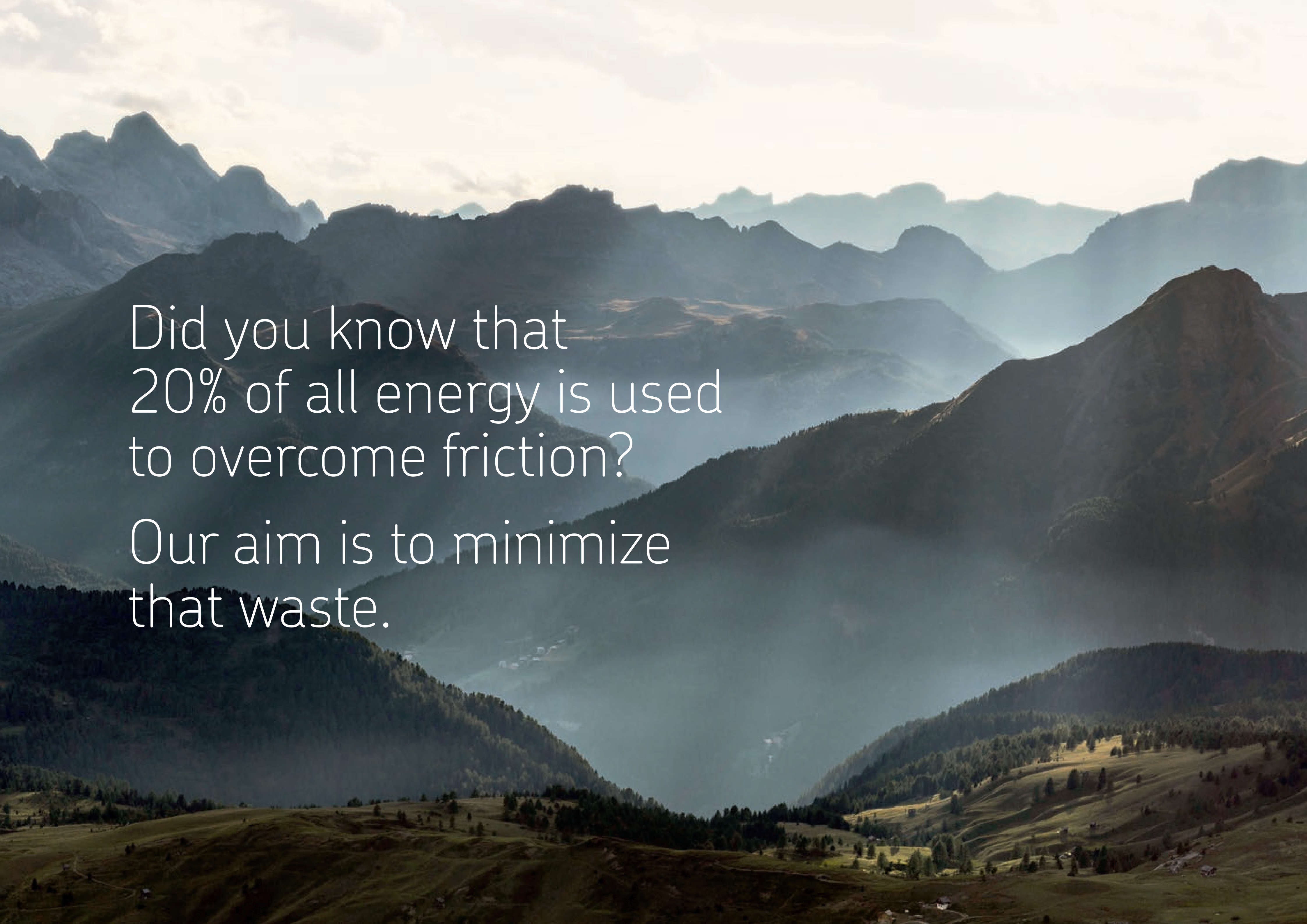
Intelligent and clean growth

Annual Report 2022



Did you know that
20% of all energy is used
to overcome friction?

Our aim is to minimize
that waste.

Contents

- ADMINISTRATION REPORT

The Administration Report has been audited by SKF's external auditors. See the Auditor's Report on pages 90–91.

- SUSTAINABILITY REPORT

Sustainability disclosures in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **Auditor's Limited Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report** on page 130.

The definition of the Statutory Sustainability Report is presented on page 98.

- CORPORATE GOVERNANCE REPORT

The **Corporate Governance Report examined by the auditors** can be found on pages 131–138. The Auditor's Report on the Corporate Governance Report can be found on page 139.

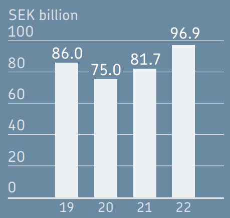
- REMUNERATION REPORT

The Remuneration Report can be found on pages 147–149.

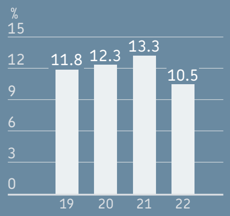
2022 in brief

- A new strategic framework, including a decentralized operating model and organizational structure, was presented and implemented.
- Decision to cease all business and operations in Russia. The Russian business was divested in the second quarter.
- Issued a second Green Bond, which raised EUR 400 million to fund eligible green projects in accordance with our Green Finance Framework.
- Acquisition of Tenute, an Italian seals manufacturer that develops and manufactures sealing solutions for various industrial applications.
- Investments of a total of SEK 1.25 billion to increase our regional capabilities and competitiveness across China, India and Southeast Asia.
- Awarded top sustainability ratings, including a Platinum medal from EcoVadis, and an A– Climate Change rating from the CDP.

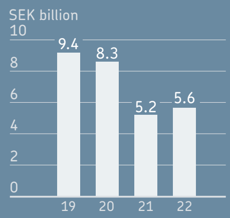
Net sales



Operating margin[1]



Cash flow[2]



SKF's long-term targets

	Operating margin[1]	Revenue growth[3]	Net debt[4] /equity	ROCE[1]	Dividend pay-out ratio	Net zero by 2030 emissions[5]
Target	14%	5%	<40%	16%	50%	zero
2022 outcome	10.5%	8.1%	19.3%	12.6%	65.7%	–46.5%

The long-term targets shall be achieved over a business cycle.

1) Adjusted for items affecting comparability. 2) Net cash flow from operating activities. 3) Including acquisitions, adjusted for divestments. 4) Excluding pension liabilities. 5) Absolute reduction in scope 1 and 2 emissions since 2015 base year.

More power from smaller motors

We developed a new hybrid deep groove ball bearing for high-speed applications. The new bearing is aimed at applications such as rail industry traction motors, as well as electric machines and drives. By improving the efficiency of electric machines and drives, the new bearing can cut energy consumption.

Filtration system boosts oil lifetime

SKF RecondOil's technology, which removes even the smallest impurities from circulating oil, is now available in a compact form. RecondOil Box is a smaller version of SKF's industrial scale DST systems, which have previously been applied in large applications in metal working and quenching. The smaller system is suitable for a broader range of industries and applications, helping a wider range of users to reap the benefits of cleaner oil. Read more about our lubrication customer solutions on page 106.

SKF and Ovako reach milestone

We reached a milestone on our journey towards a net zero value chain. Together with Swedish steel producer Ovako, we produced a Spherical Roller Bearing (SRB) with 90% less emissions than our standard SRB bearing. The bearing is manufactured in our net zero factory in Gothenburg and uses recycled steel from Ovako's Hofors mill. It is already in use at the mill, one of hundreds of connected bearings.

SKF / FERRARI TECHNICAL PARTNER

SKF with Scuderia Ferrari, 75 years of win-win!

We have been a technical partner of Scuderia Ferrari since the F1 championship was founded in 1947. The high speeds and power density requirements in F1 have spurred us to push the boundaries for ever better performance and reliability. Today, the Scuderia Ferrari car is fitted with 300 customized SKF hybrid bearings and solutions. The light, ceramic bearings that we developed for Scuderia Ferrari also benefit road cars and other applications with a positive impact on safety and sustainability.

This is the SKF Group

Have you ever thought about all the things that spin, turn and rotate in your everyday life? Trams, subway trains and buses take us through cities safer and more sustainable. Wind farms power our homes and offices. Water treatment facilities supply us with fresh water. Millions of things in motion to make our everyday lives work and wherever there's movement, our solutions may be used. This means that we're an important part of the lives of people and companies around the world.

But today, climate change caused by human activity presents an existential threat to life on this planet. Greenhouse gas emissions need to reduce rapidly to net zero, and for this to happen, the global economy needs to transform from being dependent on fossil fuel to being carbon free, circular and clean. Our largest contribution to this transformation lies in what we can do with, and for, our customers, suppliers, shareholders, employees and the society at large.

With a strategic focus on clean technology, we're therefore developing the solutions needed to help make industries competitive and sustainable. By making products longer-lasting, more efficient and repairable, as well as improving the performance of our customers' products, we intend to help the industry – and society as a whole – to reach significant energy and carbon savings.

42,641
EMPLOYEES

40
CUSTOMER INDUSTRIES

77
MANUFACTURING SITES

129
COUNTRIES

15
TECHNOLOGY CENTERS

>17,000
DISTRIBUTORS

4
INDUSTRIAL REGIONS

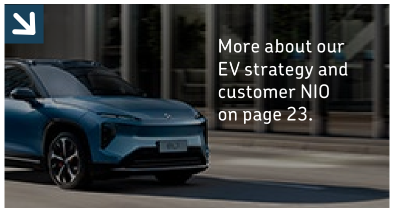
29
REMANUFACTURING CENTRES

SOME EXAMPLES OF WHAT WE DO


More about our railway offering on page 20.


More about our magnetic bearing technology on page 21.


More about one of our service partnerships on page 22.

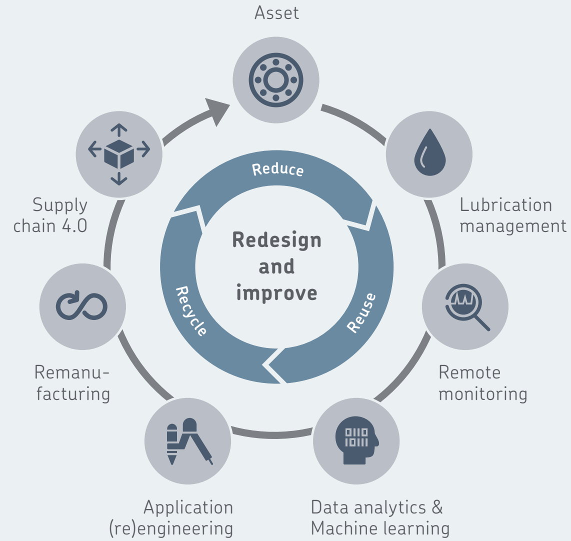

More about our EV strategy and customer NIO on page 23.

Clean, renewable and connected – it's the business we make

SKF's business model and strategy are designed to maximize value creation for our stakeholders. Wherever there is rotation, there is a good chance that our products, capabilities and skilled colleagues are providing value in the form of improved operational performance and reduced emissions.

Our strategy is based on two concepts: intelligent and clean. These will guide us on our journey to become an even more focused, innovative and profitable industrial player.

Our broad business reach gives us a platform to drive profitable growth, as it allows us to continuously target the most attractive opportunities. Our strength lies in the ability to keep developing new technologies that are used to create value-adding solutions offering competitive advantages to customers and, at the same time, contributing to a sustainable global society.



Our Industrial business

Our offering

- Supplying more than 40 industries globally with products and services, both directly and indirectly through a network of more than 7,000 distributors.
- Broad product range of bearings, seals and lubrication systems.
- Rotating shaft services and solutions for machine health assessment, reliability engineering and remanufacturing.

SHARE OF NET SALES **72%**

SHARE OF OPERATING PROFIT[1] **92%**

Our position

A leading position in industries such as railway, heavy industries and industrial distribution market, and a prominent position in other industries.

MARKET VALUE[2], SEK BILLION

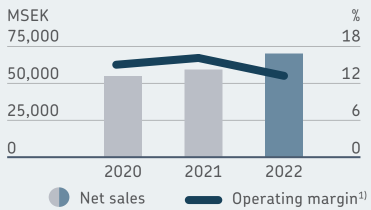
290–310

BEARINGS MARKET DEVELOPMENT 2022

8% to 10%

Development 2022

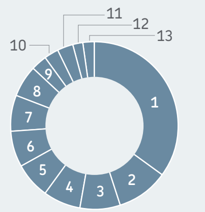
Organic growth was 8.5%, with solid demand in most segments and regions. The adjusted operating margin was 13.3%, impacted by high cost inflation, which was not fully offset by the positive trend of price/mix compensation. Our leading position in our most significant and profitable business area continues to support our growth ambitions.



1) Adjusted for items affecting comparability
2) Total value of accessible bearings market

Net sales

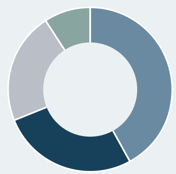
BY CUSTOMER INDUSTRY



1. Industrial distribution, 35%
2. High speed machinery and electrical drives, 10%
3. Heavy industries, 8%
4. Other industrial, 7%
5. Renewable energy, 7%
6. Aerospace, 7%
7. Railway, 7%
8. Agriculture, food and beverage, 6%
9. Off-highway, 3%
10. Marine, 3%
11. Material handling, 3%
12. Automation, 2%
13. Traditional energy, 2%

BY REGION

- Europe, Middle East and Africa, 42%
- The Americas, 27%
- China and Northeast Asia, 22%
- India and Southeast Asia, 9%



Our Automotive business

Our offering

- Customized bearings, seals and related products for e-powertrain, wheel-end, driveline, engine, suspension and steering applications to manufacturers of electrical vehicles and commercial vehicles.
- Supplying the vehicle aftermarket with spare parts, both directly and indirectly through a network of more than 10,000 distributors.

SHARE OF NET SALES 28%

SHARE OF OPERATING PROFIT[1] 8%

Our position

One of the leaders in e.g. the development of components for automotive electrification and wheel-end solutions. A strong position in application-driven powertrain solutions, and a strong global position in the aftermarket with an extensive distribution network.

MARKET VALUE[2], SEK BILLION

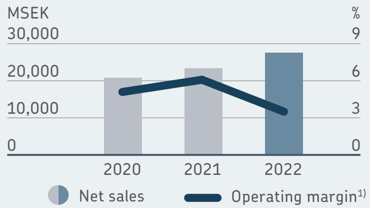
130–150

BEARINGS MARKET DEVELOPMENT 2022

4% to 6%

Development 2022

Demand rebounded strongly from last year with an organic growth of 7.2%, driven by light vehicles. The adjusted operating margin was 3.6%, mainly impacted by material and energy costs, which was not fully offset by a positive price/mix. Our ceramic bearings offer to the EV industry continues to strengthen, with significant new OEM contracts signed in both China and Europe.

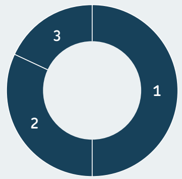


1) Adjusted for items affecting comparability
2) Total value of accessible bearings market

Net sales

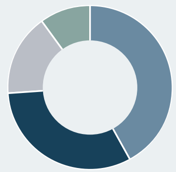
BY CUSTOMER INDUSTRY

1. Light vehicles, 50%
2. Vehicle aftermarket, 32%
3. Commercial vehicles, 18%



BY REGION

- Europe, Middle East and Africa, 42%
- The Americas, 32%
- China and Northeast Asia, 16%
- India and Southeast Asia, 10%



We are SKF

Being able to successfully implement a strategy that will change SKF in the long-term depends on having people in the company with the necessary skills. We need to develop people who know the business and context of SKF, but also bringing new people on-board with new sets of skills and mindsets.

Sangho Kim

Senior Buyer, Republic of Korea

"In our pull-oriented production system, eliminating waste is very important. The best way to do this is to improve my own skills and understanding of the whole process. For example, by having a good understanding of the procurement process and knowing exactly where the costs occur, I can reduce the unnecessary costs."

Kristine Ahlborg Delvin

Global Graduate Sustainability, Sweden

"My MSc in Industrial Ecology has given me the tools to apply a system perspective considering people, the environment and society that helps me contribute to the projects I am involved in through SKF's Global Graduate Programme. For example, I am managing a project on biodiversity aiming to understand SKF's ability to make a positive contribution to this global issue."

Yair Zeinberg

Automotive Business Development Manager, Latin America

"SKF is one of the top-of-mind brands by mechanics. Development and engineering teams are therefore always working with a one-stop shop strategy to deliver a complete product portfolio to meet the market needs. But this challenge is only possible thanks to our teamwork and integration."

Bogdan Volchok

Managing Director SKF Ukraine

"Naturally, 2022 was a very difficult year for us and what we experienced is something that you cannot prepare for. In this difficult external environment, family, our local team and our common purpose helped us to stay up and keep the business going. When you run a business in such conditions, you don't have time for analysis, you just make immediate decisions driven by customer demand and needs. All the time, we have received strong support from SKF as a company, from various local units and employees. This support was, and still is, incredibly important and does not make us feel alone. For 2023, we hope that peace will come and that we will be able to continue the development of our business."

CEO Rickard Gustafson

"We have an outstanding position in our industry"

2022 was a year in which we accelerated our strategic development in earnest. But our journey has only started, and we will continue to work hard on delivering on our promises and to further strengthen our company.

Looking back at 2022, what are your reflections on what happened inside SKF, as well as externally?
"It has for sure been a very special year with a lot of exciting and energizing opportunities, but also a year with very difficult external circumstances. The main milestone for me was our new Intelligent and Clean strategy that we launched in February. Since then, we have worked diligently on executing the strategy, including the implementation of a new organization and a new operating model. Our continued focus is on creating a more customer centric, profitable, faster growing and leaner SKF.

In hindsight, 2022 also brought significant unforeseen disruptions in the world around us where we have had to navigate challenges associated with the war in Ukraine, the pandemic and related lock downs, particularly in China, as well as a high and accelerating global cost inflation.

The war in Ukraine has of course had a massive impact on many societies, organizations and businesses. For SKF, it caused significant challenges to our supply chain and production robustness, but even more alarming, to the safety and wellbeing of our 1,100 colleagues in Ukraine. Naturally, people safety has maintained our top priority throughout the crisis. I'm both proud and impressed by our colleagues' ability to keep our Lutsk factory operational given the extreme conditions. To see the continuous support with numerous local initiatives from colleagues across SKF's global operations to help people in need really warmed my heart. The war also meant that we had to take a regretful, but necessary, decision to exit Russia. The entire exit process was swiftly executed in a controlled manner and was completed within a six-month period.

