 Management approach, its components and evaluation
SKF's human resources function (Group HR Operations) is integrated in the Group People, Communication, Legal and Sustainability organization. There are Human Resources activities at Group, business area, region, country and site level. The vision of Group HR Operation is to enable a culture where people with passion will perform, develop and take own leadership for the best of SKF. Strategic initiatives for Group HR Operations guiding the work during 2019 have been A Modern Learning Workplace, World Class Leadership, Talent Acquisition and Employee Excitement and Digitalization. To ensure that the right steps are taken in building the desired culture, SKF Team Pulse has been piloted, a survey tool that enables employees to give quick temperature checks to day by day take small and important steps with on-the-job improvements. Group People has a regular dialogue with the SKF World Union Council (WUC) 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 European Work Council and local unions. As the 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.

Human Resources has a strong local presence. However, digitalization of operations and business has increased the need and enabled a more centralized approach to processes, systems and organizations. New common systems are being put in place to facilitate this work. As these common systems are not yet fully operational across the Group, SKF cannot report retention rate and turnover by age Group but only by gender and region.

The top risk for SKF when it comes to talent attraction is identified as a scarcity of key capabilities on the labour market. As society and industry is digitalized, more organizations are competing for the same capabilities. To mitigate this risk, SKF has a strategic approach to future skills, recruitment, and to further develop our position as an employer of choice. This can be exemplified by the development and promotion of a concept for working with strategic workforce planning, the move to more proactive recruitment methods, the creation of one recruiter community in Europe to set quality standards and reach efficiency, increased focus on inclusion and diversity, and the increased use of social media platforms to attract future senior leaders.

401-1 New employee hires and employee turnover

Employee retention rate by region (excluding lay-offs)

	2019				
%	Women	Men	Total	2018	2017
Asia and Pacific	87	88	88	89	88
Middle East and Africa	97	95	96	90	90
North America	90	90	90	91	91
Latin America	93	94	93	94	93
Eastern and Central Europe	92	90	91	92	90
Western Europe	97	97	97	96	96
Group	**91**	**94**	**93**	**93**	**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

%	2019 Women	2019 Men	2019 Total	2018	2017
Asia and Pacific	16	15	15	13	13
Middle East and Africa	12	13	13	13	11
North America	15	18	17	17	18
Latin America	24	17	18	14	20
Eastern and Central Europe	9	10	10	10	11
Western Europe	4	4	4	5	5
Group	**11**	**10**	**10**	**10**	**10**

New hires by region

Total number	2019 Women	2019 Men	2019 Total	Women as share of total, %
Asia and Pacific	524	1,407	1,931	27
Middle East and Africa	12	25	37	32
North America	135	352	487	28
Latin America	77	650	727	11
Eastern and Central Europe	175	267	442	40
Western Europe	147	607	754	19
Group	**1,070**	**3,308**	**4,378**	**24**

Labour management relations

Material topic – GRI 402: Labour management relations

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 a 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 120) meets every year to discuss labour issues in an open format and to share what is currently happening in the Group. In addition to the SKF WUC meeting, an EWC meeting involving only European delegates is set up in conjunction to the WUC. All countries with major operations and fulfilling the EWC and WUC agreement requirements have the right to send appointed union officials or observers to the SKF EWC/WUC meeting. In 2019, it was held in Austria at SKF Steyr. The focus areas were, employment, environment, health and 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 Works Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

Occupational health and safety

Material topic – GRI 403: Occupational health and safety

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. SKF employs around 27,000 people in blue-collar work roles and the focus here 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 141. However, traditional office tasks are increasing and thus psychological health and well-being are increasingly material.

103-2–103-3 Management approach, its components and evaluation
SKF's accident rate has steadily improved over the last two decades, but the rate of improvement has slowed down in recent years.

In 2019, the accident rate was 0.77 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.

During 2018, a major reorganization of the overall EHS governance in SKF took place with the primary objective to improve health and safety (and environmental) performance. The change reinforced the line ownership for health and safety by appointing EHS managers 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 health and safety in their respective units. They are supported in this work by the long established EHS country coordinators who provide local competence, guidance and support to the units. This new set up was fully deployed during 2019. It is now functioning well and starting to deliver improvement in performance – particularly in the area of health and safety.

403-1 Occupational health and safety management system
SKF has established and deployed a Group-wide health and safety management system according to the OHSAS 18001 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, 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 is currently in the process to update the management system to the new ISO 45001:2018 standard, which replaced OSHAS 18001. SKF aims to be certified according to the new standard during 2021.

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.

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, 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 measure 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 behaviours.

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, health, 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 upon. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this. During 2019, a joint project between SKF's WUC, Group EHS and Group HR was executed. The project aimed to find ways to increase the effectiveness of these committees and resulted in updated procedures, guidance materials and training and awareness, which will be delivered to the units during 2020.

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 life style, 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.

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 subcontractors, 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 pages 140–141, Supplier social 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 assess 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 86%, or some 38,000 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, 83%, around 3,000 consultants or agency workers under SKF's management control, are also covered by the management system. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a 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 OHSAS 18001 certification. Accidents reporting is divided by the total headcount, including agency workers and consultants.

SKF is globally certified according to OHSAS 18001, 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, health and safety policy and related Group instructions and requirements. Read more on the certification on skf.com/18001.

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.