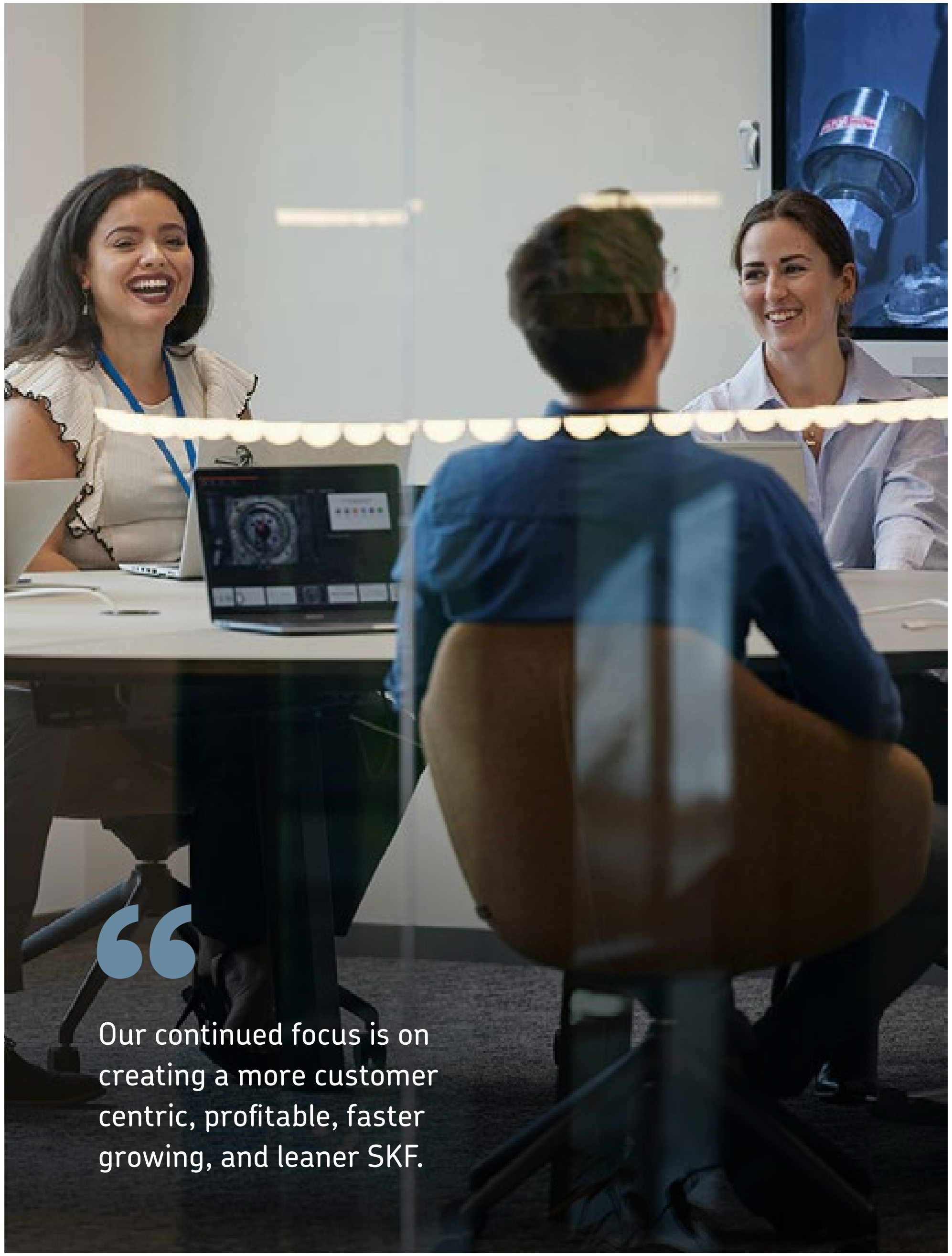
When it comes to our financial results for 2022, we delivered strong organic growth at 8.1%. Despite all our efforts, the external headwinds had a substantial effect on our earnings bringing the adjusted operating margin for the year to 10.5%."

How have you worked with implementing the strategy during 2022?
"In addition to addressing these macro challenges, we have worked hard on delivering on our promises and to further strengthen our offering and competitiveness. Acceleration of our strategy is key to this, and I'm pleased to say that we made some good progress in 2022.

Following the launch of our strategy in February, our new organization became operational in March and our new operating model with six business areas with full end-to-end accountability was effective as of May. We also have a new management team in place to drive the continued transformation. All-in-all this brings us closer to our customers, it brings transparency and accountability, and it improves speed in decision making."

What else has been done to drive profitable growth?
"Our targeted high growth segments represent a significant part of our sales and, in 2022, we saw double-digit growth in most of these industries. By investing in these growth areas, we are also delivering on our strategic transformation.

We are also making progress in transforming and pruning our portfolio. Portfolio management is an important piece in our work to create an even stronger and sharper SKF. There are many dimensions to portfolio management where our



"Our continued focus is on creating a more customer centric, profitable, faster growing, and leaner SKF.

continued focus is on creating a more customer centric, profitable, faster growing and leaner SKF. This includes looking at our portfolio from industry, business and customer perspectives. One example is the strategic review of our Aerospace business which we announced in 2022.

In addition, we are increasing the pace of automation in our factories, as well as reducing fixed costs. With all these activities and more, both in 2022 and onwards, I'm confident that we are on our way towards reaching our long-term targets."

20% of all energy is used to overcome friction. How can SKF minimize that waste?
"Sustainability is an integral part of SKF and has been for many years. We have come a long way in terms of making our own operations more energy efficient, and in combination with the use of green energy, we strive for zero emissions in our own operations by 2030. In 2022, we reached another major milestone on our 2030 journey. For the first time, more than half of all the electricity used in our operations around the world was generated from renewable energy sources like wind and solar. We also continue to support the UN Global Compact initiative and its principles and the Global Goals for 2030.

The fact that 20% of all energy used in the world is wasted in overcoming friction is truly astonishing. As combatting friction is crucial in reducing energy waste in any operation, we are instrumental in helping our customers to achieve this.

In fact, process efficiency and elimination of energy losses are becoming even more important to customers. As is the environmental footprint of their suppliers. Our own efforts and remanufacturing capabilities, in combination with our leading ability to share CO_2e footprint per bearing transparently with our customers is already a competitive advantage to win business.

In addition to reducing energy waste, we are also an integral part of new and rapidly growing emerging clean-tech industries. This means that the general mega trend to strive for a more sustainable future further amplifies our growth potential."

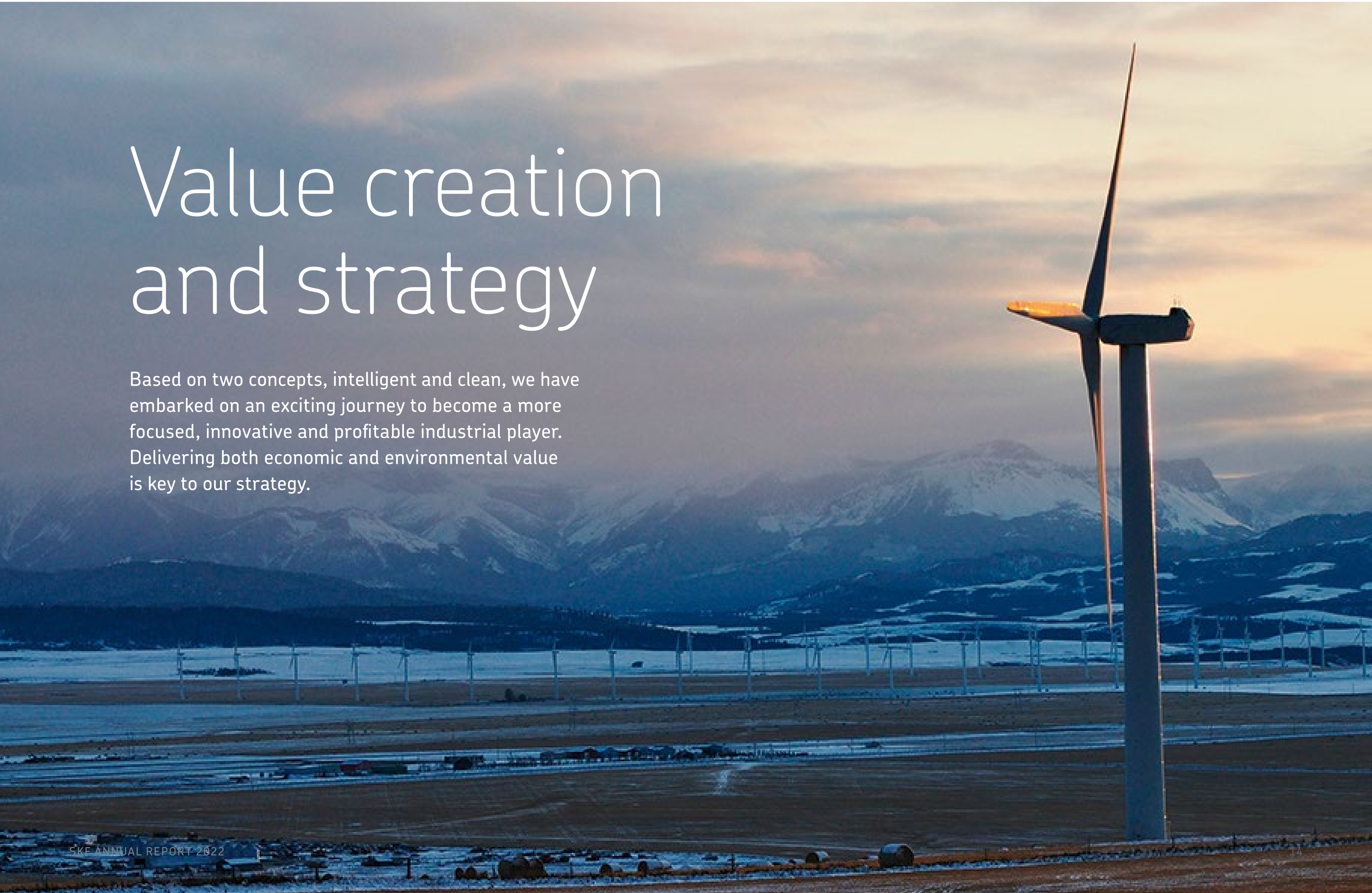
What will be most important for SKF in 2023?
"It's all about delivering, operationally as well as financially. The continued implementation of our strategy will be focused on several key operational levers for profitable growth. These include activities related to the targeted growth areas, portfolio management, pricing, technology and innovation, and efficiency.

In addition, we will address various areas to further strengthen our commercial excellence, for example by improving processes and governance, as well as upgrading analytical capabilities and tools to ensure data driven decisions and leading indicators."

What makes SKF unique and why will you succeed?
"We have an outstanding position in our industry. Our customers appreciate our consistent and excellent quality, the performance of our products and services, our broad customer offering and our global presence and wide reach. I see our leading position in many industrial niches and segments as a proof point of the significant customer value that we provide.

At the same time, there are a lot of things that are changing in this great company of ours. We are on a cultural transformation, and with our new organization with clear ownership and accountability, combined with a data-driven and decentralized operating model, we have several important building blocks in place to accelerate our transformation.

Finally, at SKF, we have great people! In a year such as 2022 with very difficult external circumstances, I'm impressed and proud of all the hard work from our employees in all geographies in supporting each other, our customers and safeguarding our business. This makes me absolutely convinced that our exciting journey will continue in 2023."



Value creation and strategy

Based on two concepts, intelligent and clean, we have embarked on an exciting journey to become a more focused, innovative and profitable industrial player. Delivering both economic and environmental value is key to our strategy.

Invest and join our journey

1

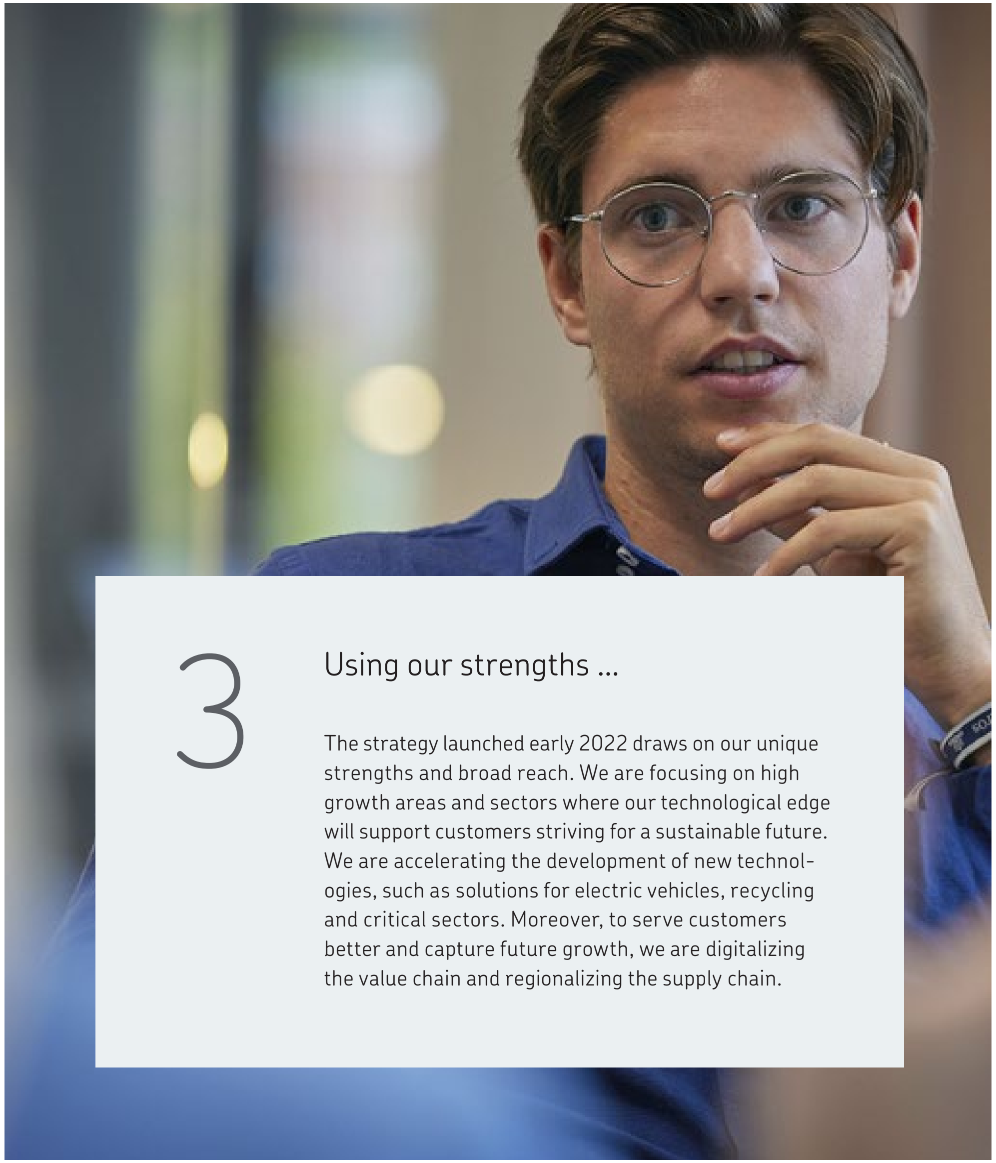
In a world with growing challenges ...

In a world shaped by population growth, urbanization, digitalization and environmental concerns, there are a million everyday needs to satisfy – and a planet to take care of. The answer and true challenge, we believe, lies within the industry of the future.

2

... SKF has an important role to play

SKF is right at the centre, with our connected and tailored offerings, providing reliable rotation in over 40 industries across the world. Our business model and strategy are based on the concepts of intelligent and clean, enabling a more sustainable industry.



3 Using our strengths ...

The strategy launched early 2022 draws on our unique strengths and broad reach. We are focusing on high growth areas and sectors where our technological edge will support customers striving for a sustainable future. We are accelerating the development of new technologies, such as solutions for electric vehicles, recycling and critical sectors. Moreover, to serve customers better and capture future growth, we are digitalizing the value chain and regionalizing the supply chain.

4 ... to act and deliver value

The strategy has been put into action during the year, resulting in significantly increased sales in critical industries such as electric vehicles, material handling, agriculture, food & beverage and railway. We have also launched new, cutting-edge technologies, to capture profitable future growth. Furthermore, we have taken swift action to mitigate the effects of the challenging macro environment – adapting our footprint, reducing costs and working with pricing. The effects from these actions will be seen in 2023 and beyond. We are also a leader in development of sustainable solutions.

Altogether, SKF is well set for intelligent and clean growth to maximize value for all stakeholders.

18.6%

net sales increase in 2022, driven by high growth segments.

Trends and drivers

Sustainability
The climate change crisis call for industries to adopt new and efficient business models, which are less dependent on physical resources. SKF helps customers move towards a circular economy by providing products and solutions, condition monitoring, Rotation as a Service, and remanufacturing services. We are also reducing CO_2e emissions from our factories and supply chain.

Electrification
Electrification is a strong trend in many industries, especially in the automotive industry. Electric vehicles can bring many benefits to the society, for example, energy security, urban air quality, greenhouse gas reductions and noise mitigation. SKF has a portfolio of innovative solutions that enable robust and efficient E-powertrain drives where bearings are essential.

Digitalization
Digital transformation affects all parts of the value chain. Shorter lead times, faster development cycles, smaller inventories and significant opportunities for resource efficiency. SKF is investing in connecting the value chain to improve ease of doing business with us and enabling more intelligent decisions in our own operations.

Regionalization
With global trade under pressure, connectivity and information flows rapidly increasing, and a continued shift in economic power, a region-for-region approach with manufacturing, sales and technical knowledge close to customers is needed. SKF continues to invest in automation and regionalization of our manufacturing footprint and product development to further improve our competitiveness and ability to capture profitable growth.

Macro challenges in 2022

The war in Ukraine had a significant impact on us and our employees in the Lutsk factory. Our number one priority has been their safety and well-being, and we are continuing to support them in any possible way. The factory has been operational for most of the time since the war started. Our exit from Russia was fully completed within six months.

Lockdowns due to the pandemic were still widely used in China during 2022. With a significant part of our business being in China, this had a substantial effect on our customers, on logistics and on our own operations. This challenging situation was overall managed well thanks to our employees being able to work in closed production and from home.

The sharp increase in inflation rates combined with supply chain disruptions created significant operational challenges throughout 2022. We focused to continue to serve our customers and worked hard to mitigate the effects from inflation by addressing costs and by working actively with pricing and surcharges. Despite our efforts, these headwinds had a substantial effect on our earnings.

Strategic value creation

Our strategic framework is based on two important concepts: intelligent and clean. Intelligent means providing connected and tailored offerings for our customers, as well as using technology to make our operations more efficient. Clean reflects our ability to enable a more sustainable industry, as well as running our own business in a transparent and responsible manner. These concepts are guiding us on our exciting journey to become an even more focused, profitable and carbon neutral industrial player.

We will capture growth by focusing on four main areas: segments with high growth potential, where SKF has a strong position; reviewing our portfolio; developing offers for emerging industries with new technologies; and refocusing our service business. Read more on page 19.

To deliver on our ambitions, we have identified four growth enablers: scaling the pace and impact of technology development; digitalizing the full value chain; continuing to invest in automation and regionalization; and organization and leadership. Read more on page 24.

A different SKF 2030

- Double the business at improved margins.
- More focused and efficient.
- Technical partner of choice among customers.
- Leading development of sustainable solutions.

Focus areas 2022

- Launching and operationalizing our new strategy, including launching an SKF wide transformation program to decrease costs and improve margins.
- Implementing a new organization and operating model featuring six business areas with full end-to-end accountability.
- Creating a new management team to drive the continued transformation.