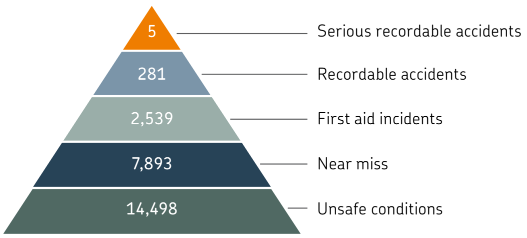
Health and safety data are collected on a quarterly basis using the Group's main reporting and consolidation tool.

The accident rate is calculated with $R \times 200{,}000/h$, where R = number of recordable accidents and h = total hours worked at the site/unit

	2019	2018	2017	2016	2015	2014	2013	2012
Accident rate for the Group	0.77	0.81	0.85	0.87	0.99	1.13	0.99	1.06
Rate of high consequence work related injuries	0.013	0.013	0.013	—	—	—	—	—

	2019	2018
Work related fatalities	0	0
High consequence work accidents	5	5
Recordable accidents	281	319
First aid incidents	2,539	2,920
Near miss incidents	7,893	5,731
Worked hours (x 200,000)	374	398

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 to increase the attention and reporting of near miss incidents and unsafe conditions, which would result in better risk mitigation and a reduced number of recordable and serious accidents.



Unsafe conditions are added at the base of the pyramid to increase a proactive reporting, i.e. the detections and study of event before they have a consequence for workers.

Training and Education

Material topic – GRI 404: Training and Education

103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of our people. With digitalization, globalization and new technologies come new opportunities to deliver sustainable offerings to our customers and to enhance production processes and ways of working. These opportunities create both challenges and possibilities for SKF employees to develop new skills that are of value to them as individuals, to SKF and to customers. To continue succeeding in the global competitive landscape, it is a necessity to continue to develop our people. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasing amount of performance support opportunities aimed at the Group's employees, distributors and customers. Closely connected to social impact is employee development.

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

Learning and development must happen continuously in the company for SKF to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. In today's environment, the informal learning taking place continuously at the workplace is increasingly important. This can be through sharing and collaboration locally or virtually using social platforms, participating in external open forums and communities, by self-studying, using performance support tools etc. This type of learning adds on another dimension than what is traditionally steered by SKF. Both informal and formal learning are supported in different ways by SKF, such as offering of training programs, tools and forums. A new tool to support employee engagement is currently being implemented throughout the SKF organization, where one aspect is to capture employees' perception on learning and development.

To ensure competence development is supporting the strategic business challenges, SKF has different academies in place that work closely with the business dimension. Recent initiatives include, for example, the Rotating Equipment Performance (REP) business offer programs with workshops for sales and advanced sales team training to support transforming the business offerings towards value based services. Other examples are the Sales Excellence for service engineers, Supply Chain Global Accelerate Program and different Industry 4.0-related initiatives. Local centers of learning and learning experts are in place in the main SKF operations to support implementation and local adaptation of SKF's global curriculum, as well as to drive development programs and initiatives meeting local needs.

The Group's HR function coordinates the overall strategy, methods and main global tools for enhanced learning in SKF. Using the centrally maintained learning- and performance platform, employees can for example search and register for formal programs and propose and document their own main competence development activities in an individual development plan (IDP). The IDP is agreed with the manager and training can range from job rotation, shadowing and mentoring to specific technical training on a wide range of subjects such as project management, quality or application engineering. SKF also develops short videos and e-learning to provide cost effective training to enable learning.

The involvement and support from managers are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available. Managers are expected to continuously discuss development and career wishes. The global system can be used to support this and for documentation, although other means can be used as well.

Utilizing the joint resources of the central human resources function, SKF Academies, local 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. SKF in Italy is one example, where an Industry 4.0 training package is delivered with training on Industry 4.0 Enabling Technologies and Big Data Analysis to assist the introduction of new technologies. In the hub bearing unit factory in Airasca, Italy, blue collars were re-skilled to work in other parts of the manufacturing process when visual inspection was transferred to a new automated process. Similar activities are also done in the St Cyr factory in France, where training is offered to all employees on technologies such as 3D printing, laser cutting and electronics.

In Sweden, SKF is participating in a national pilot on master level within Industry 4.0 – cyber-physical production systems and connected industry. The concept is to conduct training and work in parallel in a flexible format including theoretical lessons being available online and in virtual classrooms.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees that 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 in 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 and is used as input for the salary review process and for the talent management process for white collar employees. The global platform for performance management (Cornerstone) covers about 12,500 white collar employee users in 2019.

	2019		2018	
%	Women	Men	Women	Men
% of users with documented performance reviews in SKF's global system	81	84	86	86

Diversity and Equal Opportunity

Material topic – GRI 405: Diversity and Equal Opportunity

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.

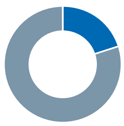
The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles are based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

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 2019, put more effort into gender diversity. Failing to achieve gender balance means organizations miss out on talents and abilities–robbing themselves of creativity and innovation.

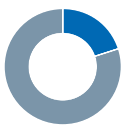
In 2019, several new activities and programs were started to put focus on improving gender equality. In Gothenburg, female networks were launched in November 2018 and around 150 women now participate. A leadership program for women in the USA kicked off in March. Bearing Operations is now running a pilot in SKF Italy to inspire more women to come into the manufacturing environment. The virtual global programme Elevate, targeting women with leadership ambition will start in 2020. In addition, a number of inclusion workshops have been conducted with management teams.

405-1 Diversity of governance bodies and employees

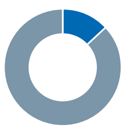
The graphs show % of women and men at different categories within the organization. Information on age groups and minorities is not available.



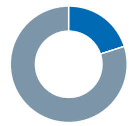
The Board
Women 20%, men 80%
The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization, please refer to page 152.



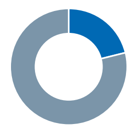
Group Management
Women 20%, men 80%
Group Management is the operational management team of the SKF Group, please refer to page 157.



Higher management
Women 13%, men 87%
Higher management refers to the around top 500 managers in the SKF Group. The actual number in this population changes over time.



Local management teams
Women 20%, men 80%
Local management teams refers to the around 200 different legal entities in SKF around the world. SKF measures how many individuals in total are in these groups and the proportion of women and men, as well as how many of these management groups have one or more women.



Total employees
Women 21%, men 79%
Total employees refers to the average number of employees in SKF during the year.

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

Range position (RP) is being used as a relative salary measure since it makes it possible to compare salary between positions and across countries. RP is calculated for each employee by using the SKF salary structure in each country.

RP = Annual base salary / Market salary midpoint per position class

Categorization

In SKF, salaries are set by individual position classification, job category, performance and responsibilities. The Group uses an internationally well-known position classification system (IPE) for defining positions.

The complexity of the categorization between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2019:

- **Professionals** includes job roles such as entry, specialists, expert or team leaders.
- **Management** includes roles such as professional team leader, manager, senior manager or sub-function head.

Average ratio of salaries using range position (women/men)	Management	Professionals
Total	–1%	–4%

Comments

On average, the data in the gender analysis indicates that the female employees on average have a salary 3.4% lower than the male employees. This measurement varies from –7.5% to –0.7% for the eight countries included in the analysis. There are also variations between job categories.

This gender analysis has not been able to account for factors such as age or years of experience for the employees. Such factors may explain some degree of the differences in relative salary.

Scope and data collection

The scope of the salary mapping includes a representative selection of SKF's eight biggest countries with a total of over 12,000 salaried employees (China, France, Germany, India, Italy, Sweden, U.K. and USA).

For comparing salaries for men and women, SKF uses relative salary for staff, i.e. the so-called range (in) position. The relative salary is calculated as base salary divided by market salary (mid-point). Using relative salary enables comparability of salaries independent of weight (i.e. PC). This is necessary as SKF normally has fewer individuals in higher position classes and also fewer women, which makes absolute comparison statistically inaccurate.

Human rights

Material topics: Non-discrimination, Freedom of association and collective bargaining, Child labour, Forced or compulsory labour, Human rights assessments

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 100 manufacturing plants across the world, employing around 27,000 people 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 employess 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 of how the Group's activities can have an impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and services.

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

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 being 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.

Modern Slavery Act 2015

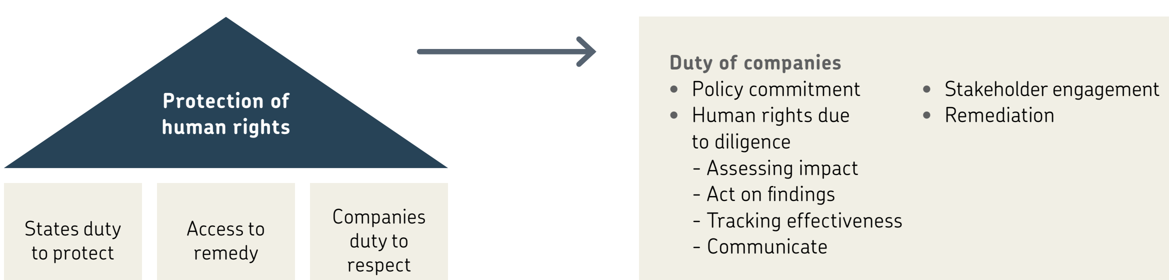
AB SKF is committed to ensure that the companies within the SKF Group do not allow slavery or human trafficking. As with other human rights, this commitment extends to the supply chains used by the SKF Group. This statement is made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015 and sets 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.

Salient human right 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 inequality are weaker. SKF takes in third party data to assess the overall risks on human rights.

During 2019, SKF assigned the international organization "Save the Children" to review the SKF Code of Conduct for Suppliers and Sub-contractors, as well as the SKF supplier audit checklist, related to the risk of child labor. The review resulted in SKF making adjustments to better align with the UN Human Rights definitions and benchmark related to protecting the children's 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 on-going dialogue on a local level, the SKF Group management meets annually with the SKF 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.

Trends and patterns 2019
In 2019, there has been a continued focus on preventing harassments to safeguard safe workplaces.

The annual conference between the SKF WUC and the Group also this year focused on health, safety, decent working conditions and automation driven by digitalization.

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, 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 119.

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 solution 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 2019.

406-1 Incidents of discrimination and corrective actions taken
During 2019, 58 reports related to discrimination and harassment have been received through the SKF Ethics & Compliance Reporting Line. These cases are investigated locally and actions based on the findings are taken locally. The result of the investigations and actions taken are not available on a central level. SKF is working on getting processes in place to ensure that this information is reported to Group HR or another relevant Group function.

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 119 and 132 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/group/support/skf-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 are considered higher and SKF's supplier audits have a high focus on this topic. In 2019, SKF found no actual cases of child labour at its operations or at SKF's suppliers. Two cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible sourcing programme.

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 both SKF's Code of Conduct, internal and supplier audits. In 2019, no cases of forced or bonded labour have been identified.