A DIFFERENT SKF 2030

Intelligent and clean growth

GROWTH AREAS

- High growth segments
- New technologies
- Services & Aftermarket
- Portfolio management

GROWTH ENABLERS

- Accelerate technology development
- Digitalize the full value chain
- Regionalized and competitive supply chain
- Operate more efficiently – closer to customers

High growth segments

We have excellent positions in several sizable industries where high structural growth is matched with SKF holding market-leading positions. We focus on industries with strong growth potential and where we provide true added value to our customers from a leading position in the industry. Some key examples are high speed machinery, electrical drives, railway, agriculture and food & beverage.

Read more on page 20.

New technologies

We are developing offerings for emerging industries with new technologies such as hydrogen processing and carbon capture, where our existing offerings, such as magnetic bearings, can help us capture new business. Another example is SKF RecondOil where we can bring significant financial, environmental and performance benefits to an increasingly broader range of industries and applications.

Read more on page 21.

Services & aftermarket

Our service and aftermarket offerings represent around 45% of total sales, with good profitability. We are refocusing our service business to strengthen the foundation for recurring revenues by simplifying our service offering, and thereby addressing a wider market. New technology and partnerships will provide scale and easy access to our data analysis and machine performance competence.

Read more on page 22.

Portfolio management

Successful portfolio management will be an important part of creating a different SKF in 2030. Portfolio management at SKF means pruning and refocusing our portfolio across products, customers and segments to align with our strategic framework. We are now building tangible plans on both a strategic and tactical level on how to shift our portfolio, with the aim to improve the profitability level overall.

Read more on page 23.

High growth segments

Moving Egypt with a sustainable railway solution

Moving people and freight more sustainable – with the increasing shift to rail – is in high demand all around the world. For SKF, Railway is a key segment where we offer innovative solutions and services that improve fleet efficiency, reliability, sustainability and availability. All these benefits are highly valued by Siemens Mobility, a leading global provider of rail solutions, including vehicles, infrastructure and automation solutions. In our strong partnership with Siemens Mobility, we are collaborating to push boundaries for higher efficiencies and more sustainable solutions to reduce life cycle costs and the environmental impact of different train applications.

In Egypt, Siemens Mobility will install a rail network connecting 60 cities across the country, and supply high-speed trains, regional train sets and locomotives. SKF offers wheel set bearings and axle boxes, gearbox and traction motor bearings for all applications and has been awarded an initial contract to equip the Velaro high-speed trains with technically advanced wheel set bearings and axle boxes.

Using SKF knowledge and advanced calculations, our engineers are supporting not only the full design phase of rolling stock, but also, during operations.

During 2022, we experienced double-digit growth in many of our targeted industries, and we are clearly growing faster than the market, leveraging our strengths in terms of innovation, quality, performance, product range and reach. We are well positioned in these segments and ready to reap the benefits of the underlying structural growth drivers.

15.3%

Sales growth in the Railway segment in 2022.

New technologies

A magnet for clean industrial processes

In their quest to offer their customers across a wide range of industries the most sustainable compressed air solution, Finnish cleantech company Tamturbo selected SKF's magnetic bearing technology.

Compressed air has a broad field of use including to power machines, tools and automation, as well as to move materials through production processes. Traditional oil-based screw compressors have high maintenance costs and related CO_2e emissions from energy use, both from their complex design and declining efficiency over lifetime.

SKF's magnetic bearings play a key role in reducing CO_2e emissions, enabling high rotational speeds, with no metal-to-metal contact between rotating components. No moving parts to wear, replace, lubricate or waste energy.

With permanent magnet motors and SKF's active magnetic bearings in high-speed turbo compressors, Tamturbo's customers benefit from oil-free compressors with lower emissions, outstanding reliability, and an unrivalled total cost of ownership.

One of our strategic ambitions is to leverage technology to grow in emerging industries. Within magnetic bearings, SKF is a leader and positioned to shift products and R&D from traditionally CO_2e heavy industries to clean industries, e.g. hydrogen liquefaction and more energy efficient chillers/compressors. We want to be an enabler of green industrial development.

>1 bn

Record order intake (SEK) for the magnetic bearings business in 2022.

Services & Aftermarket

Reliability for all

SKF and Amazon Web Services (AWS) have engaged in a collaboration to universalize industrial machine reliability and predictive maintenance. The collaboration combines SKF's knowledge of rotating machinery and predictive maintenance with AWS' Industrial AI services. The result is a simple, wireless and scalable end-to-end condition monitoring solution, available to a wider range of applications and customers.

The solution, called SKF Axios, includes sensors, gateways and a machine learning service that is easy to install, commission and scale. SKF Axios complements SKF's current portfolio of advanced condition monitoring products and provides customers with a simple, cost-effective, cloud-based solution to monitor a wide range of rotating assets. No training or experience is required, allowing sensors and apps to be operational within minutes. SKF Axios detects anomalies and pushes notifications allowing for quick action to avoid unexpected machine failures.

SKF Axios allows a larger portion of industrial customers to make faster, more informed decisions and creates cost savings throughout the value chain, resulting in increased efficiency and sustainability.

In 2022, we continued to expand our service and aftermarket businesses. Our distribution business showed strong growth and we renewed our focus on condition monitoring, implementing our new operating model in which Connected Technologies responsibilities moved closer to the customer. Sustainability continues to be a differentiator for our service offering.

13.5%

Sales growth in the Industrial distribution segment in 2022.

Portfolio management

Less friction is powering our global automotive business

SKF's strategy involves refocusing our portfolio and creating one independent global automotive business. The expanded strategic cooperation with NIO, a leading premium smart electric vehicle company in China that delivered over 120,000 electric vehicles in 2022, illustrates SKF's premium capability within electric vehicles and our ability to support customers all over the world.

NIO has delivered vehicles in Europe since 2021 and during 2022, NIO entered another five key markets in Europe.

We have supported NIO since the launch of their first car in 2017 and have built a strong technical relationship. As part of the new agreement, we will be the preferred supplier of ceramic ball bearings and provide wide-ranging technical expertise to support NIO's product development and global expansion plans.

SKF's innovative ceramic ball bearings are a key component in many electric vehicle drivetrains, being lighter and with faster rotating speeds than traditional bearings. This means less friction and energy consumption, as well as a longer service life and improved total cost of ownership for customers.

Portfolio management is a critical part of our strategic framework. When analyzing all dimensions of our portfolio, e.g. industry segment, product and business area, we see that we have great potential. To capture this potential and achieve profitable growth, we will put further emphasis and priority on growing the profitable parts of our portfolio, but also on addressing the unprofitable parts to either fix or exit the business. In other words, we put stricter performance requirements on businesses.

57%

Sales to the EV segment grew strongly in 2022 compared to 2021.

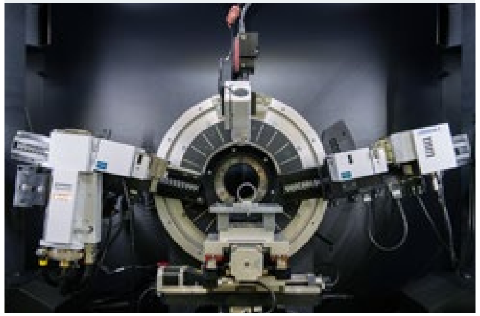
Accelerate technology development

Increased investments in technology and innovation are an important part of our strategy and to constantly evolve our customer value proposition. To bring new products and offerings quickly to the market, we work with R&D and innovation throughout the full value chain.

We focus on innovation for our targeted high growth segments to support our profitable growth agenda. This focus, in combination with external collaborations and partnerships, enables us to gain technology steps and speed.

25%

of the growth until 2030 is planned to be delivered from new products.

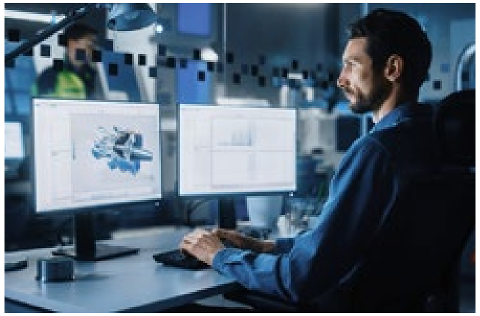


Digitalizing the full value chain

As part of our journey to become even more relevant for our customers, we are investing in the digitalization of our full value chain. This will enable growth, reduce working capital and increase cost competitiveness.

The strategic pillars of our digitalization transformation are process re-engineering, data and automation. With the ambition of becoming a data driven company, we are allocating significant efforts to ensure we can extract actionable insights across the value chain through advanced analytics. Processes are being re-engineered before digitalization to ensure efficiency and effectiveness, and our operations are being robotized and automatized.

Helping customers make the right choices
In 2022, we provided customers in SKF Bearing Select with a quick and easy calculation tool of estimated CO_2e emission during bearing manufacturing and bearing use phase, including consumed energy and amount of grease. With this launch, we became the first bearing company with a CO_2e estimation capability for customers.

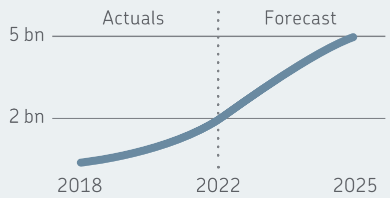


Regionalized and competitive supply chain

To further improve our competitiveness and support our growth ambitions, we continue to strengthen and regionalize our manufacturing and supply base. Our World Class Manufacturing program aims to optimize our global manufacturing footprint through investments in automation, regionalization, and footprint rationalization.

Within Purchasing we are stepping up our ambition level and targeting 2–3% gross savings per year until 2025. Our global program includes design to value, regionalizing our supply base and addressing new areas with untapped potential.

World Class Manufacturing benefits



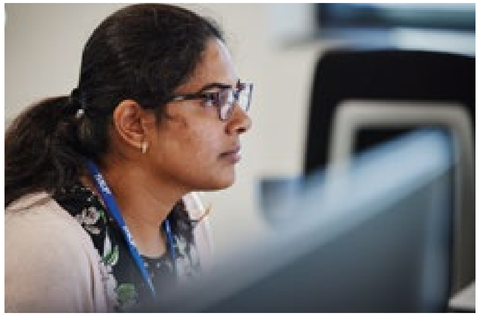
Operating more efficiently – closer to customers

We continuously seek to develop the business and our ways of working to stay relevant. With the new strategy, we have the prerequisites to turn synergies and priorities into higher efficiency and reduced fixed costs.

Our new operating model and organizational structure were implemented in 2022 with full end-to-end operational and financial accountability being placed as close to our customers as possible. Our work to increase efficiency and reduce fixed costs will continue in the coming years.

2 bn

Expected full run-rate savings by the end of 2023 (SEK) from activities related to a global initiative.



Sustainability framework

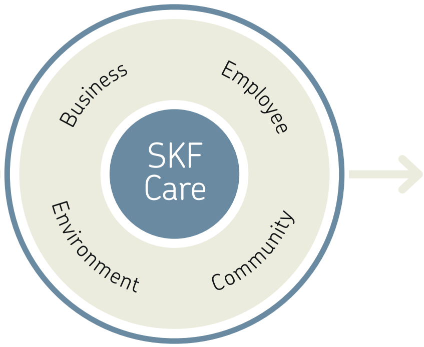
We have chosen to focus on activities that will have the most positive impact on people, our climate footprint and the sustainability performance of our customers. Simply because this is where we believe we can contribute the most. We even have our own framework to prove it. SKF Care comprises four perspectives for value creation and sustainability integration in everything we do.

Business care is about assuring customer focus, financial performance and shareholder returns – with the highest standards of ethical behaviour.

Employee care is about ensuring a safe working environment and promoting health, personal development and well-being of SKF employees, as well as people in the supply chain.

Environment care is about continually reducing the environmental impact from the Group's operations, as well as actions to significantly improve customers' environmental performance through the products, solutions and services that SKF supplies.

Community care is about making positive contributions to the communities in which SKF operates.



THE GLOBAL GOALS
For Sustainable Development

All the 17 UN Global Goals include elements that are relevant for the Group, including themes such as health, safety, climate, equality, education, development, environmental management, clean air, anti-corruption and compliance. These are – and have been – managed systematically for many years under the framework of SKF Care. Three goals that stick out with broader and more direct connections in terms of both risks and opportunities for the Group are
#8 Decent work and economic growth,
#9 Industry innovation and infrastructure and
#12 Responsible production and consumption.

For more information see skf.com/sustainability.

Business care
Making mining more sustainable

High demand for minerals puts pressure on efficient operations. For a copper mine in Latin America, we have developed a new bearing design that provides significantly longer bearing life and much lower lubrication. The bearing can be reconditioned and used again.

Employee care
Standing up for each other in crisis

We have supported our 1,100 employees in Ukraine by daily morning meetings, humanitarian support and dedicated teams handling all kinds of requests. In addition, various local initiatives are ongoing throughout the Group.

Environment care
Reduced heating demand by 75%

We have achieved a dramatic reduction in the energy and associated CO_2e needed to heat our factory in Gothenburg. This was achieved through efficient use of buildings, strict requirements for new constructions, overall system optimization and systematic implementation of heat recovery.

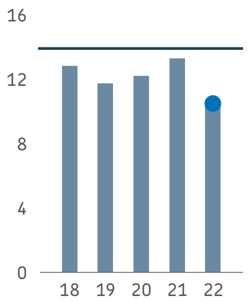
Staff at the Legae Child Care Centre in Daveyton, South Africa.

Community care
Helping children affected by HIV

In South Africa, SKF recognized the dire need of children affected by HIV, deprived of the opportunity to access early childhood development. To help them, we engaged with two community partners, and together established Legae Child Care Centre in Daveyton township. In the city of Boksburg, we support St. Francis Care Centre's Rainbow cottage nursery school for orphans.

Long-term targets

Operating margin[1]



TARGET 14%

2022 OUTCOME 10.5%

2018–2022 AVERAGE 12%

WHY IS THIS IMPORTANT?

Improved flexibility, automation, and fixed cost leverage.

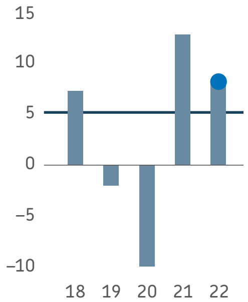
HOW TO REACH THE GOAL

- Acceleration of footprint optimizations, automation and regionalization supported by new ways of working.
- Cost competitiveness.
- Pricing.

2022 OUTCOME

The operating margin was 10.5%. Positive effects from higher sales, manufacturing volumes and currency and negative effects from cost inflation, mainly related to material cost, energy and logistic costs.

Revenue growth[2]



TARGET 5%

2022 OUTCOME 8.1%

2018–2022 AVERAGE 3.2%

WHY IS THIS IMPORTANT?

To be able to grow faster than the market.

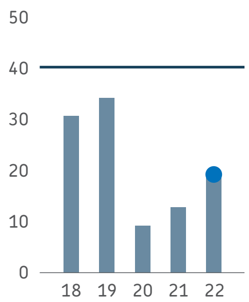
HOW TO REACH THE GOAL

- Increasing value for customer, cost competitiveness.
- New businesses: e.g. cleantech, RecondOil, electrification.
- Selected acquisitions.

2022 OUTCOME

Organic sales increased by 8.1% compared to 2021. Strong customer demand across all geographies. Industrial sales grew by 8.5% and Automotive sales grew by 7.2%.

Net debt[3]/equity



TARGET <40%

2022 OUTCOME 19.3%

2018–2022 AVERAGE 21.1%

WHY IS THIS IMPORTANT?

- Manage operations through economic cycles.
- Financial flexibility to act.

HOW TO REACH THE GOAL

- Strong cash generation.

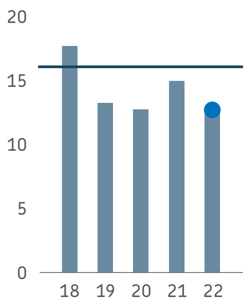
2022 OUTCOME

Net debt/equity increased from 12.5% to 19.3% in 2022. Financial liabilities increased net by SEK 1.9 billion due to the issuance of a new EUR 400 million bond and the maturity of the EUR 296 million bond. Financial assets decreased by SEK 2.7 billion driven by low cash flow.

SKF's long-term targets shall be achieved over a business cycle. 1) Adjusted for items affecting comparability. 2) Including acquisitions, adjusted for divestments. 3) Excluding pension liabilities.

LONG-TERM TARGETS CONT.

ROCE



TARGET 16%

2022 OUTCOME 12.6%

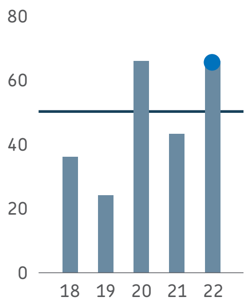
2018–2022 AVERAGE 14.2%

WHY IS THIS IMPORTANT?
Focus on capital efficiency as investments in competitiveness are accelerated.

HOW TO REACH THE GOAL
- Automation and increasing regionalization.
- Working capital management.

2022 OUTCOME
Return on capital employed decreased to 12.6% in 2022. Capital employed was significantly higher mainly due to higher inventories while the adjusted operating result was lower.

Dividend pay-out ratio



TARGET 50%

2022 OUTCOME[5] 65.7%

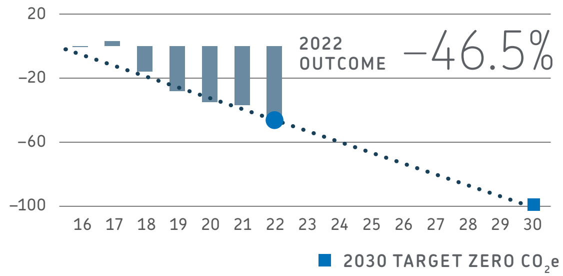
2018–2022 AVERAGE 47%

WHY IS THIS IMPORTANT?
The dividend should reflect the earnings and cash flow trends, while considering the Group's development potential and financial position.

HOW TO REACH THE GOAL
- The ordinary dividend should amount to around one half of SKF's average net profit.

2022 OUTCOME[5]
The pay-out ratio in 2022 was 65.7% and the five-year average was 47%.

Net zero by 2030[6]



2022 OUTCOME –46.5%

WHY IS THIS IMPORTANT?
- Need to act on climate change.
- Reduces risk and increases resilience in operations.

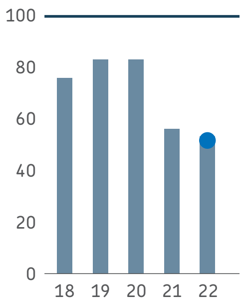
HOW TO REACH THE GOAL
- Process improvements.
- Energy efficient machinery.
- Usage of renewable energy.

2022 OUTCOME
In line with the 2030 goal.

5) According to the Board's proposal for the year 2022. 6) In SKF's own operations scope 1 and 2, versus 2015 base year.

Sustainability targets

CLIMATE TARGET
Raw material



2025 TARGET 100%

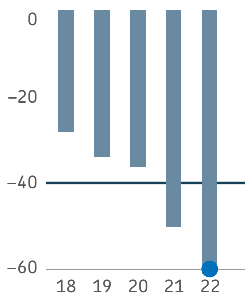
2022 OUTCOME 53%

WHAT
% of major energy intensive suppliers certified according to ISO 50001. 101 global suppliers in scope.

WHY
Raw materials have a significant impact from a lifecycle perspective.

HOW
Systematic energy management to reduce scope 3 emissions from the supply chain.

CLIMATE TARGET
Bearing manufacturing



2025 TARGET –40%

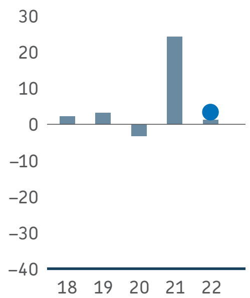
2022 OUTCOME –61%

WHAT
% CO_2e (scope 1 and 2) reduction per tonne of sold bearings compared to 2015.

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

HOW
Increased energy efficiency, increased share of renewable energy, consolidation of manufacturing footprint.

CLIMATE TARGET
Goods transportation



2025 TARGET –40%

2022 OUTCOME[1] 1%

WHAT
% CO_2e reduction (scope 3) per tonne of transported products compared to 2015.

WHY
Reduce emissions and at the same time improve cost efficiency.

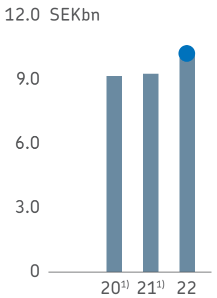
HOW
Shorter transports, higher fill rates and more CO_2e effective transport modes.

1) For more information see page 107.

SUSTAINABILITY TARGETS CONT.

CLIMATE TARGET

Enabling cleantech growth



2022 OUTCOME[1)

10.1 SEKbn

WHAT

Revenues from key areas including: renewable energy, electric vehicles, electric railway, recycling industry, bearing remanufacturing, RecondOil and magnetic bearing solutions.

WHY

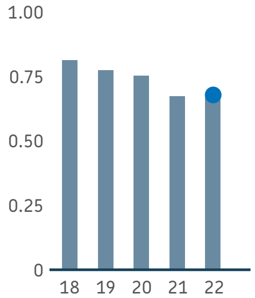
Life cycle studies show that the greatest impact is within the use phase of SKF's solutions.

HOW

Strategic focus on cleantech growth.

SOCIAL TARGET

Safety



— TARGET zero

2022 OUTCOME 0.68

WHAT

Accident rate per 200,000 worked hours.

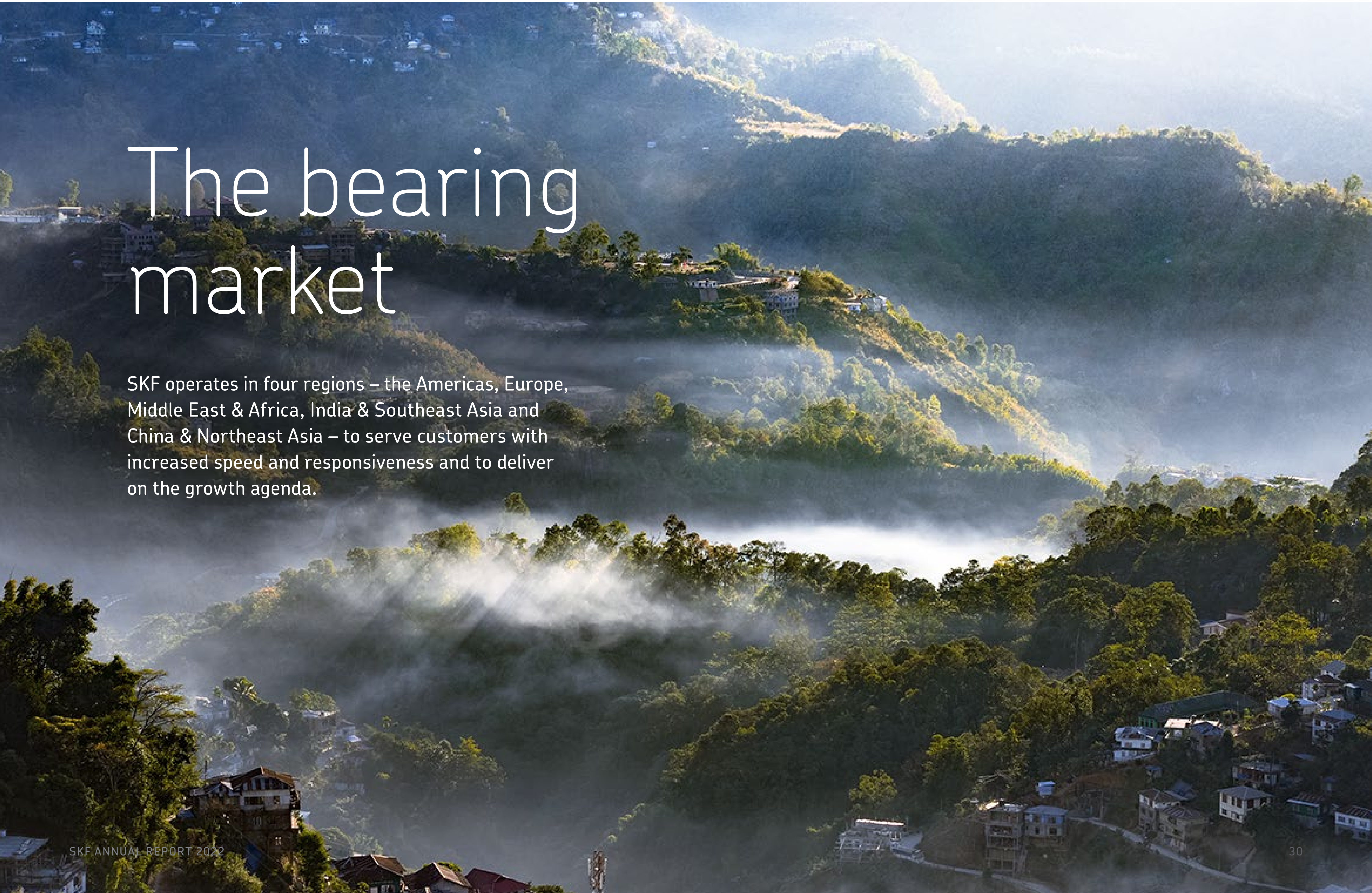
WHY

Safety always comes first and SKF is convinced that all work-related accidents can be prevented.

HOW

Global management system and focus on risk elimination and right safety behaviors.

1) Previously published figures have been restated based on adaptation of the scope to better reflect and align with the sectors in the EU Taxonomy.



The bearing market

SKF operates in four regions – the Americas, Europe, Middle East & Africa, India & Southeast Asia and China & Northeast Asia – to serve customers with increased speed and responsiveness and to deliver on the growth agenda.

Preferred brand in the global bearing market

The global bearing market has an estimated value of between SEK 430 and 450 billion. SKF has become a world market leader by providing first-class products and solutions for customers in 40 different industries across the globe.

The trend in today's global industry is towards fewer, larger and more international manufacturers and distributors, meaning that global brands and products are ever more important. SKF is a trusted and well-known global industrial brand, which is a strong advantage in the bearing industry. To maintain competitiveness, we are focused on leveraging global and regional economies of scale. The strategic direction is based on a region-for-region approach.

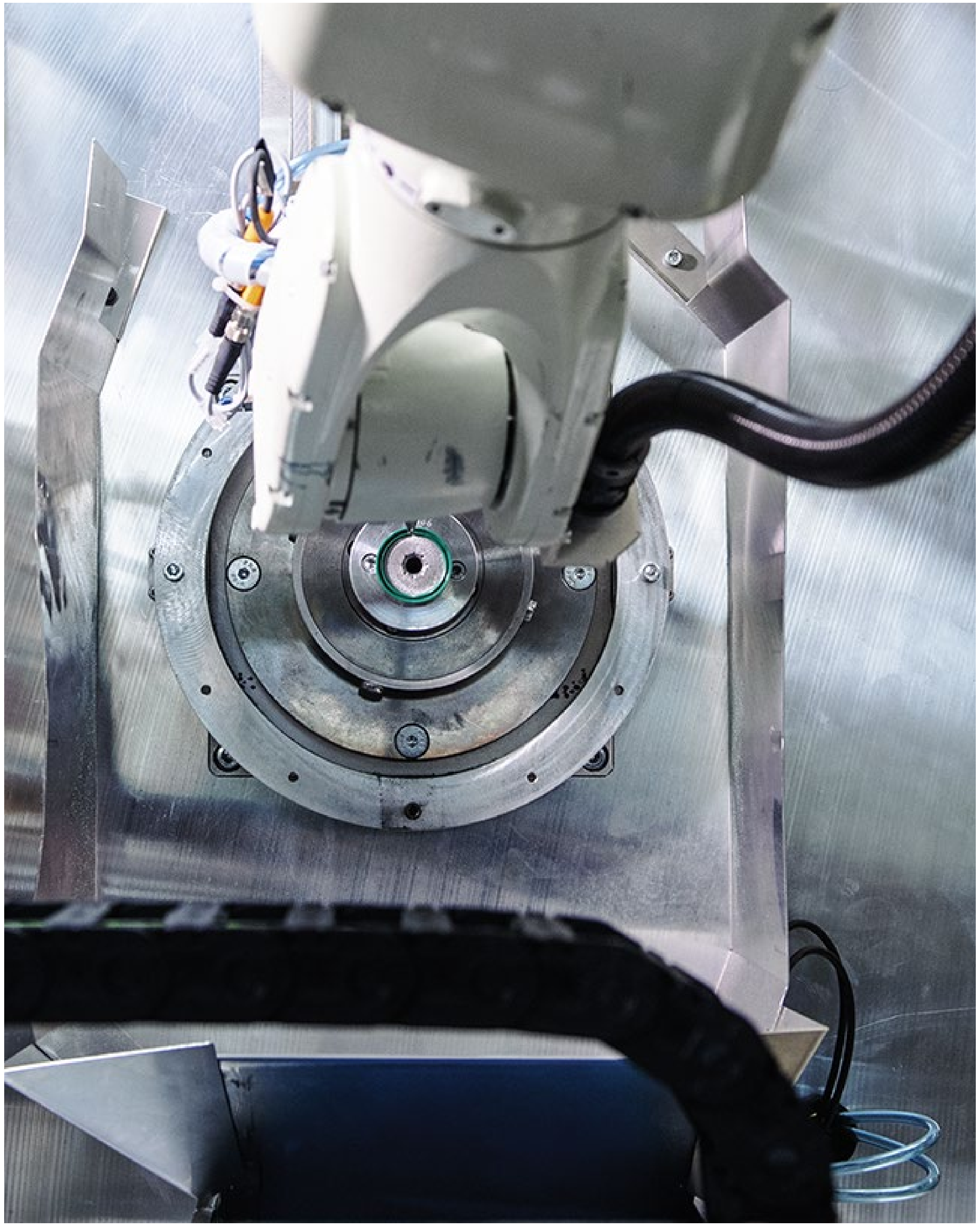
The global bearing market is generally defined as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs. SKF estimates that the global bearing market grew by 6% to 9% in 2022. The growth was seen in both industrial and automotive markets, but slightly higher in industrial.

Like most global industries, SKF's industry is exposed to fierce competition. We are a leader in the world bearing market, together 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 55% of the global rolling bearing market. The group of Chinese bearing companies, including smaller and larger ones, represents around 25%, 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)]

- Industrial original equipment bearing markets ~40%
  Including manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles.
- Automotive OEM ~30%
- Distribution business ~30%
  Industrial distribution and vehicle independent aftermarket.

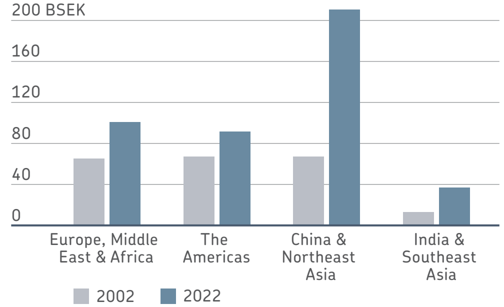
1) Total world demand of bearings 2022.



The bearing market, SKF's regions

	MARKET CHARACTERISTICS	LARGEST MARKETS	LARGEST CUSTOMER INDUSTRIES
Europe, Middle East & Africa Approximate share of the total world bearing market **23%** Market value **SEK 95–105 bn** 2022 market growth **Medium**	Western Europe is the largest sub-region by size, but has shown a relatively weaker long-term growth. Here, important OEM industries are light vehicles, renewable, industrial drives and trucks. Eastern Europe and Middle East & Africa sub-regions are highly dependent on industrial and automotive after-markets. These sub-regions are smaller in size, but has shown a relatively higher long-term growth.	Germany, Italy, France.	Industrial distribution, light vehicles, vehicle aftermarket, industrial drives, renewable.
The Americas Approximate share of the total world bearing market **21%** Market value **SEK 85–95 bn** 2022 market growth **High**	The market in the Americas is highly dependent on the U.S. market, which is the second largest bearing market in the world. Here, OEM segments as light vehicles, off-highway and aerospace are large. Latin American sub-region shows higher long-term growth than North America. Latin America is largely depending on the industrial and automotive aftermarket since few global OEMs are present.	USA (~75% of regional market), Mexico, Brazil.	Light vehicles, industrial distribution, vehicle aftermarket, off-highway, industrial drives.
China & Northeast Asia Approximate share of the total world bearing market **48%** Market value **SEK 200–220 bn** 2022 market growth **Medium**	This region mainly consists of three of the top-5 bearing countries globally: China, Japan and Republic of Korea. Together, they represent ~47% of global bearings demand, o/w the Chinese market represents ~1/3 of global demand. The region is by far the single most important market for electrical, as well as deep grove ball bearings demand. In addition, the region has the highest global bearing demand for light vehicles, trucks, renewable, lift and escalators.	China (~70% of regional market), Japan, Republic of Korea.	Light vehicles, industrial distribution, industrial drives, electrical, renewable.
India & Southeast Asia Approximate share of the total world bearing market **8%** Market value **SEK 30–40 bn** 2022 market growth **High**	This region is the smallest by size. However, the region has the highest bear-ings demand for the two-wheeler market. India & Southeast Asia is largely dependent on the Indian market, with ~55% of the regional demand and ~5% of global demand. The Southeast Asia sub-region is largely dependent on the industrial and automotive aftermarket.	India (55% of regional market).	Industrial distribution, vehicle aftermarket, light vehicles, two-wheeler.

Market value and growth by region



During the last 20 year, the highest market growth is seen in China & Northeast Asia and India & Southeast Asia with growth rates around 225%. More limited growth is seen in EMEA (~60%) and the Americas (~40%).

SKF's global presence

	NET SALES	SHARE OF GROUP NET SALES	EMPLOYEES[1]	MANUFACTURING SITES	SKF'S POSITION
Europe, Middle East & Africa	2021, 2022 **2022** 37,661 MSEK Change +12%	39%	20,402 78% Men, 22% Women	39	A leading position with strong presence in all industry segments, especially in industrial distribution, railway, off-highway, heavy industries.
The Americas	2021, 2022 **2022** 29,936 MSEK Change +32%	31%	8,825 78% Men, 22% Women	20	Strong position in most industry segments; industrial distribution, vehicle aftermarket, industrial drives, aerospace, renewable energy, off-highway.
China & Northeast Asia	2021, 2022 **2022** 20,137 MSEK Change +10%	21%	7,476 71% Men, 29% Women	10	A growing position with a strong presence in certain industry segments; renewable energy, railway, heavy industries, trucks and industrial drives.
India & Southeast Asia	2021, 2022 **2022** 9,198 MSEK Change +33%	9%	4,070 89% Men, 11% Women	8	A leading position in many of the larger industry segments, especially in industrial distribution, two-wheelers and vehicle aftermarket. Strong position also in, renewable energy, heavy industries and industrial drives.

1) Average, full time employees.

Europe, Middle East & Africa

An electrifying partnership

In its quest for excellence, Volvo Cars was looking to step up both performance and sustainability for its new-generation electric cars. Volvo Cars and SKF share a common history, and, importantly, share a vision for a sustainable future.

We take pride in helping customers meet their sustainability targets. Add to that, our engineering expertise, technology support and simulation capabilities. These were key factors for Volvo Cars when choosing SKF to supply all bearings for traction motors and geartrains for the new electrical powertrain, worth in total SEK 640 million.

Excellent teamwork has allowed for the development of a set of competitive, high-performing, customized bearing products for this new generation of electric cars. An energizing partnership where SKF's mission of fighting friction contributes to an even more sustainable, reliable and safe new Volvo.

© Volvo Car Corporation

The Americas

Critical parts for reliable corn harvesting

When harvesting corn, efficient and durable equipment is essential, including the corn header. If a chain breaks, the machine must be stopped as this could lead to serious machine failure, resulting in higher costs and product losses. Argentina is one of the world's largest corn producers and three OEM players dominate the Argentinian corn header market: Mainero, Allochis and Maizco.

All companies offer high-quality products with innovative designs, and have selected SKF as their main supplier of critical parts for the equipment. Based on our great know-how of the industry and application experience, we can supply corn picker chains and the drive sprockets, as well as the drive idler sprockets with PEER bearings. The chains and sprockets are specifically designed according to different customer requirements, all to a high-performance standard to ensure uninterrupted and efficient corn harvesting.

China & Northeast Asia

Partners for a sustainable future

SKF and Chinese wind turbine manufacturer Goldwind have embarked on a joint journey towards carbon neutrality. The collaboration that started in 2022, includes the first smart energy and carbon management system in SKF's Dalian factory in China. The system provides detailed energy consumption analysis and energy saving diagnosis. We also collaborate to pilot green electricity procurement and have significantly increased the proportion of renewable energy use across SKF's sites in China.

In addition, using our respective expertise in R&D, technology and successful application experience in many industries, we carry out in-depth research and development of new wind turbine products. Areas of focus include design of the main shaft system, new bearing materials, exploring new processes and digital collaboration to promote green smart wind power to continuously optimise sustainability.