412-1 Operations that have been subject to human rights reviews or impact assessments
All SKF's units are subject to human rights reviews as part of ethics and compliance reviews. These reviews include the full range of the Code of Conduct. All SKF's manufacturing units are subject to review within a three-year interval using a risk-based approach. In 2019, 25 such reviews were carried out. In addition, sites undergo risk-based, in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers, read more on next page.

Supplier assessments

Material topics –GRI 414: Supplier social assessment and GRI 308: Supplier environmental assessment

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.

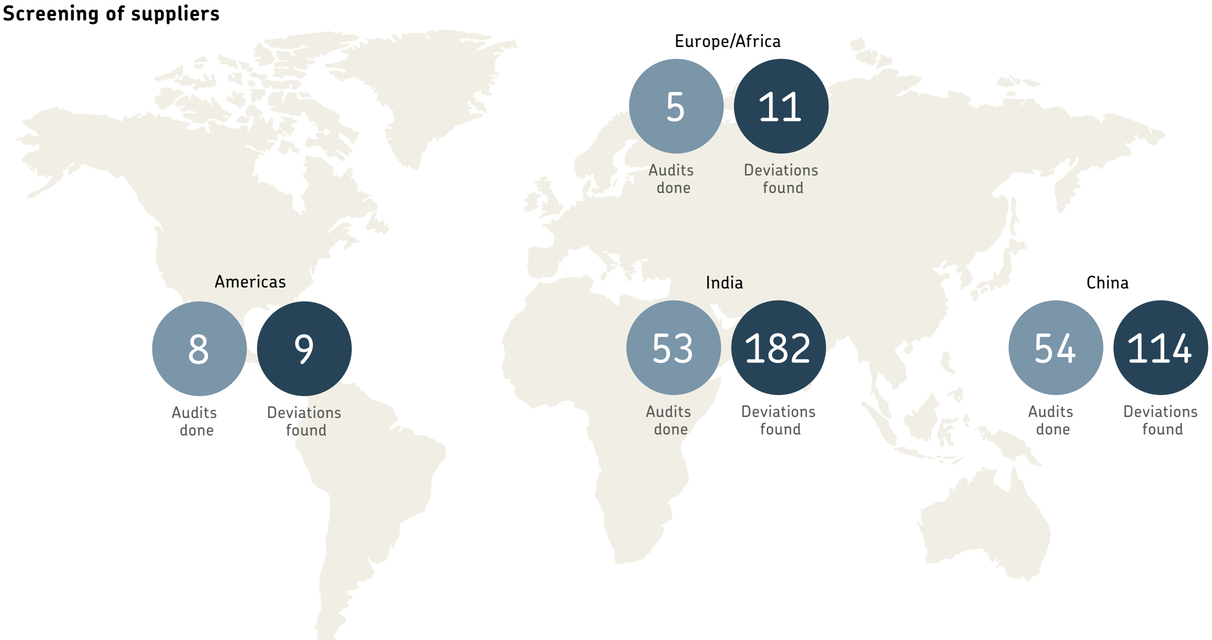
103-2–103-3 Management approach, its components and evaluation (combined)
SKF's Responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of supplier development, which covers areas of delivery, 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, which 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% spend 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 at 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 labour 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 which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2019, critical deviations were found at seven suppliers in India, China and Turkey. The 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, the main problems have been solved and four of the seven suppliers were confirmed as business approved. Sourcing was completely stopped and contract terminated with the other three suppliers. During 2019,

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.

SKF worked to bring quality and Code of Conduct audits closer, 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, employment contract procedures, health and safety, and pollution and waste control. 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.

In 2019, 120 suppliers have been audited, the total number of suppliers assessed in other ways cannot be disclosed. 21 out of 120 have been audited without negative impact identified. With the 99 other suppliers, 96 have confirmed improvements. 35 new suppliers were audited on site using environmental and social criteria and one of these was disqualified to supply to SKF.

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

In 2019, 274 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 contracts procedures. Seven suppliers with major deviations have been escalated to 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 2019, 42 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to resolve these. SKF has the management systems, skills and experience to do this which is a competitive advantage in the local supplier development. Specific training program about Code of Conduct, social and environmental matters have been done in India and China with particular focus on suppliers having social and environmental issues, including direct and indirect material suppliers and sub-contractors, and service providers. Around 180 suppliers attended the training in China, and 193 in India. To strengthen these supplier follow-ups, local purchasing staff also has to be trained.

With the intent of continuous monitoring of suppliers to convert negative impacts to positive, in India a pilot on a mobile app, "Connect@CoC4S" has been launched . The corrective and preventive actions are captured in real-time by SKF employees visiting the suppliers to measure the growth.

Socioeconomic compliance

Material topic – GRI 419: Socioeconomic compliance

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 with SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, and 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

A Group wide programme of short online training courses with content about issues such as data privacy (78%), workplace harassments (82%), how to report ethical concerns (81%), anti-corruption (79%), and safety at work (80%). The numbers in brackets represents the % of the total number of the employees (for whom the courses are mandatory) who have gone through the training as per January 2020. The courses are mandatory for all employees having an SKF email address.

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 the development and recommendations from the OECD as regards tax transparency. In line with these 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 4–5 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-compliances related to these topics have been identified.

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

To the general meeting of the shareholders in 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 sustainability performance disclosures in the SKF Annual Report 2019 in the sections "Sustainability Statements" and "Objectives and results – climate and social", as well as "GRI-Content Index 2019" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 116.

Responsibilities of the Board and Group Management
The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the statutory sustainability report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 116 of the Sustainability Report and consist of the parts of the framework for sustainability reporting published by GRI (Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed. This responsibility includes the internal control relevant to the preparation of a sustainability report that is free from material misstatement, 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 provide opinion statement on the statutory sustainability report.

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. We have conducted our review regarding the statutory sustainability report in accordance with RevR 12, *Auditor's Report on the Statutory Sustainability Report*, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit 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 in relation to AB SKF (publ) according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the same level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as 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, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A statutory sustainability report has been prepared.

Gothenburg, 3 March 2020
Öhrlings PricewaterhouseCoopers AB

Peter Clemedtson	Åsa Ekberg
Authorised Public Accountant	*Expert Member of FAR*

Appendix
Our limited assurance engagement has, based on an assessment of materiality and risk, included the following procedures:

a. update of our knowledge and understanding of SKF's organization and activities,
b. assessment of suitability and application of the criteria regarding the stakeholders' need for information,
c. assessment of the outcome of the company's materiality analysis and stakeholder dialogue
d. interviews with management at group level and visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
e. examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
f. evaluation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
g. analytical procedures of the information stated in the Sustainability Report,
h. assessment of the company's declared "in accordance" option according to the GRI Standards,
i. assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.

.

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 year 2019. The annual accounts and consolidated accounts of the company are included on pages 6–7 and 14–115 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 parent company and the group as of 31 December 2019 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 2019 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 Board of Directors 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 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. 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.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

SKF is a process-oriented company and the business is highly transactional operating on a number of systems and databases that initiate and process transactions. The SKF's IT infrastructure is complex and the group is currently undergoing a significant change process including implementation of a new ERP system.

SKF has a defined Internal Controls framework, SICS. SKF has developed a set of controls for IT applications within the SICS framework being relevant for financial reporting. The group audit team together with IT specialists, have identified and assessed those processes, applications and databases that has an impact to significant transaction flows and consequently are critical for the financial reporting and our audit.

Our audit strategy included local audits for those entities and countries that together represent larger operations and markets for the group. We included those operations that were viewed to have a particular relevance including the group's treasury unit. No individual entity is viewed to represent a significant component to the group audit. In addition to the local audits, we have performed testing to group consolidation together with consolidated analytical assessments in order to have a reasonable basis for our group audit. For those entities being in scope for group audit procedures we have issued detailed instructions and received reporting and reviewed procedures performed through discussions and meetings with local teams to confirm that we have satisfactory basis for our group audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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.

Key audit matter	How our audit addressed the Key audit matter
Valuation of intangible assets	
Refer to Note 10 of the consolidated accounts for the related disclosures As of 31 December 2019 intangible assets amount to SEK 18,397 million for the group. Out of this total, an amount of SEK 11,251 million relate to goodwill and SEK 2,369 million to tradenames and trademarks with an indefinite life. According to IFRS, the company is required, at least annually, to test these assets for impairment. Impairment testing involves assumptions with a significant degree of judgment, in particular for those assumptions that relate to the company's applied discount rates and expectations on market development and the future cash flow generation of the business. Valuation of intangible assets and impairment testing represent a key audit matter for our audit in light of the significant values of the group's intangible assets and the inherent uncertainties of assumptions and estimates involved.	Our audit procedures and testing of the valuation and impairment tests of intangible assets include areas and tests described below, however are not limited to these. We have evaluated models for impairment testing used by the company together with valuation and accounting specialists and have assessed these to be in line with common valuation techniques used. We have assessed assumptions used in the calculations and that are further described in Note 10. Our procedures to assess assumptions used included to compare company's future cash flow forecasts to available business plans and other information relevant for the estimated development of the business. We have assessed the group's sensitivity analyses of impairment tests to changes in significant assumptions and the risk that negative changes could lead to an impairment. We have further performed independent sensitivity analyses and performed back testing to prior year assumptions to under build the quality of forecasting process and assess assumptions for reasonableness and consistency.
Recognition of provisions and contingent liabilities for lawsuits and claims	
Refer to Risk management page 54 and Note 19 of the consolidated accounts for the related disclosures SKF together with other companies in the bearing industry are part of investigations from competition authorities in different territories. Civil claims have been initiated from purchases of bearing to SKF together with the other companies affected by the EU ruling and fine for violation of EU competition rules in 2014. There is a risk for further civil claims from direct and indirect purchasers of bearings. Risks and uncertainties from such investigations and potential claims need to be carefully assessed and analyzed. The assessment of outcome from legal proceedings and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. These considerations make the area one of the key audit matters in our audit.	Our independent evaluation of management's descriptions and assessments of legal proceedings and claims include areas described below, however are not limited to these We have performed inquiries to local management as well as to group management and parent company. Our procedures further involve reading of minutes and the group's internal documentation of legal proceedings and claims to assess the accuracy and completeness of the disclosures and accounting treatment in the consolidated accounts. In specific cases, we have collected statements from external legal advisors to risks and assessments made.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–5, 8–13, 116–143 and 156–161. Other information further includes those documents listed in "Topics related to SKF's annual report". Beyond other information in this document the company publishes a yearly report "SKF in brief 2019" that we expect to have access to after the date of the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

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 Director's 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 intend 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 finacial 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 responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is 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 Director's and the Managing Director of AB SKF (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

The Board of Directors is 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' 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 responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB was appointed auditor of AB SKF (publ) by the general meeting of the shareholders on the 29 March 2017 and has been the company's auditor since the 26 April 2013.