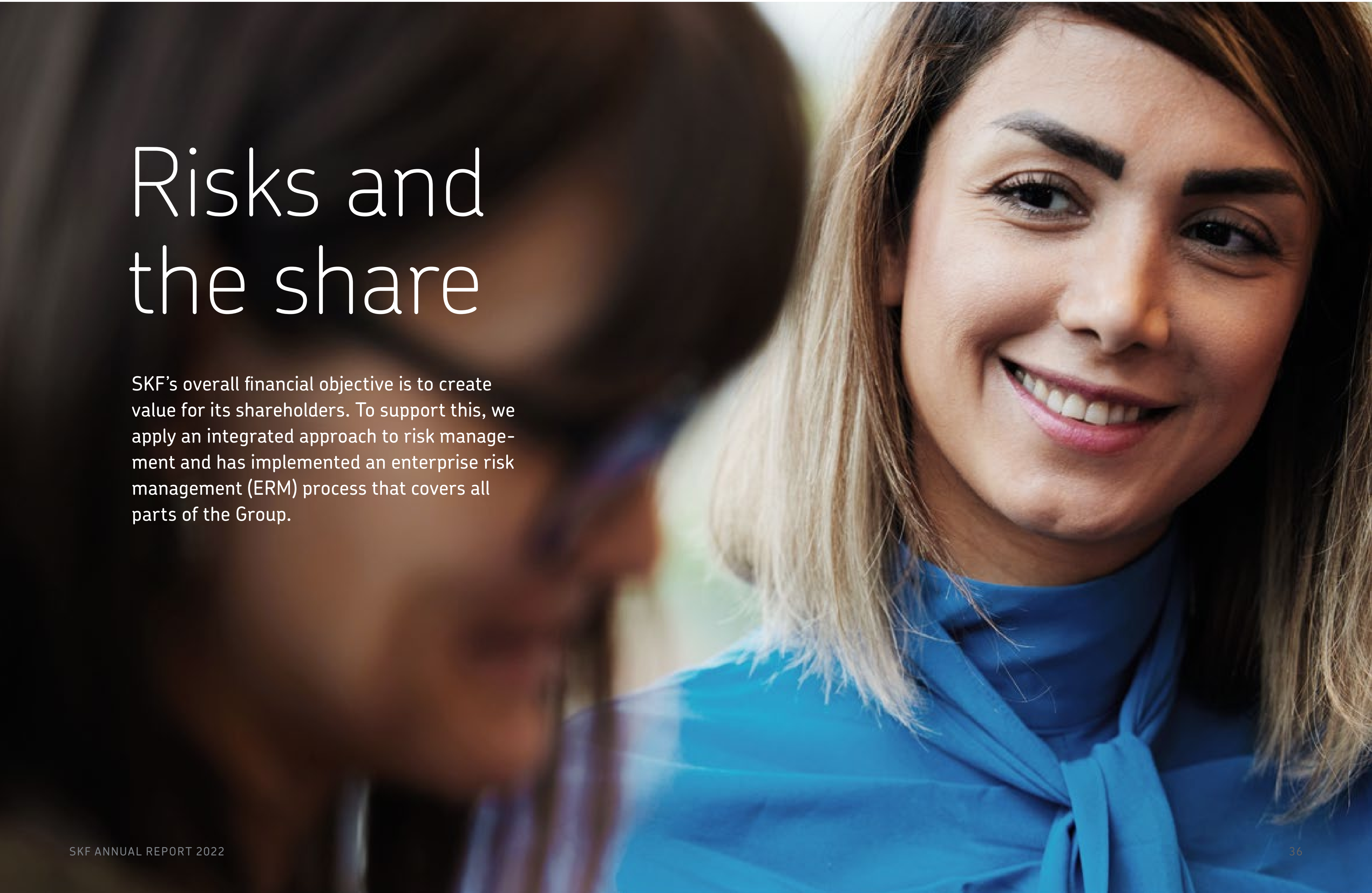
India & Southeast Asia

Differentiation through technology localization

India is the world's fourth largest renewable energy (RE) producer. In the last seven years, the RE capacity has increased with 250%. Southeast Asia has set a target of 23% share of energy from clean sources by 2025.

SKF works with customers in the region to develop solutions that help increase productivity and reduce power generation costs. One such example is Premium Motion where we designed and developed a specific bearing for solar trackers suited for harsh environments, allowing for more efficient operation.

Expanding demand for RE is significantly impacting demand for solar trackers. The projected growth is more than 5% per year for the next 5 years. With technology localization and local manufacturing, SKF expects to gain a 10% share of this growing solar tracker market and grow the business tenfold by 2025.



Risks and the share

SKF's overall financial objective is to create value for its shareholders. To support this, we apply an integrated approach to risk management and has implemented an enterprise risk management (ERM) process that covers all parts of the Group.

Risk management

The SKF Group operates in many different industries and geographical areas. A general economic downturn on a global level or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services. War, 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.

SKF applies an integrated approach to risk management and has implemented an enterprise risk management (ERM) process that covers all parts of the Group. The risk impact includes impact on strategy, long term financial performance, as well as brand and reputation. The enterprise risk management process is illustrated below. The risks highlighted below and on next page are the main risks identified during the 2022 Group ERM process. The main areas of opportunity are described on page pages 18–25.

As with other risks, SKF applies an integrated approach to the identification and management of risks related to sustainability. The table on page 39 provides a summary of the main sustainability risks and SKF's approach to managing them. For information about financial risks including currency risks, interest risks, liquidity risks and credit risks, see Note 26 on pages 77–79. For Information about ongoing compliance related investigations, see Note 19 on page 70.

SKF Group ERM process

The result is shared yearly with Group Management and the Audit Committee. There is also a half-year internal assessment to monitor changes and make sure mitigation actions are in place and delivering expected result which is presented to Group Management.

Main risks

Risk	Trend	Mitigation
Information Security Increasing information security threats and increasing requirements from customers and governments to adhere to information security standards such as ISO, NIST and ITAR.	↗	Continue the implementation of the information security program, including the controls in SKF's Information Security Management System (ISMS).
Digitalization Increasing demands for a fully connected value chain and excellent digital customer experience placing high demands on the speed of the digital transformation.	↗	Strategic initiatives in place to ramp-up digitalization including strengthening capabilities, investing in digital talents, modernizing, harmonizing and simplifying the IT landscape.
Speed of innovation Introduction of disruptive and quickly changing new technologies.	↗	Acquisitions and partnerships to help SKF make step changes in new technology areas. Establish a way of working to ensure increased speed and leverage of innovation internally and in combination with external partners when needed.
Aftermarket disruption New online channels disrupting existing channels to the aftermarket.	↗	Maintain existing channels to market, and at the same time work strategically with new digital channels. Give the SKF channel partners a competitive advantage through online tools. Ensure leadership across full SKF value chain and focus on application specific offers which bring differentiation/uniqueness making it harder for digital channels to take market shares from SKF.
Workforce There is a fierce competition in the labor market, where the success of companies are dependent on the ability to attract, develop and retain critical competences and capabilities for the future.	↗	SKF takes a holistic approach in strengthening the Group as the employer of choice, by putting the employee experience at the center. Purpose, culture, employee engagement, leadership, competence and way of working are all key building blocks in this area.
Global/regional crisis Sanctions, tariffs and other trade barriers. Climate change, pandemics, war and other major events.	↗	Regionalize SKF's manufacturing footprint and supplier base. Focus on business that will benefit on the increased climate focus.

Risk	Trend	Mitigation
Compliance Illegal cooperation and information exchange with competitors and distributors (Antitrust risks) Breach of Export control rules and international sanctions.	↗	Instructions, guidelines, training and tools combined with strong management commitment. Export control agreements and appropriate follow-up of distributors. Promotion of SKFs Ethics & Compliance Reporting Line, reporting concerns for SKF employees, suppliers and distributors.
Governance & SKF internal coordination Unclear responsibilities, mandate and insufficient global alignment	↗	Strategic initiatives to clarify mandate, responsibilities as well as creating forums for strategic coordination, alignment and decision making.
Manufacturing footprint and localization of suppliers High levels of footprint regionalisation still required to fully offset risks of regional crises. Risk of regional economic shifts impacting competitiveness of global supply chains.	↗	Updated manufacturing strategy and governance, including prioritised investment planning, competence planning and regional supplier development. Development of step-up manufacturing technologies for scalable deployment.
Insufficient profitability due to inability to mitigate cost increases Increasing inflation is putting pressure on the profitability. Volatility in material, logistics and energy prices are rapidly changing the cost structure of the company.	↗	Strategic pricing activities have been implemented in all regions in order to offset cost increases. SKF is accelerating the work to increase flexibility and reduce fixed costs, especially in Europe, by delayering the organization, reshaping the corporate functions, reallocation of production volumes to optimize cost and reduce consultancy and indirect expenditure.
Quality Insufficient quality in production and administration processes leading to higher cost and risk of delivering products and services not in-line with customer requirements.	→	Three-year program to significantly reduce cost of non-quality as well as improved digital support for management of change and engineered-to-order offers.

Sustainability risks

Risk	Trend	Mitigation
A major incident at an SKF facility causing environmental damage leading to fines and loss of reputation.	↘	SKF's environmental management systems, certified to ISO 14001, work to assure that all such material risks are identified and that effective countermeasures are implemented to mitigate them.
Water scarcity in the supply chain or at SKF facilities leads to reduced production.	↗	SKF facilities which are in areas of water scarcity are required to drive strong water reduction programs. SKF requires that suppliers follow environmental norms and implement certified management systems.
Extreme weather events.	↗	Requirements for emergency response plans at all sites include flood risks etc. For more information, see SKF TCFD report available at skf.com/ar2022.
Increased energy and other environmental costs due to legislation.	↗	SKF focuses on energy efficiency at its own facilities and suppliers – reducing energy demand and therefore related risks. For more information, see SKF TCFD report available at skf.com/ar2022.

Risk	Trend	Mitigation
SKF employees or employees working in the supply chain, are hurt or killed by an accident at work.	↘	SKF's Health and Safety management system is certified to ISO 45001. The Group's zero accident program, supported by proactive near miss reporting, aims to avoid all workplace accidents. Within the Code of Conduct for suppliers, SKF has defined specific requirements for the assurance of health and safety for the employees of suppliers and sub suppliers.
A person or persons are hurt or injured because of SKF product failure, malfunction or defect.	↘	SKF follows strict design and validation rules for all products, and fully adheres to industry specific requirements for safety critical applications. SKF provides detailed instructions on the correct use, fitting and application of products. SKF's overall approach to quality management assures product conformity and performance to the highest level.
Human rights of employees working at SKF or within the supply chain are not respected.	↘	SKF adheres to international standards and guidelines and enforces the SKF Code of Conduct policy in all its operations. Periodic code of conduct compliance audits are performed and a whistleblowing process is available at local and global levels.

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 2022, the share price decreased by 28% for the SKF A share and 27% for the SKF B share. The total number of SKF shares traded on Nasdaq Stockholm was 460,518,883. SKF's B shares are also traded on other markets outside Nasdaq Stockholm. The total number of shares traded on these marketplaces combined in 2022 was 1,255,450,773. 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 2022, 1,100,000 shares were converted. As of 31 December 2022, A shares were 6.5% (6.7) 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 7.00 per share be paid for 2022. The total return from investing in the SKF A share over the past three years was –7.96% and for the SKF B share –7.81%.

Ownership structure

SKF had 79,765 shareholders on 31 December 2022. Around 34.5% of the share capital was owned by foreign investors, around 39.3% by Swedish companies, institutions and mutual funds and around 9.0% 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 Wallenberg Investments AB, in its turn 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

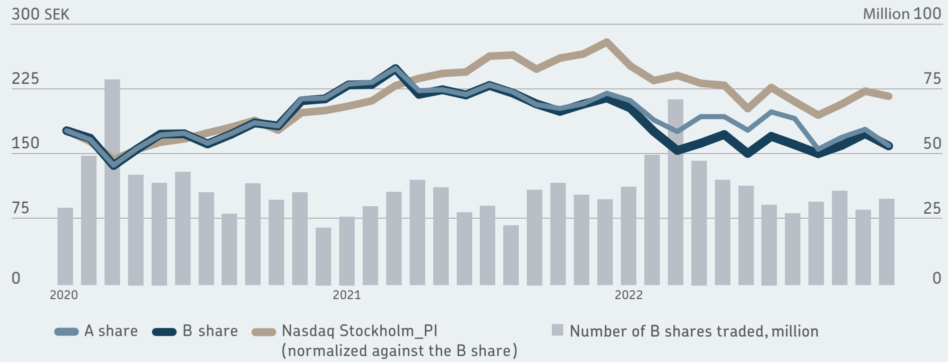
Financial reports and further information about the share can be found at investors/skf.com. A list of analysts following SKF and the opportunity to subscribe to information from SKF is also available on the website.

Sustainability indexes

Based on the 2022 submission, SKF has been rated A– within the Carbon Disclosure Project rating system which signifies that the company is taking coordinated action on climate issues.

SKF is also evaluated as Platinum (in the top 1% of companies in its sector) via the EcoVadis supplier sustainability evaluation platform which is used by many of the Group's global customers to understand supplier sustainability performance.

Share development 2020–2022



Data per share

SEK per share unless otherwise stated	2022	2021
Earnings per share	9.81	16.10
Dividend per A and B share	7.00[1)]	7.00
Total dividends, MSEK	3,188[1)]	3,188
Purchase price of B shares at year-end on Nasdaq Stockholm	159.15	214.00
Equity per share	114	96
Yield (B), %	4.4[1)]	3.3
P/E ratio, B (share price/earnings per share)	16.2	13.3
Cash flow from operations, per share	12.4	11.5
Cash flow, after investments before financing, per share	0.7	4.6

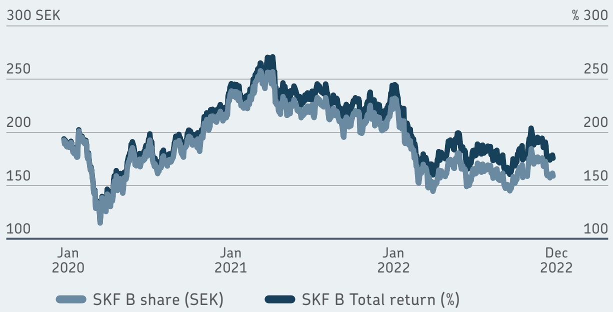
1) According to the Board's proposal for the year 2022.

The ten largest shareholders sorted by voting rights

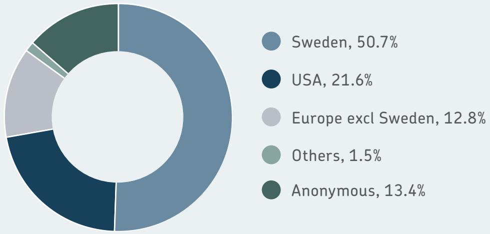
	Number of shares	Share capital, %	Voting rights, %
FAM AB	68,317,539	15.0	28.9
Cevian Capital	36,113,116	7.9	5.0
AFA Försäkring	3,395,976	0.8	3.9
Harris Associates	23,520,963	5.2	3.3
Livförsäkringsbolaget Skandia	3,685,110	0.8	2.5
Vanguard	14,993,055	3.3	2.1
BlackRock	13,685,190	3.0	1.9
SEB-Stiftelsen	1,650,000	0.4	1.8
Schroders	10,443,706	2.3	1.4
Swedbank Robur Fonder	10,068,601	2.2	1.4

Source: Monitor, Modular Finance as of 31 December 2022.

Total return 2020–2022



Geographic ownership 2022



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 pre-emption 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.

Capital structure, financing, credit rating and dividend policy

Capital structure

The capital structure target is a net debt/equity ratio, excluding pension liabilities, below 40%. This together with the self funding principle in the new strategic framework, operating cash flow to fund investments and shareholder distribution, underpins the Group's financial flexibility and its ability to execute on the strategy, while maintaining a strong credit rating. On 31 December 2022, the net debt/equity ratio, excluding pension liabilities was 19.3% (12.5).

Financing

SKF's policy is to have long-term financing of its operations.

As of 31 December 2022, the average maturity of SKF's loans was approximately five years. SKF has four notes issued on the European bond market. EUR 300 million per 2025, EUR 400 million per 2028, EUR 300 million per 2029, and one with an outstanding amount of EUR 300 million, due in 2031. The bonds maturing in 2028 and 2029 are both issued under SKF's Green Finance Framework. In addition to these notes, SKF also has two notes issued on the Swedish bond market, due 2024 and in a total of SEK 3,000 million.

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 standardized loan documentation similar conditions also apply to other loan agreements. In addition to the bonds mentioned above, SKF also has one bilateral loan of USD 100 million due in 2027. In addition to its own liquidity, AB SKF has two unutilized committed credit facilities, one of EUR 500 million with a due date in 2025 and one of EUR 250 million with a due date in 2023.

Credit rating

On 31 December 2022, 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 considering the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend pay-out ratio should amount to around one half of SKF's average net profit calculated over a business cycle, which is reflected in SKF's long-term financial targets.

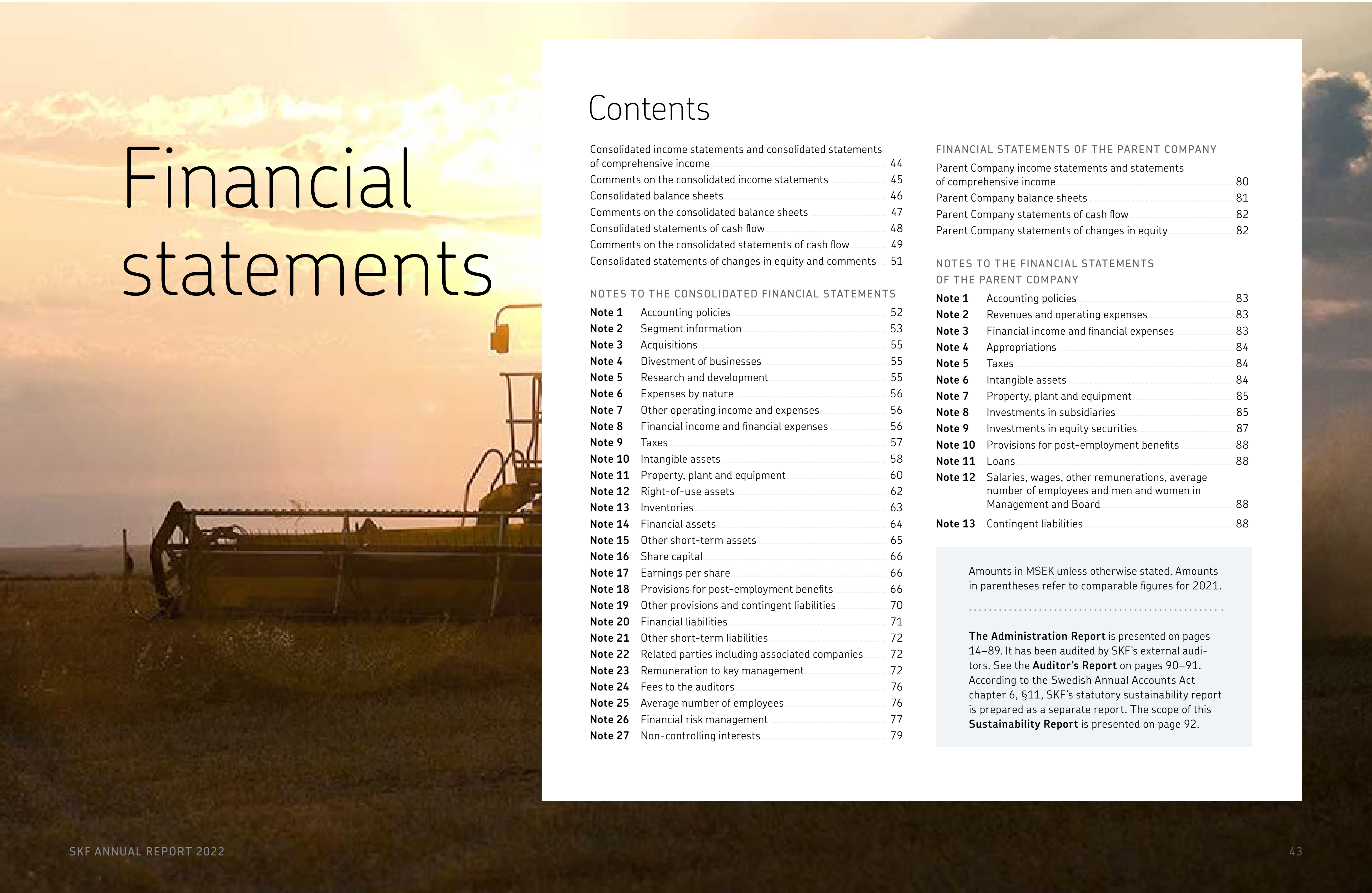
If the financial position of the SKF Group exceeds the targets for the capital structure an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or a repurchase of the company's own shares. On the other hand, in periods of more uncertainty 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 7.00 (7.00) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2023, see page 89, Proposed distribution of surplus.