Gothenburg 3 March, 2020
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in Charge
Authorised Public Accountant

Bo Karlsson
Authorised Public Accountant

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.

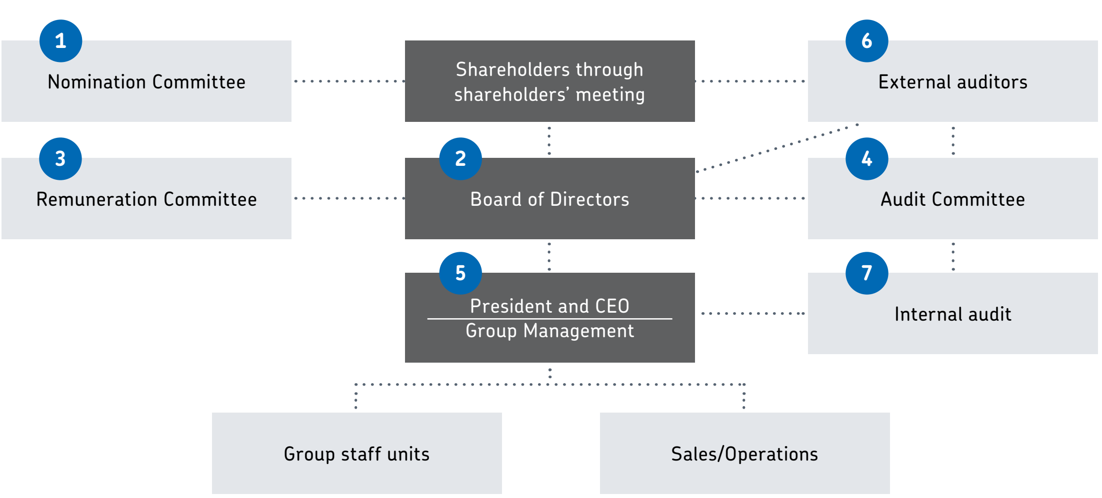
It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided 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.

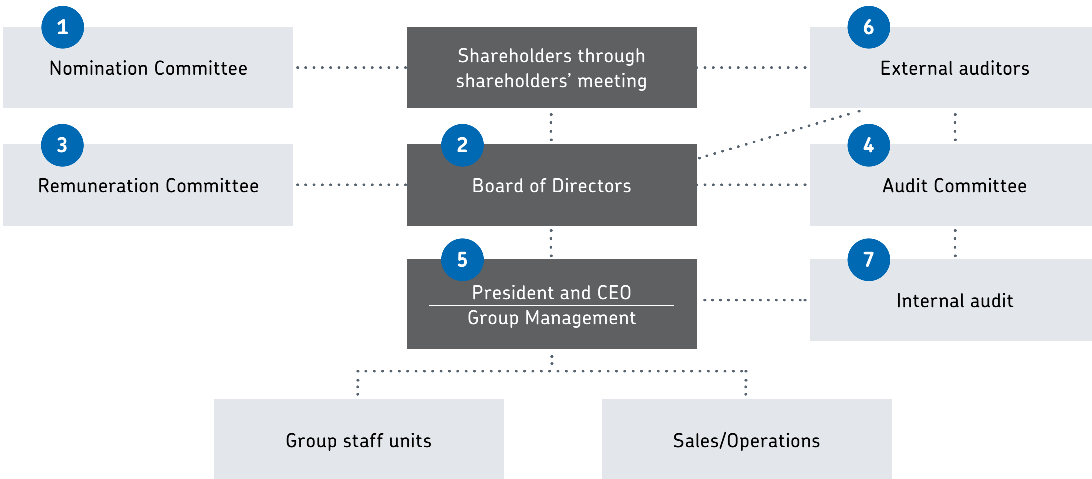
Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2019. One of the Board members resigned from the Board in October 2019. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for 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 Lawerence 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

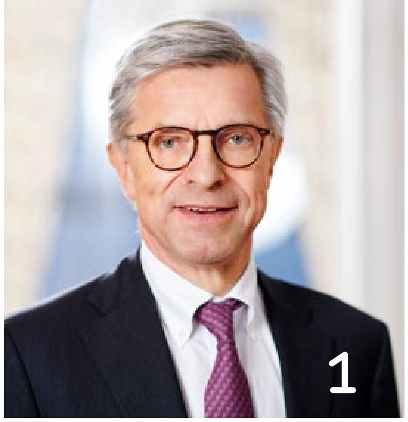
Auditors

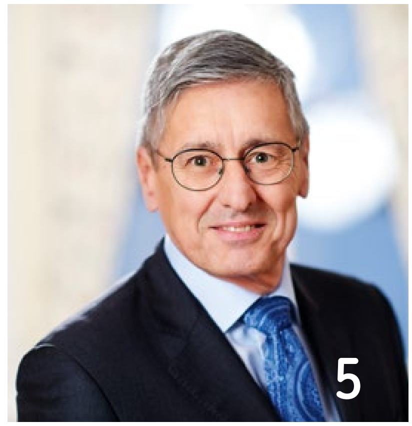
Peter Clemedtson

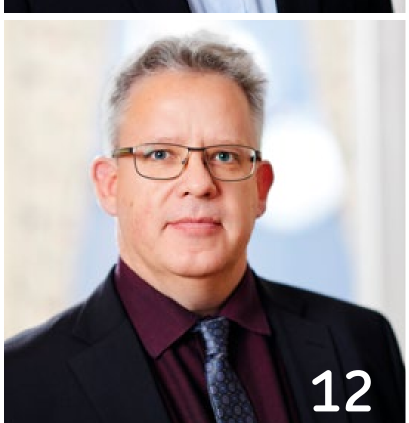
Authorised Public Accountant
Auditor in charge
PricewaterhouseCoopers AB