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 statements

Contents

Amounts in MSEK unless otherwise stated. Amounts in parentheses refer to comparable figures for 2021.

The Administration Report is presented on pages 14–89. It has been audited by SKF's external auditors. See the **Auditor's Report** on pages 90–91. According to the Swedish Annual Accounts 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 92.

Consolidated income statements

MSEK	Note	January–December 2022	2021
Net sales	2	96,933	81,732
Cost of goods sold	6	–72,465	–58,457
Gross profit		**24,468**	**23,275**
Research and development expenses	5	–3,177	–2,751
Selling expenses	6	–11,362	–9,736
Administrative expenses	6	–661	–514
Other operating income	7	1,321	1,188
Other operating expenses	7	–2,081	–725
Income from associated companies	7	24	21
Operating profit		**8,532**	**10,758**
Financial income	8	120	102
Financial expenses	8	–1,359	–797
Profit before taxes		**7,293**	**10,063**
Income tax	9	–2,438	–2,484
Net profit		**4,855**	**7,579**
Net profit attributable to:			
Shareholders of AB SKF		4,469	7,331
Non-controlling interests		386	248
Basic earnings per share (SEK)	17	9.81	16.10

Consolidated statements of comprehensive income

MSEK	Note	January–December 2022	2021
Net profit		**4,855**	**7,579**
Items that will not be reclassified to the income statement			
Remeasurements of post-employment benefits	18	3,674	2,751
Income tax	9	–898	–694
		2,776	**2,057**
Items that may be reclassified to the income statement			
Currency translation adjustments		3,846	2,759
Assets at fair value through other comprehensive income	14	–16	96
Income tax	9	4	2
		3,834	**2,857**
Other comprehensive income, net of tax		**6,610**	**4,914**
Total comprehensive income		**11,465**	**12,493**
Total comprehensive income attributable to			
Shareholders of AB SKF		10,998	12,127
Non-controlling interests		467	366

Comments on the consolidated income statements

General

The Group's income statement for 2022 included the result of one smaller acquired business in Belgium for the period 10 January–31 December. It also included the result from the divested business in Russia for the period 1 January–30 April and the divested business in Mozambique for the period 1 January–30 November.

Net sales

In 2022, net sales amounted to MSEK 96,933 (81,732) corresponding to an increase of 18.5% compared to 2021. The change of the Swedish krona towards other currencies had a positive impact in 2022 of +11.9%. Structural changes accounted for –1.5%. Net sales in local currencies increased with 8.1%, driven by higher sales volumes in all regions.

Sales development y-o-y, %	Q1	Q2	Q3	Q4	Full year
Organic	6.5	5.4	11.0	9.7	8.1
Structure	—	–1.9	–2.0	–1.8	–1.5
Currency	9.0	10.6	15.0	13.0	11.9
Total	**15.5**	**14.1**	**24.0**	**20.9**	**18.5**

Operating profit

Operating profit for the year was MSEK 8,532 (10,758). Operating profit was positively impacted by sales volumes, price, customer mix and currency effects. Operating profit was negatively impacted by cost increases, mainly related to material, energy, and logistics. Operating profit included items affecting comparability of MSEK –1,672 (–81) whereof MSEK –675 related to the divestment of the business in Russia, MSEK –851 (–466) related to restructuring and cost reduction program mainly in Europe and MSEK –146, net (+385) related to impairments, customer settlements and gain from sale of business in 2022 and gain on sales of assets and impairments in 2021.

Financial income and expenses, net

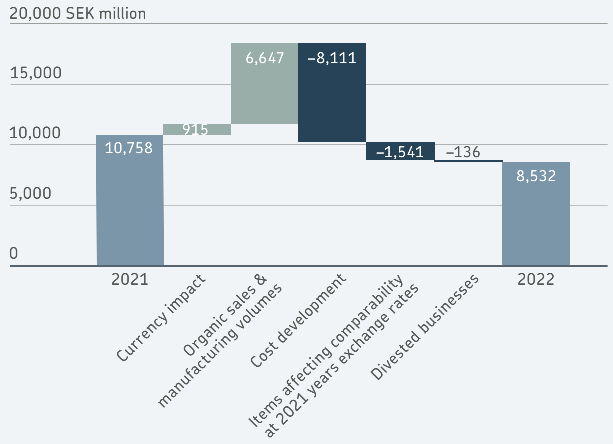
The financial income and expenses, net for 2022 was MSEK –1,239 (–695). Exchange rate fluctuations had a more negative effect in 2022 compared to 2021 and interest expenses was higher in 2022. For more information about the changes year-over-year, see Note 8.

Taxes

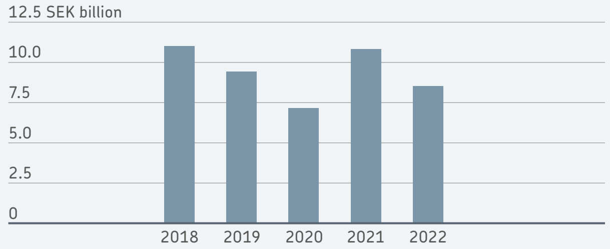
The effective tax rate for the year was 33% (25). The tax rate in 2022 was negatively impacted by the loss from divestment of business in Russia. Adjusted for this the tax rate would have been 31%. For more information, see Note 9.

Values by quarter MSEK	Q1	Q2	Q3	Q4	Full year
Net sales	22,942	23,655	24,975	25,361	96,933
Operating profit	2,953	1,581	1,929	2,069	8,532
Profit before taxes	2,885	1,097	1,618	1,693	7,293
Basic earnings per share (SEK)	4.36	1.08	2.41	1.96	9.81

Operating profit development y-o-y



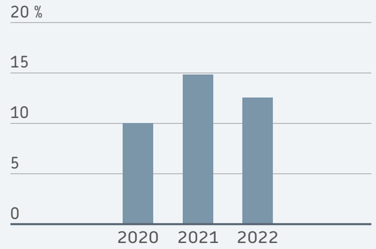
Operating profit



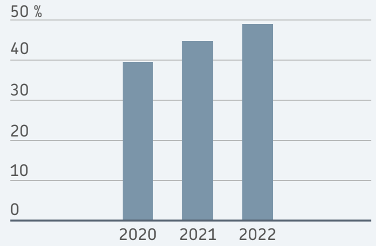
Consolidated balance sheets

MSEK	Note	2022	2021
		As of 31 December	
ASSETS			
Non-current assets			
Goodwill	10	12,351	10,924
Other intangible assets	10	5,842	6,018
Property, plant and equipment	11	24,897	20,723
Right-of-use assets	12	3,084	2,661
Long-term financial assets	14	1,224	1,213
Deferred tax assets	9	3,173	3,839
Other long-term assets		557	461
		51,128	**45,839**
Current assets			
Inventories	13	26,052	20,997
Trade receivables	14	16,905	13,972
Other short-term assets	15	5,614	5,163
Other short-term financial assets	14	969	438
Cash and cash equivalents	14	10,255	13,219
		59,795	**53,789**
Total assets		**110,923**	**99,628**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		51,927	43,645
Equity attributable to non-controlling interests	27	2 116	1,720
		54,043	**45,365**
Non-current liabilities			
Long-term financial liabilities	20	18,933	13,293
Long-term lease liabilities	12, 20	2,286	2,179
Provisions for post-employment benefits	18	8,748	11,781
Deferred tax provisions	9	1,365	1,040
Other long-term provisions	19	1,066	1,412
Other long-term liabilities		42	33
		32,440	**29,738**
Current liabilities			
Trade payables	20	11,594	9,881
Short-term provisions	19	1,239	1,105
Short-term lease liabilities	12, 20	635	579
Other short-term financial liabilities	20	281	3,285
Other short-term liabilities	21	10,691	9,675
		24,440	**24,525**
Total equity and liabilities		**110,923**	**99,628**

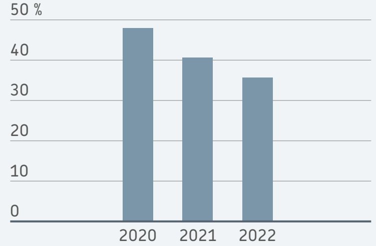
Return on capital employed



Equity/assets



Gearing



Comments on the consolidated balance sheets

Net working capital

On 31 December 2022, net working capital as percentage of sales was 32.4% (30.7) consisting of the following components:

- Inventories amounted to MSEK 26,052 (20,997) being 26.9% (25.7) of annual sales. The increase in inventories was attributed to currencies by MSEK 1,957 and to volumes by MSEK 3,098 net of divestments and acquisitions.
- Trade receivables amounted to MSEK 16,905 (13,972) which is 17.4% (17.1) of annual sales. The change in trade receivables was attributable to currencies with MSEK 1,136 and to volume increase with MSEK 1,797, net of divestments and acquisitions. The average days of outstanding trade receivables were 64 days (64).
- Trade payables amounted to MSEK 11,594 (9,881) corresponding to 12.0% (12.1) of annual sales. The change attributable to currencies was MSEK 824 and the remaining MSEK 889 was due to volume increase, net of divestments and acquisitions.

Plant and property

On 31 December 2022, plant and property amounted to MSEK 24,897 (20,723). This was as a percentage of annual sales 25.7% (25.4). The change attributable to currencies was MSEK 1,516.

Net debt

Net debt amounted to MSEK 19,034 (17,360) at the end of 2022.

Post-employment benefit provisions totalled MSEK 8,621 (11,711) at year end, representing a net decrease of MSEK 3,090 (net decrease of 3,425), which was attributable to:

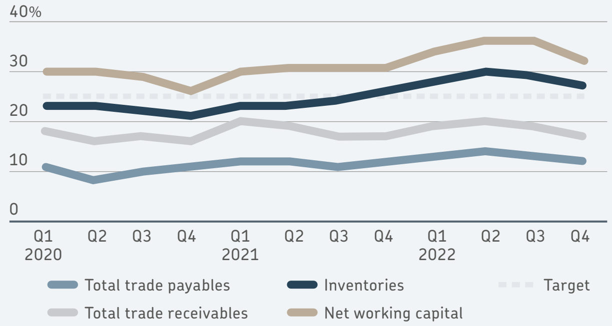
- Cash payments of MSEK –1,080 (–1,740)
- Actuarial gains and losses of MSEK –3,674 (–2,751)
- Expenses of MSEK +736 (+684)
- Acquired/divested businesses of MSEK 0 (0)
- The remainder was attributable to currency translation differences.

Loans totalled MSEK 18,346 (16,454), at the end of 2022, representing an increase of MSEK 1,892. The change was primarily attributable to a net increase between the repayment of a bond due and a new bond issued during the year of MSEK 1,044 and currency translation effects of MSEK 862.

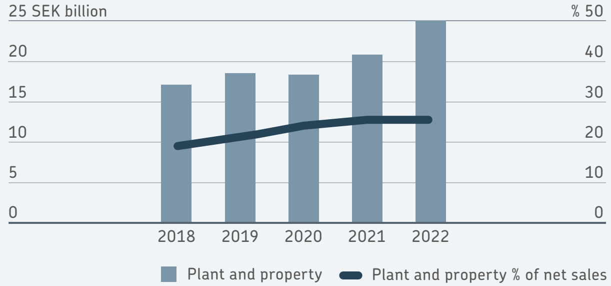
Equity

During the year, equity increased from MSEK 45,365 to MSEK 54,043. Net profit amounted to MSEK 4,855 (7,579) and dividends paid were MSEK 3,249 (3,012). Currency translation had a negative effect of MSEK –3,846 (–2,759). Remeasurements had a positive net of tax effect of MSEK 2,780 (2,059). The capital structure target is a net debt/ equity ratio, excluding pension liabilities, below 40%. This together with the self-funding principle in the new strategic framework, operating cash flow to fund investments and shareholder distribution, underpins the Group's financial flexibility and its ability to execute on the strategy, while maintaining a strong credit rating. On 31 December 2022, the net debt/equity ratio, excluding pension liabilities was 19.3% (12.5).

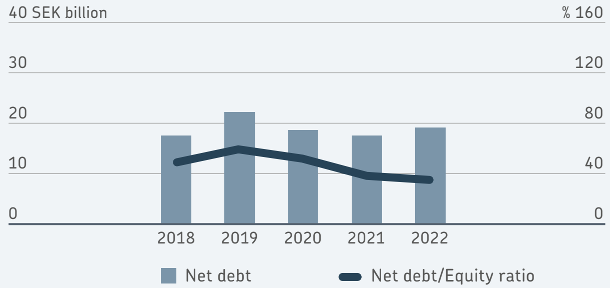
Net working capital in % of annual sales



Plant and property % of net sales



Net debt/equity



Consolidated statements of cash flow

MSEK	Note	January–December 2022	January–December 2021
Operating activities			
Operating profit		8,532	10,758
Adjustments for			
Depreciation, amortization and impairment	6	3,784	3,305
Net gain on sales of businesses and property, plant and equipment		598	–436
Other non-cash items		1,530	–758
Income taxes paid		–2,572	–2,250
Contributions to and payments under post-employment defined benefit plans	18	–882	–810
Associated companies		–87	66
Changes in working capital			
Inventories		–3,233	–4,308
Trade receivables		–1,900	–931
Trade payables		990	970
Other operating assets and liabilities, net		237	322
Interest and other financial items		–1,356	–680
Net cash flow from operating activities		**5,641**	**5,248**
Investing activities			
Additions to intangible assets	10	–183	–68
Additions to property, plant and equipment	11	–5,030	–3,822
Sales of property, plant, equipment, and intangible assets	10, 11	176	52
Acquisitions of businesses, net of cash and cash equivalents	3	–83	–40
Divestments of businesses, net of cash and cash equivalents	4	–133	733
Investment in/sale of equity securities		–93	–3
Net cash flow used in investing activities		**–5,346**	**–3,148**
Net cash flow after investments before financing		**295**	**2,100**

MSEK	Note	January–December 2022	January–December 2021
Financing activities			
Proceeds from medium- and long-term loans		4,402	3,148
Repayments of medium- and long-term loans		–3,358	–2,126
Payments of leases		–809	–738
Cash dividends to shareholders of AB SKF and non-controlling interests		–3,249	–3,012
Funding of post-employment benefits		–198	–930
Investments in financial assets		–304	–33
Sales of financial assets		116	178
Net cash flow used in/from financing activities		**–3,400**	**–3,513**
Net cash flow		**–3,105**	**–1,413**
Cash and cash equivalents at 1 January		13,219	14,050
Cash effect excluding acquired/sold businesses		–2,963	–1,386
Cash effect from acquired/sold businesses		–143	–27
Translation effect		142	582
Cash and cash equivalents on 31 December		**10,255**	**13,219**

Comments on the consolidated statements of cash flow

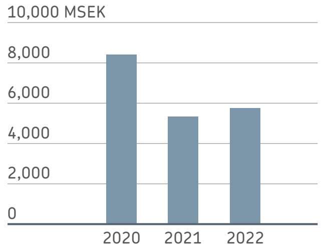
The consolidated statements of cash flow have been adjusted for exchange rate effects arising upon the translation of foreign subsidiaries' balance sheets to SEK, as these do not represent cash flows. Cash and cash equivalents comprise cash free, cash on time deposits at banks and debt securities maturing within three months at the time of the investment.

Cash flow from operating activities
Net cash flow from operating activities, which is the primary cash flow measure used in the Group, amounted to MSEK 5,641 (5,248) in 2022. 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 –334 (–239), interest received of MSEK 94 (24), and the remainder related primarily to realized derivatives on commercial flows between Group companies.

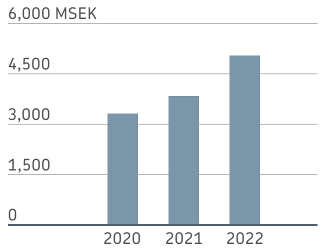
Cash flow after investments before financing
Cash flow after investments before financing reached MSEK 295 (2,100) in 2022. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to MSEK 511 (1,407). During the year the Group acquired two smaller businesses which generated a net cash outflow of MSEK –83. The Group also sold the businesses in Russia and Mozambique which resulted in a cash outflow of MSEK –133.

Cash flow used in financing activities
The Group's debt structure improved in 2022, by net of repayment of a EUR bond due during the year and with the issuing of a new MEUR 400 bond with maturity 2028. Cash flow used in financing activities included a payment of MSEK –198 (–930), net of taxes, related to contribution to the defined benefit retirement plan in the USA.

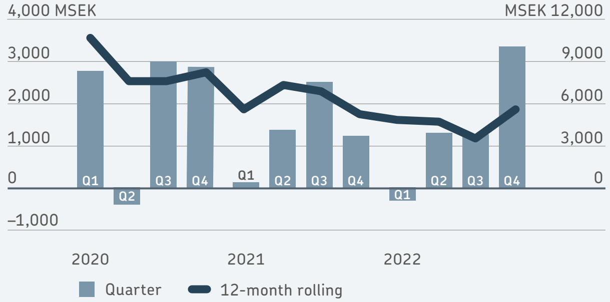
Cash flow from operating activities



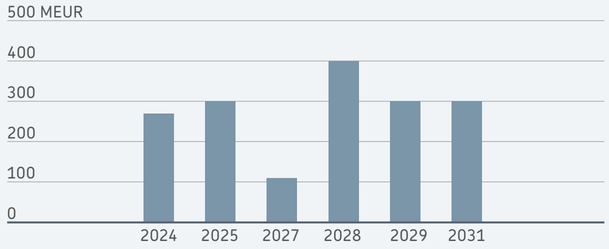
Additions to property, plant and equipment



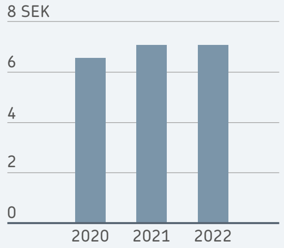
Cash flow from operating activities



Debt structure



Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2022, which is subject to approval at the Annual General Meeting in March 2023, includes an ordinary dividend of SEK 7 per share, see Note 16.

COMMENTS ON THE CONSOLIDATED STATEMENTS OF CASH FLOW, CONT.

Change in net debt

MSEK	2022 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2022 Opening balance
Loans[1]	18,346	1,044	15	–29	862	16,454
Post-employment benefits, net[2]	8,621	–1,080	1	–2,929	918	11,711
Lease liabilities	2,921	–809	–44	726	290	2,758
Other short-term financial assets[3]	–599	–220	–4	1	–32	–344
Cash and cash equivalents	–10,255	2,963	143	—	–143	–13,219
Net debt	**19,034**	**1,898**	**111**	**–2,231**	**1,895**	**17,360**
Derivatives[4] included in Other financing items	—	—	—	—	—	—

MSEK	2021 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2021 Opening balance
Loans[1]	16,454	1,022	—	–51	243	15,240
Post-employment benefits, net[2]	11,711	–1,740	—	–2,183	498	15,136
Lease liabilities	2,758	–738	—	756	156	2,584
Other short-term financial assets[3]	–344	113	—	15	–22	–450
Cash and cash equivalents	–13,219	1,386	27	—	–582	–14,050
Net debt	**17,360**	**43**	**27**	**–1,463**	**293**	**18,460**
Derivatives[4] included in Other financing items	—	—	—	—	—	—

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 –220 (113) is explained by investment in financial assets of MSEK –291 (–14) and sale of financial assets of MSEK 71 (127).
4) Financing activities to hedge short- and long-term loans. Other financing items in cash flow include cash flow from derivatives as stated in the table and interest premium for the repayment of loans.

Consolidated statements of changes in equity

MSEK	Share capital	Share premium	FV OCI reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests[1]	Total
	Equity attributable to owners of AB SKF							
Opening balance 1 January 2021	**1,138**	**564**	**91**	**–1,268**	**33,785**	**34,310**	**1,402**	**35,712**
Net profit	—	—	—	—	7,331	7,331	248	7,579
Hyperinflation adjustment[3]	—	—	—	—	146	146	—	146
Components of other comprehensive income								
Currency translation adjustments	—	—	—	2,637	—	2,637	122	2,759
Change in FV OCI assets and cash flow hedges	—	—	96	—	—	96	—	96
Remeasurements	—	—	—	—	2,751	2,751	—	2,751
Income taxes	—	—	—	1	–693	–692	—	–692
Transactions with shareholders								
Non-controlling interest[1]	—	—	—	—	—	—	—	—
Cost for Performance Share Programmes, net[2]	—	—	—	—	25	25	—	25
Dividends	—	—	—	—	–2,959	–2,959	–52	–3,011
Closing balance 31 December 2021	**1,138**	**564**	**187**	**1,370**	**40,386**	**43,645**	**1,720**	**45,365**
Net profit	—	—	—	—	4,469	4,469	386	4,855
Hyperinflation adjustment[3]	—	—	—	—	444	444	—	444
Components of other comprehensive income								
Currency translation adjustments	—	—	—	3,765	—	3,765	81	3,846
Change in FV OCI assets and cash flow hedges	—	—	–16	—	—	–16	—	–16
Remeasurements	—	—	—	—	3,674	3,674	—	3,674
Income taxes	—	—	—	4	–898	–894	—	–894
Transactions with shareholders								
Non-controlling interests	—	—	—	—	—	—	–1	–1
Cost for Performance Share Programmes, net[2]	—	—	—	—	27	27	—	27
Dividends	—	—	—	—	–3,187	–3,187	–62	–3,249
Other	—	—	—	—	—	—	–8	–8
Closing balance 31 December 2022	**1,138**	**564**	**171**	**5,139**	**44,915**	**51,927**	**2,116**	**54,043**

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

Fair value other comprehensive income reserve
The fair value other comprehensive income (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 1 March 2023. 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 23 March 2023.

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 SEK 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 into SEK:

			Average rates		Year-end rates	
Country	Unit	Currency	2022	2021	2022	2021
Argentina	1	ARS	0.08	0.10	0.06	0.09
China	1	CNY	1.50	1.43	1.50	1.42
EMU countries	1	EUR	10.63	10.99	11.13	10.23
India	100	INR	12.86	12.53	12.61	12.16
Brazil	1	BRL	1.96	1.72	1.97	1.59
United Kingdom	1	GBP	12.46	12.71	12.58	12.18
USA	1	USD	10.10	9.25	10.43	9.05

Hyperinflation reporting
Argentina is classified as a hyperinflation economy since 2018 and during 2022 Turkey has been classified as a hyperinflation economy. Since SKF has operations in these countries, the Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies and restated the financial statements accordingly. Comparative figures for 2021 have not been restated for Turkey. The Argentinian index used in the restatement is the Argentinian Consumer Price Index published by the Argentinian Statistical Institute and amounted to 1,134.6 (582.5) as per 31 December 2022. The Turkish index used in the restatement is the Consumer Price Index published by the Turkish Statistical Institute and amounted to 1,128.5 as per 31 December 2022.

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 is 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 is 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 realizability of deferred tax assets (Note 9).
- Judgements in recoverability of the carrying value 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).
- Climate risks are taken into consideration in investing decisions and impairment testing.

1 Accounting policies, cont.

Climate risk assesment
SKF sees both risks and opportunities related to climate, but no known material climate related risks affecting the financial statements of 2022 for the SKF Group have been identified. SKF's core business is based on well-established technology and the Group is diversified in terms of products, customers, geographic market and industries. Based on this diversification, SKF does not anticipate that climate related business risks will have substantive financial or strategic impact on Group level. Some specific market sectors will be negatively affected, such as the demand for SKF products to diesel and gasoline engines. However, other sectors will be positively affected, such as the market demand for SKF products to electric motors. Overall, SKF believes that the climate-related business opportunities outweigh the risks.

New accounting principles

New accounting principles 2022
IASB issued several new and amended accounting standards that were endorsed by EU, effective date 1 January 2022. None of these has had a material effect on the SKF Group's financial statements.

The amendments to IFRS 7, IFRS 9 and IFRS 16 are attributable to the reform for reference interest rates – Phase 2 and provide guidance on how the effects of the reform are to be reported. In short, the changes in Phase 2 mean that it enables companies to reflect the effects of changing from reference rates such as "STIBOR" to other reference rates without giving rise to accounting effects in reported amounts that would not provide useful information to users of financial reports. The Group assessed that Phase 2 had no significant impact as the use of hedge accounting is very limited.

New accounting principles 2023
IASB issued several amended accounting standards that were endorsed by EU, effective date 1 January 2023. None of these are expected to have a material effect on the SKF Group's financial statements.

COVID-19
The industries and regions in which SKF operates have been impacted by the effects related to the spread of COVID-19. Due to this there have been uncertainties in demand and revenue growth as well as supply chain challenges which have led SKF to perform several initiatives to reduce costs.

2 Segment information

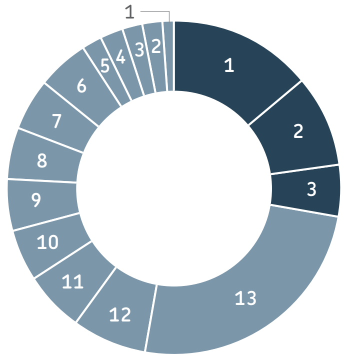
Each operating segment is defined as those business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. In the case of SKF, the CODM is defined as Group Management which makes 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 consists principally of property plant and equipment, intangible assets, external trade receivables and inventories. Segment

2 Segment information, cont.

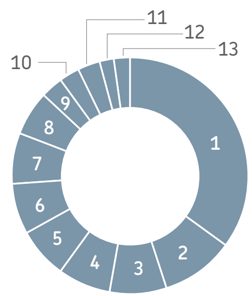
Net sales – Total



1. Automation, 1%
2. Traditional energy, 2%
3. Material handling, 2%
4. Marine, 2%
5. Off-highway, 2%
6. Agriculture, food & beverage, 5%
7. Railway, 5%
8. Aerospace, 5%
9. Renewable energy, 5%
10. Other industrial, 5%
11. Heavy industries, 6%
12. High speed machinery & electrical drives, 7%
13. Industrial distribution, 25%

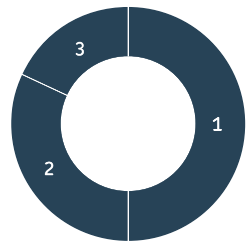
1. Light vehicles, 14%
2. Vehicle aftermarket, 9%
3. Commercial vehicles, 5%

Net sales by customer industry – Industrial



1. Industrial distribution, 35%
2. High speed machinery and electrical drives, 10%
3. Heavy industries, 8%
4. Other industrial, 7%
5. Renewable energy, 7%
6. Aerospace, 7%
7. Railway, 7%
8. Agriculture, food and beverage, 6%
9. Off-highway, 3%
10. Marine, 3%
11. Material handling, 3%
12. Automation, 2%
13. Traditional energy, 2%

Net sales by customer industry – Automotive



1. Light vehicles, 50%
2. Vehicle aftermarket, 32%
3. Commercial vehicles, 18%

2 Segment information, cont.

liabilities include all operating liabilities used and controlled by a segment and consists 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 regional approach and is managed as one segment comprising of four regions: Europe and Middle East and Africa The Americas, China and Northeast Asia, India and Southeast Asia.

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.

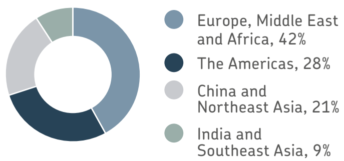
For more information on the customer industries and related products, see pages 8–9.

Previously published segment figures for 2021 have been restated to reflect current organizational structure.

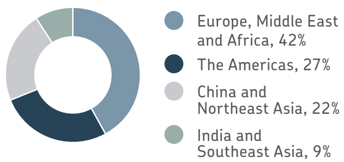
Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 19% (18) were located in USA, 18% (20) in China, and 9% (9) in Germany.

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, 30% (30) were located in USA, 15% (15) in Germany, and 13% (13) in China.

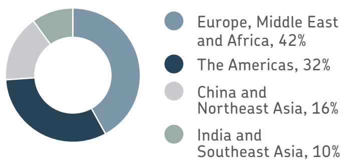
Net sales by geographic area



Net sales by geographic area – Industrial



Net sales by geographic area – Automotive



	Net sales		Contribution to profit before tax	
MSEK	2022	2021	2022	2021
Industrial	69,517	58,556	7,874	9,289
Automotive	27,416	23,176	658	1,469
Subtotal operating segments	**96,933**	**81,732**	**8,532**	**10,758**
Financial net	—	—	–1,239	–695
Total	**96,933**	**81,732**	**7,293**	**10,063**

	Depreciation and amortization		Impairments		Additions to property, plant and equipment, intangible assets and right-of-use assets	
MSEK	2022	2021	2022	2021	2022	2021
Industrial	3,225	2,863	129	33	5,138	3,862
Automotive	430	409	—	—	642	585
Total	**3,655**	**3,272**	**129**	**33**	**5,780**	**4,448**

	Assets		Liabilities	
MSEK	2022	2021	2022	2021
Industrial	65,472	55,524	14,364	12,226
Automotive	20,167	15,922	5,663	5,236
Subtotal operating segments	**85,639**	**71,446**	**20,027**	**17,462**
Financial and tax items	16,577	19,717	30,575	31,511
Eliminations and other unallocated items	8,707	8,465	6,278	5,290
Total	**110,923**	**99,628**	**56,880**	**54,263**

Geographic disclosure	Net sales by customer location		Non-current assets	
MSEK	2022	2021	2022	2021
Sweden	2,130	1,871	3,868	4,013
Europe, Middle East & Africa excl. Sweden	35,531	31,872	16,406	15,214
The Americas	29,936	22,713	16,441	14,086
China & Northeast Asia	20,137	18,375	7,655	5,458
India & Southeast Asia	9,199	6,901	1,528	1,361
Eliminations	—	—	706	584
Total	**96,933**	**81,732**	**46,604**	**40,716**

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.

In 2022, SKF had a cash outflow of MSEK 83 for the acquisition of two smaller businesses, Laser Cladding Venture n.v, an additive manufacturing company based in Belgium and Tenute, an Italian seals manufacturer.

In 2021, SKF had a cash outflow of MSEK 40 for the acquisition of two smaller businesses, Edge AB, an industrial consultancy firm based in Lulea, Sweden and EFOLEX AB, a Gothenburg-based manufacturer of the Europafilter-branded industrial lubrication and oil filtration systems.

MSEK	2022	2021
Total fair value of net assets acquired		
Intangible assets, excluding goodwill	46	—
Property, plant and equipment	14	1
Current assets	59	7
Non-current liabilities	–5	—
Current liabilities	–40	–3
Fair value net assets acquired	**74**	**5**
Goodwill	44	36
Total acquisition cost	**118**	**41**
Deferred consideration	–17	—
Cash and cash equivalents acquired	–18	–1
Cash outflow	**83**	**40**

4 Divestment of businesses

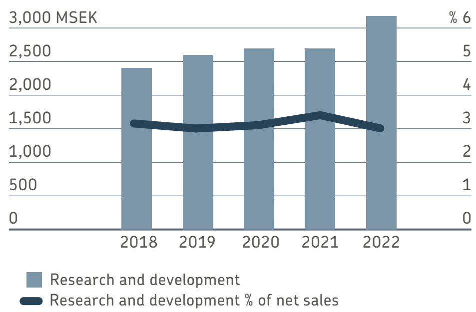
During 2022, the Group divested its business in Russia and a smaller business in Mozambique, resulting in a total cash outflow of MSEK –133 and a net loss of MSEK –672.

During 2021, the Group executed a real estate sale, resulting in a total cash inflow of MSEK 733 and a net gain of MSEK 397.

MSEK	2022	2021
Goodwill	—	—
Other intangible assets	—	—
Property, plant and equipment	171	343
Deferred tax assets	25	—
Other non-current assets	172	—
Current assets	489	32
Deferred tax provisions	—	—
Non-current liabilities	—	—
Current liabilities	–157	–10
Non-controlling interest	—	—
Net assets disposed of	**700**	**365**
Profit/loss	–672	397
Total consideration	**28**	**762**
Cash and cash equivalents divested	–161	–29
Cash outflow for previous years divestments	—	—
Total cashflow	**–133**	**733**

5 Research and development

Research and development % of net sales



Research and development expenditure, excluding developing IT solutions, totalled MSEK 3,177 (2,751), corresponding to 3.3% (3.4) of annual sales.

6 Expenses by nature

MSEK	2022	2021
Employee benefit expenses including social charges	26,702	24,270
Raw material and components consumed, including traded products	33,244	27,426
Change in work in process and finished goods	–1,152	–2,809[1]
Depreciation, amortization and impairments	3,784	3,305
Other expenses, primarily purchased services, shop supplies and utilities	25,087	19,266[1]
Total operating expenses	**87,665**	**71,458**

1) Previously published figures for 2021 have been corrected through reclassification between cost types of MSEK 5,618.

Depreciation, amortization and impairments were accounted for as (MSEK)	2022				2021			
	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	2,551	105	127	2,783	2,318	98	33	2,449
Selling expenses	463	536	2	1,001	372	484	—	856
Total	**3,014**	**641**	**129**	**3,784**	**2,690**	**582**	**33**	**3,305**

7 Other operating income and expenses

MSEK	2022	2021
Other operating income		
Exchange gains on trade receivables/payables	1,020	512
Profit from sale of property, plant and equipment	102	74
Profit from associated companies	24	21
Profit from divestment of businesses	3	397
Other	196	205
Total	**1,345**	**1,209**
Other operating expenses		
Exchange losses on trade receivables/payables	–1,277	–545
Loss from divestment of businesses	–675	—
Loss from sale of property, plant and equipment	–44	–19
Other	–85	–161
Total	**–2,081**	**–725**
Other operating income and expenses, net	**–736**	**484**

8 Financial income and financial expenses

MSEK	2022	2021
Interest income	135	35
Interest expense	–406	–308
Net gains/losses:		
Net interest cost on post-employment benefits	–182	–146
Exchange differences, net	–753	–193
Other financial income including dividends	147	50
Other financial expense[1]	–180	–133
Financial net	**–1,239**	**–695**

1)Includes costs for Treasury Function.

Other financial expense includes costs related to unwinding the discount on provisions, bank charges and other transactional 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.

Financial net specified by category of financial instruments (MSEK)	2022			2021		
	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	51	—	—	1	—	—
Derivatives held for trading	—	–55	–707	1	–6	–12
Derivatives held for hedge accounting				—	—	—
Financial assets classified as amortized cost	84	—	101	33	—	–118
Financial assets classified as fair value through other comprehensive income	—	—	1	—	—	1
Other financial liabilities, primarily loans	—	–351	–1	—	–302	–22
Other liabilities including post-employment benefits	—	—	–362	—	—	–271
Total	**135**	**–406**	**–968**	**35**	**–308**	**–422**

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.

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 205 (183), whereof MSEK 76 (101) related to tax loss carry-forwards and MSEK 129 (82) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of MSEK 1 (0) related to tax losses and will expire during the period 2023 to 2027. The remaining unrecognized assets will expire after 2027 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was MSEK 41 (11) 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 –63 (–11) 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 2022, the Group had tax loss carry-forwards amounting to MSEK 4,632 (4,426), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2023–2027	109
2028 and thereafter	460
Never	4,063

Tax expense (MSEK)	2022 Income statement	2022 Other comprehensive income	2022 Total taxes	2021 Income statement	2021 Other comprehensive income	2021 Total taxes
Current taxes	–2,429	—	–2,429	–1,951	—	–1,951
Deferred taxes	–9	–894	–903	–533	–692	–1,225
Total	**–2,438**	**–894**	**–3,332**	**–2,484**	**–692**	**–3,176**

Taxes charged to other comprehensive income included MSEK -898 (–694) related to remeasurements of post-employment benefits, MSEK 0 (1) related to cash flow hedges and MSEK 4 (1) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (MSEK)	2022	2021
Tax calculated using statutory tax rate in Sweden	–1,502	–2,073
Difference between statutory tax rate in Sweden and foreign subsidiaries	–408	–340
Other taxes	–64	–55
Tax credits and similar items	42	28
Non-deductible/non-taxable profit items	–403	–48
Changes in tax rates	–38	—
Tax loss carry-forwards	–12	–56
Current tax referring to previous years	–5	10
Other	–48	50
Tax expense Income Statement	**–2,438**	**–2,484**

The corporate statutory income tax rate in Sweden was 20.6% (20.6). The actual tax rate on profit before taxes was 33.4% (24.7).

Gross deferred taxes per type (MSEK)	2022 Deferred tax assets	2022 Deferred tax liabilities	2021 Deferred tax assets	2021 Deferred tax liabilities
Intangibles and other assets	33	1,519	27	1,377
Property, plant and equipment	30	1,083	52	932
Inventories	668	507	555	409
Trade receivables	107	2	57	1
Provisions for post-employment benefits	1,736	132	2,643	62
Other accruals and liabilities	1,060	10	1,018	1
Tax loss carry-forwards	896	—	835	—
Tax credit carry-forwards	268	—	185	—
Other	328	65	286	77
Gross deferred taxes	**5,126**	**3,318**	**5,658**	**2,859**
Net deferred taxes presented in the Consolidated balance sheet	3,173	1,365	3,839	1,040

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. 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 SKF ERP Programme (SEP) is a straight-line amortization for the rest of the useful life, with an amortization rate of 10%.

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 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 research and development expenses 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-year 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 including climate related risks 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.

10 Intangible assets, cont.

MSEK	2022 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair-ments	Other	Translation effects	2022 Opening balance
Acquisition cost								
Goodwill	12,999	—	44	—	—	12	1,450	11,493
Patents, tradenames and similar rights	3,395	11	45	—	—	–4	401	2,942
Internally developed software	2,701	19	—	—	—	2	14	2,666
Customer relationships	5,221	—	1	—	—	–86	606	4,700
Leaseholds	89	126	—	—	—	–328[1]	12	279
Product development	307	—	—	—	—	–85	31	361
Technology	1,371	—	—	—	—	—	157	1,214
Other intangible assets	191	27	—	—	—	–77	9	232
Total	**26,274**	**183**	**90**	—	—	**–566**	**2,680**	**23,887**

MSEK	2022 Closing balance	Amorti-zations	Businesses acquired/ sold	Disposals	Impair-ments	Other	Translation effects	2022 Opening balance
Accumulated amortization and impairments								
Goodwill	648	—	—	—	—	–1	80	569
Patents, tradenames and similar rights	573	20	—	—	3	–14	35	529
Internally developed software	1,586	199	—	—	—	–1	12	1,376
Customer relationships	3,915	295	—	—	—	–86	423	3,283
Leaseholds	29	4	—	—	—	–91[1]	6	110
Product development	217	17	—	—	72	–85	16	197
Technology	1,002	99	—	—	—	—	107	796
Other intangible assets	111	7	—	—	—	12	7	85
Total	**8,081**	**641**	—	—	**75**	**–266**	**686**	**6,945**
Net book value	**18,193**							**16,942**

1) Includes reclassification from Intangible assets to Right-of-use assets.