Bo Karlsson

Authorised Public Accountant
PricewaterhouseCoopers AB







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

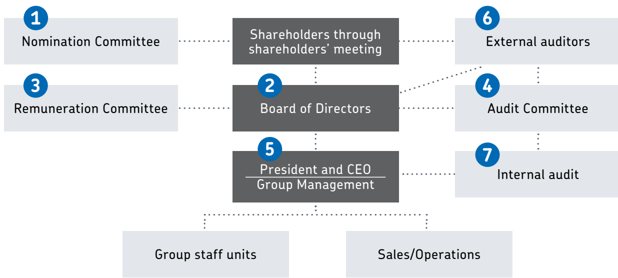
12 Claes Palm

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.

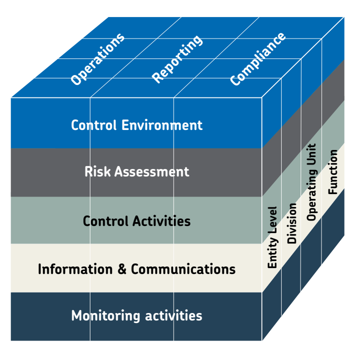
These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

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



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


1
2
3
4
5
6
7
8
9
10

Group Management as of 31 December, 2019

1 Alrik Danielson

President and CEO, SKF Group
Born 1962

Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg.
Employed since 2014 and 1987–2005

Previous positions
President and CEO of Höganäs AB 2005–2014, President SKF Industrial Division and several other positions within SKF.

Board member
Association of Swedish Engineering Industries

Shareholding in SKF
41,327 SKF B

2 Niclas Rosenlew

Chief Financial Officer and Senior Vice President
Born 1972

Master of Science in Finance, Hanken, Swedish School of Economics.
Employed since 17 June 2019

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

Shareholding in SKF
6,280 SKF B

3 Bernd Stephan

President, Automotive and Aerospace
Born 1956

Bachelor of Engineering, Mechanical Engineering, Dipl.Ing., University of Essen.
Employed since 1994

Previous positions
Senior Vice President Group Technology and CTO, and several other positions within SKF.

Board member
SKF India Ltd., SKF GmbH – Germany, SKF Austria AG

Shareholding in SKF
17,094 SKF B

4 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
9,497 SKF B

5 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
10,298 SKF B

6 Patrick Tong

President, Industrial Sales Asia
Born 1962

Executive Master 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
11,853 SKF B

7 Victoria Van Camp

CTO and President, Innovation and Business 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 and Amexci AB

Shareholding in SKF
6,683 SKF B

8 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 8,795 SKF B

9 Carina Bergfelt

General Counsel and Senior Vice President, Group People, Communication, Legal and Sustainability and Secretary to the Board.
Born 1960

Master of Law, Lund University.
Employed since 1990

Previous position
Legal Counsel

Board member
The Association of Exchange listed Companies

Shareholding in SKF
10,688 SKF B

10 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
0 SKF B

Seven-year review, SKF Group

MSEK unless otherwise stated	2019	2018	2017	2016	2015	2014	2013
Income statements							
Net sales	86,013	85,713	77,938	72,589	75,788	70,778	63,423
Operating expenses incl. associated comp.	–76,618	–74,664	–69,346	–65,062	–68,820	–62,977	–59,730
Operating profit	9,395	11,049	8,592	7,527	6,968	7,801	3,693
Financial income and expense, net	–926	–861	–934	–788	–1,134	–1,133	–872
Profit before taxes	8,469	10,188	7,658	6,739	5,834	6,668	2,821
Taxes	–2,677	–2,603	–1,898	–2,530	–1,760	–1,918	–1,777
Net profit	5,792	7,585	5,760	4,209	4,074	4,750	1,044
Balance sheets							
Intangible assets	18,397	17,722	17,360	19,568	21,485	22,138	19,023
Deferred tax assets	4,437	3,563	3,633	3,806	3,185	3,350	2,015
Property, plant and equipment	18,420	16,688	15,762	15,746	15,303	15,482	14,095
Right of use assets	2,991	—	—	—	—	—	—
Non-current financial and other assets	2,019	1,964	1,627	1,688	1,607	1,862	1,276
Inventories	18,051	17,826	17,122	15,418	14,519	15,066	13,700
Trade receivables	14,006	13,842	13,416	13,462	11,777	12,595	11,189
Other current assets	15,787	15,568	12,283	14,219	11,857	11,146	9,693
Total assets	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**	**81,639**	**70,991**
Equity	37,366	35,452	29,823	27,683	26,282	24,404	21,152
Provisions for post employment benefits	15,366	12,894	12,309	13,945	13,062	13,978	9,902
Deferred tax provisions	960	1,118	1,100	1,380	1,373	1,717	2,207
Other provisions	2,474	2,541	2,275	2,224	2,095	2,083	5,011
Financial liabilities	19,017	17,157	18,508	23,650	23,825	26,105	21,344
Trade payables	8,266	7,831	7,899	7,100	5,671	5,938	4,740
Other liabilities	10,659	10,180	9,289	7,925	7,425	7,414	6,635
Total equity and liabilities	**94,108**	**87,173**	**81,203**	**83,907**	**79,733**	**81,639**	**70,991**
Key figures[1] (in percentages unless otherwise stated)							
Operating margin	10.9	12.9	11.0	10.4	9.2	11.0	5.8
EBITA, MSEK	10,008	11,541	9,064	8,016	7,522	8,289	3,998
EBITDA, MSEK	12,892	13,522	10,916	9,895	9,826	10,192	5,586
Return on capital employed	13.2	17.6	14.2	11.9	10.9	13.9	7.5
Return on equity	15.7	22.8	20.4	16.5	15.7	21.4	4.6
Net working capital, % of sales	27.7	27.8	29.0	30.0	27.2	30.7	31.8
Net debt/equity	59.3	49.1	71.3	84.4	99.9	126.6	117.3
Turnover of total assets, times	0.90	1.00	0.96	0.89	0.92	0.95	0.97
Gearing	47.1	45.0	49.9	55.3	56.7	60.5	59.2
Equity/assets	39.7	40.7	36.7	33.0	33.0	29.9	29.8
Net cash flow after investments before financing, MSEK	4,953	8,326	4,753	7,717	6,416	2,137	–5,390
Investments and employees							
Additions to property, plant and equipment, MSEK	3,461	2,647	2,243	1,869	2,063	1,852	1,746
Research and development expenses, MSEK	2,691	2,591	2,395	2,246	2,372	2,078	1,840
Patents – number of first filings, MSEK	201	202	192	191	461	488	468
Average number of employees	41,559	42,565	43,814	43,508	44,305	46,509	45,220
Number of employees registered at 31 December	43,360	44,428	45,678	44,868	46,635	48,593	48,401

1) See page 160 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 skf.com/group/investors/.

Three-year review

MSEK unless otherwise stated	2019	2018[1]	2017[1]
Industrial			
Net sales	61,597	60,704	53,993
Operating profit	8,664	9,465	7,699
Operating margin, %	14.1	15.6	14.3
Assets and liabilities, net	44,802	38,903	37,780
Registered number of employees	35,861	36,657	38,099
Automotive			
Net sales	24,416	25,009	23,945
Operating profit	731	1,584	893
Operating margin, %	3.0	6.3	3.7
Assets and liabilities,net	10,101	10,077	9,232
Registered number of employees	6,828	7,141	7,035

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	2019	2018	2017	2016	2015	2014	2013
Earnings per share	12.20	16.0	12.02	8.75	8.52	10.10	2.0
Dividend per A and B share	6.25[2]	6.00	5.50	5.50	5.50	5.50	5.50
Total dividends, MSEK	2,732	2,504	2,504	2,504	2,504	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	189.4	134.5	182.2	167.6	137.2	164.9	168.7
Equity per share	78	74	62	57	54	51	44
Yield in percent (B)	3.3[2]	4.5	3.0	3.3	4.0	3.3	3.3
P/E ratio, B (share price/earnings per share)	15.5	8.4	15.2	19.2	16.1	16.3	84.2
Cash flow from operations, per share	20.7	18.3	14.1	15.7	17.0	10.5	11.6
Cash flow, after investments and before financing, per share	10.9	18.3	10.4	17.0	14.1	4.7	–11.8

1) See page 160 for definitions.
2) According to the Board's proposal for the year 2019.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1–1,000	46,316	86.4	11,866,578	2.5
1,001–10,000	6,580	12.3	17,363,182	4.0
10,001–100,000	525	0.9	15,126,749	3.3
100,001–	202	0.4	347,390,087	76.2
Anonymous ownership	—	—	63,604,472	14.0
	53,623	**100**	**455,351,068**	**100**

Source: Monitor, Modular Finance as of 31 December, 2019.

Definitions

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
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.

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.

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.

Organic sales
Sales excluding effects of currency and structure, i.e. acquired 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.

Contact information

Patrik Stenberg
Director SKF Group Investor Relations and Competitive Intelligence
email: patrik.stenberg@skf.com
www.skf.com/investors

Theo Kjellberg
Director Corporate Communication and Head of Media Relations
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

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Thursday, 26 March, 2020. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Friday, 20 March, 2020, and must notify the company at the latest on the same day via the internet, www.skf.com, or by letter to:

AB SKF
c/o Computershare AB, "AGM 2020 of AB SKF"
Box 5267
SE-102 46 Stockholm, Sweden

or by telephone +46 31 337 25 50
(weekdays between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and number of advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

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 shall take place so that the shareholder is recorded in the shareholders' register by Friday, 20 March 2020. 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 before that date.

Payment of dividend

The Board of Directors proposes a dividend of SEK 6.25 per share for 2019. Monday, 30 March 2020 is proposed as the record date for shareholders to be entitled to receive dividends for 2019. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 2 April, 2020.

Financial information and reporting

Publishing dates for financial reports in 2020:

Annual Report 2019	4 March
First-quarter report	23April
Half-year report	21 July
Nine-month report	27 October

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

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.

PUB GCR/R1 18803 EN • March, 2020

SKF Annual Report 2019 was published on 4 March, 2020.

Produced by AB SKF and Solberg Kommunikation

Photo credits: SKF Group, Magnus Cimmerbeck, Anatol Kotte, Oscar Hyltbring and John Hagby. Certain images used under license from Shutterstock.com and with the courtesy of Sandvik Group, Wolong Electric Group Company Limited and Orbital Marine Power Ltd.

AB SKF
SE-415 50 Gothenburg, Sweden
Telephone +46 31 337 10 00
www.skf.com