MSEK	2021 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair-ments	Other[1]	Translation effects	2021 Opening balance
Acquisition cost								
Goodwill	11,493	—	36	—	—	–44	611	10,890
Patents, tradenames and similar rights	2,942	15	—	—	—	–3	225	2,705
Internally developed software	2,666	45	—	—	—	—	4	2,617
Customer relationships	4,700	—	—	—	—	2	320	4,378
Leaseholds	279	—	—	—	—	—	33	246
Product development	361	1	—	—	—	—	13	347
Technology	1,214	—	—	—	—	—	84	1,130
Other intangible assets	232	7	—	—	—	–6	4	227
Total	**23,887**	**68**	**36**	**—**	**—**	**–51**	**1,294**	**22,540**

MSEK	2021 Closing balance	Amorti-zations	Businesses acquired/ sold	Disposals	Impair-ments	Other[1]	Translation effects	2021 Opening balance
Accumulated amortization and impairments								
Goodwill	569	—	—	—	—	–46	–158	773
Patents, tradenames and similar rights	529	29	—	—	2	14	–1	485
Internally developed software	1,376	184	—	—	—	—	5	1,187
Customer relationships	3,283	274	—	—	—	1	191	2,817
Leaseholds	110	5	—	—	—	—	12	93
Product development	197	12	—	—	—	—	7	178
Technology	796	74	—	—	—	—	55	667
Other intangible assets	85	4	—	—	—	–18	1	98
Total	**6,945**	**582**	**—**	**—**	**2**	**–49**	**112**	**6,298**
Net book value	**16,942**							**16,242**

1) Includes reclassification between categories.

10 Intangible assets, cont.

Impairment losses
Impairments amounted to MSEK –75 (–2) in 2022.

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 1,377 (1,195), Kaydon Friction MSEK 805 (702), PEER MSEK 224 (195), GBC MSEK 238 (206) and others MSEK 96 (95).

Significant intangibles
Internally generated software related primarily to the development of SEP to create and deploy improved processes and solutions across the Group. The balance of capitalized expenditures was MSEK 1,096 (1,240), including amortizations of MSEK –184 (–174) made during 2022. Remaining useful life is six years.

Other individual intangible assets that are material for the Group include the customer relationships for Lincoln amounting to MSEK 438 (521) having a remaining useful life of three years, and for Kaydon amounting to MSEK 639 (654) having a remaining useful life of six 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.

	2022		2021	
	Industrial	Automotive	Industrial	Automotive
Goodwill, MSEK	11,907	444	10,535	389
Tradenames, MSEK	2,406	238	2,092	206
Average revenue growth rate, %	8.7	4.8	6.5	4.6
Discount rate, pre tax, %	10.2	11.0	9.2	9.7
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.

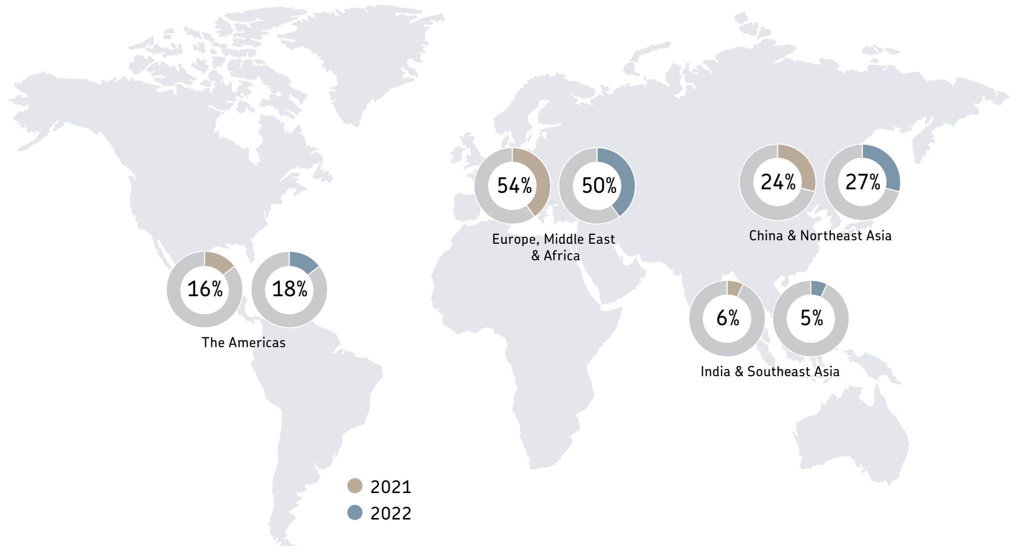
The useful lives are:
- 33 years for buildings and installations.
- 10–20 years for machinery and supply systems.
- 10 years for control systems within machinery and supply systems.
- 4–5 years for tools, office equipment and vehicles.

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. It also includes estimates related to investments connected to the green transition as part of SKF's strategy.

Property, plant and equipment 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 2021–2022



11 Property, plant and equipment, cont.

MSEK	2022 Closing balance	Additions	Businesses acquired/sold	Disposals	Impairments	Other[1]	Translation effects	2022 Opening balance
Acquisition cost								
Buildings	11,469	549	–65	–74	—	241	758	10,060
Land and land improvements	1,032	6	–21	–29	—	4	64	1,008
Machinery and supply systems	39,864	2,123	–150	–287	—	356	2,954	34,868
Machine tooling and factory fittings	5,493	309	–2	–70	—	207	418	4,631
Assets under construction including advances[2]	5,658	2,043	–11	–2	—	–390	206	3,812
Total	**63,516**	**5,030**	**–249**	**–462**	**—**	**418**	**4,400**	**54,379**

MSEK	2022 Closing balance	Depreciation	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2022 Opening balance
Accumulated depreciation and impairments								
Buildings	5,793	344	–23	–42	16	138	413	4,947
Land improvements	290	5	–6	–2	—	–26	22	297
Machinery and supply systems	28,417	1,601	–60	–250	30	–124	2,139	25,081
Machine tooling and factory fittings	4,119	338	–3	–66	7	214	298	3,331
Total	**38,619**	**2,288**	**–92**	**–360**	**53**	**202**	**2,872**	**33,656**
Net book value	**24,897**							**20,723**

MSEK	2021 Closing balance	Additions	Businesses acquired/sold	Disposals	Impairments	Other[1]	Translation effects	2021 Opening balance
Acquisition cost								
Buildings	10,060	272	–352	–17	—	100	493	9,564
Land and land improvements	1,008	3	—	–7	—	–5	28	989
Machinery and supply systems	34,868	1,259	—	–250	—	190	1,645	32,024
Machine tooling and factory fittings	4,631	345	1	–114	—	21	217	4,161
Assets under construction including advances[2]	3,812	1,943	—	–64	—	–565	143	2,355
Total	**54,379**	**3,822**	**–351**	**–452**	**—**	**–259**	**2,526**	**49,093**

MSEK	2021 Closing balance	Depreciation	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2021 Opening balance
Accumulated depreciation and impairments								
Buildings	4,947	273	–9	–12	1	2	193	4,499
Land improvements	297	6	—	–7	—	3	18	277
Machinery and supply systems	25,081	1,456	—	–308	21	–307	1,124	23,095
Machine tooling and factory fittings	3,331	273	—	–113	7	–15	118	3,061
Total	**33,656**	**2,008**	**–9**	**–440**	**29**	**–317**	**1,453**	**30,932**
Net book value	**20,723**							**18,161**

1) Includes reclassification between categories.
2) Contractual commitments for acquisition of PPE not yet booked amounted to MSEK 0 (0).

12 Right-of-use assets

Accounting policy

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.

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.

Lease expenses for short-term leases, low-value assets and variable lease payments amount to MSEK 336 (277). The lease expenses correspond in all material aspects to the cash flow for those leases.

During 2022, total cash outflow related to leases amounted to MSEK 809 (738). Interest expenses related to leases amount to MSEK 119 (106).

MSEK	2022	2021
Short-term lease expenses	248	198
Low-value asset lease expenses	62	61
Variable lease payments not included in lease liability	19	15
Other	7	3
Total	**336**	**277**

MSEK	2022 Closing balance	Additions	Modifications	Impairments	Reclassification	Translation effects	2022 Opening balance
Acquisition cost							
Premises	4,154	379	–187	—	–66	371	3,657
Vehicles	745	134	12	—	–49	39	609
Forklifts	280	53	–3	—	–23	19	234
Machinery	28	—	2	—	–3	1	28
Office equipment	20	1	–1	—	–2	2	20
Other	368	—	20	—	359[1)]	–1	–10
Total	**5,595**	**567**	**–157**	**—**	**216**	**431**	**4,538**

MSEK	2022 Closing balance	Depreciation	Modifications	Impairments	Reclassification	Translation effects	2022 Opening balance
Accumulated depreciation and impairments							
Premises	1,706	507	–169	—	– 66	126	1,308
Vehicles	502	146	–17	—	–49	35	387
Forklifts	184	62	–5	1	–23	11	138
Machinery	38	2	–2	—	–3	3	38
Office equipment	16	4	–1	—	–2	1	14
Other	65	5	23	—	48[1)]	–3	–8
Total	**2,511**	**726**	**–171**	**1**	**–95**	**173**	**1,877**
Net book value	**3,084**						**2,661**

1) Includes reclassifaction from Intangibles to Right-of-use asset.

12 Right-of-use assets, cont.

MSEK	2021 Closing balance	Additions	Modifications	Impairments	Reclassi-fication	Translation effects	2021 Opening balance
Acquisition cost							
Premises	3,657	401	2	—	–81	216	3,119
Vehicles	609	118	9	—	–73	14	541
Forklifts	234	37	2	—	–15	8	202
Machinery	28	—	–4	—	–3	2	33
Office equipment	20	2	–4	—	2	—	20
Other	–10	—	2	—	–16	–2	6
Total	**4,538**	**558**	**7**	**—**	**–186**	**238**	**3,921**

MSEK	2021 Closing balance	Depreciation	Modifications	Impairments	Reclassi-fication	Translation effects	2021 Opening balance
Accumulated depreciation and impairments							
Premises	1,308	441	–60	2	–81	74	932
Vehicles	387	169	–44	—	–76	15	323
Forklifts	138	42	–4	—	–12	4	108
Machinery	38	22	–5	—	–2	1	22
Office equipment	14	4	–1	—	—	–1	12
Other	–8	4	–4	—	–15	—	7
Total	**1,877**	**682**	**–118**	**2**	**–186**	**93**	**1,404**
Net book value	**2,661**						**2,517**

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	2022	2021
Finished goods	14,417	11,686
Raw materials and supplies	9,446	6,901
Work in process	2,189	2,410
Total	**26,052**	**20,997**

Inventory values are stated net of a provision for net realizable value of MSEK 1,517 (1,353). The amount charged to expense for net realizable provisions during the year was MSEK 135 (70). Reversals of net realizable provisions during the year were MSEK 29 (47).

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. 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 taken 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 2022

			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	16,905	—	—	—	16,905	16,905
Cash and cash equivalents	8,169	—	2,086	—	10,255	10,255
Equity securities	—	395	—	—	395	—
Marketable securities	—	—	—	746	746	—
Hedging derivatives	—	—	—	—	—	—
Trading derivatives	—	—	—	370	370	370
Debt securities	—	20	10	—	30	10
Other loans and receivables	652	—	—	—	652	589
Carrying amount	**25,726**	**415**	**2,096**	**1,116**	**29,353**	**28,129**
Fair value	**25,726**	**415**	**2,096**	**1,116**		

Financial assets per category 2021

			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	13,972	—	—	—	13,972	13,972
Cash and cash equivalents	6,320	—	6,899	—	13,219	13,219
Equity securities	—	402	—	—	402	—
Marketable securities	—	—	—	736	736	—
Hedging derivatives	—	—	—	—	—	—
Trading derivatives	—	—	—	94	94	94
Debt securities	—	21	6	—	27	6
Other loans and receivables	392	—	—	—	392	338
Carrying amount	**20,684**	**423**	**6,905**	**830**	**28,842**	**27,629**
Fair value	**20,684**	**423**	**6,905**	**830**		

Financial assets categorized as amortized cost are assets held to collect contractual cash flows. These include 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.

Financial instruments are 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.

14 Financial assets, cont.

Fair value hierarchy for financial assets at fair value (MSEK)	Level 1	Level 2	Level 3	2022	Level 1	Level 2	Level 3	2021
Fair value through other comprehensive income								
Equity securities	328	—	67	395	349	—	—	349
Debt securities	20	—	—	20	21	—	—	21
Fair value through profit or loss								
Debt securities	10	—	—	10	—	—	—	—
Trading securities	—	—	746	746	680	—	62	742
Cash and cash equivalents	2,086	—	—	2,086	6,899	—	—	6,899
Hedging derivatives	—	—	—	—	—	—	—	—
Trading derivatives	—	370	—	370	—	94	—	94
Total	**2,444**	**370**	**813**	**3,627**	**7,949**	**94**	**62**	**8,105**

Financial assets recorded at fair value, which include 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. The carrying amount is a reasonable approximation of fair value. Level 1 includes financial instruments with a quoted price in an active market. Level 2 bases fair value on models that utilize observable data for the asset or liability other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Such observable data may be market interest rates and yield curves. Level 3 bases fair value on a valuation model, whereby significant input is based on unobservable market data.

Cash and cash equivalents includes cash free and cash on time deposits at banks and debt securities maturing within three months at the the time of the investment. Cash and cash equivalents are measured at amortized cost and fair value through profit and loss.

Cash and Cash equivalents (MSEK)	2022	2021
Cash	4,238	8,424
Cash Equivalents	6,017	4,795
	10,255	**13,219**

Trade receivables by due date (MSEK)	Carrying amount	Not yet due	Past due, net of allowance 1–30 days	31–60 days	61–90 days	> 91 days
2022	16,905	14,574	1,613	435	222	61
2021	13,972	12,284	1,201	254	127	106

The average days outstanding of trade receivables in 2022 were 64 days (64). Trade receivables as a percentage of annual net sales totalled 17.4% (17.1). Trade receivables included receivables sold with recourse amounting to MSEK 109 (89). 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)	2022	2021
Opening balance 1 January	**424**	**395**
Additions	271	117
Reversals	–229	–95
Changes through the income statement	**42**	**22**
Allowances used to cover write-offs	–49	–22
Acquired/Divested companies	–4	—
Currency translation adjustments	33	29
Closing balance 31 December	**446**	**424**

15 Other short-term assets

MSEK	2022	2021
Value added tax receivables, net	2,620	2,421
Income tax receivables	866	1,009
Prepaid expenses	738	637
Accrued income	177	120
Advances to suppliers	236	119
Other current receivables	977	857
Total	**5,614**	**5,163**

16 Share capital

	Number of shares authorized and outstanding			
	A Shares	B Shares	Total	Share capital (MSEK)
Opening balance 1 January 2021	31,371,055	423,980,013	455,351,068	1,138
Conversion of A shares to B shares	–867,122	867,122	—	—
Closing balance 31 December 2021	**30,503,933**	**424,847,135**	**455,351,068**	**1,138**
Conversion of A shares to B shares	–1,100,000	1,100,000	—	—
Closing balance 31 December 2022	**29,403,933**	**425,947,135**	**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, 197,532,814 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 24,061 (23,627), see page 89. The Board has decided to propose to the Annual General Meeting, on 23 March 2023, a dividend of SEK 7.00 per share to be paid to the shareholders. The proposed dividend for 2022 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 27 March 2023. The total proposed dividend to be paid is MSEK 3,187 (3,187). 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 31 March 2022, a dividend of SEK 7.00 per share was paid to the shareholders.

17 Earnings per share

	2022	2021
Net profit attributable to owners of AB SKF (MSEK)	4,469	7,331
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	**9.81**	**16.10**
Dilutive shares from Performance Share Programmes	—	—
Weighted average diluted number of shares	455,351,068	455,351,068
Diluted earnings per share (SEK)	**9.81**	**16.10**

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.

Shares from the Performance Share Programme are not considered dilutive.

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.

18 Provisions for post-employment benefits, cont.

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 standalone 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.

	2022						
Amounts recognized in the consolidated balance sheet (MSEK)	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	383	563	606	—	252	798	2 602
Present value of funded defined benefit obligation	7,553	—	8,565	3,257	2,099	1,643	23,117
Less: Fair value of plan assets	–6,886	—	–4,746	–3,114	–761	–1,581	–17,088
Impact of asset ceiling	—	—	—	—	—	–10	–10
Total	**1,050**	**563**	**4,425**	**143**	**1,590**	**850**	**8,621**
Reflected as							
Other long-term assets	—	—	—	—	—	–127	–127
Provisions for post-employment benefits	1,050	563	4,425	143	1,590	977	8,748
Total	**1,050**	**563**	**4,425**	**143**	**1,590**	**850**	**8,621**

	2021						
Amounts recognized in the consolidated balance sheet (MSEK)	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	416	649	728	—	317	868	2,978
Present value of funded defined benefit obligation	8,638	—	10,206	4,838	2,777	1,722	28,181
Less: Fair value of plan assets	–7,836	—	–4,737	–4,510	–794	–1,571	–19,448
Total	**1,218**	**649**	**6,197**	**328**	**2,300**	**1,019**	**11,711**
Reflected as							
Other long-term assets	—	—	—	—	—	–71	–71
Provisions for post-employment benefits	1,218	649	6,197	328	2,300	1,090	11,782
Total	**1,218**	**649**	**6,197**	**328**	**2,300**	**1,019**	**11,711**

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 89% 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 and in 2021 the remaining active accruing plans were frozen, 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 2022, this reimbursement right totalled MSEK 1 (1).

Germany

The major German pension plans represent around 91% 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 defined contributions are made, and the value of the contributions is guaranteed to the participants as required by German law. Thus, this plan also qualifies as a defined benefit plan even if the benefit for the participants is equal to the contributions made into the plan.

18 Provisions for post-employment benefits, cont.

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.

	2022			2021		
MSEK	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Opening balance 1 January	**31,159**	**–19,448**	**11,711**	**31,905**	**–16,769**	**15,136**
Interest expense/(income)	583	–401	182	432	–286	146
Current service cost	536	—	536	533	—	533
Past service cost	9	—	9	–4	—	–4
Settlements	–7	2	–5	–13	2	–11
Other	3	11	14	19	1	20
Subtotal expenses	**1,124**	**–388**	**736**	**967**	**–283**	**684**
Difference between actual return and interest income	—	3,600	3,600	—	–762	–762
Actuarial (gains)/losses – demographic assumptions	–58	—	–58	8	—	8
Actuarial (gains)/losses – financial assumptions	–8,012	—	–8,012	–2,170	—	–2,170
Experience adjustments	805	—	805	173	—	173
Change in asset ceiling	—	–9	–9	—	—	—
Subtotal remeasurements in OCI	**–7,265**	**3,591**	**–3,674**	**–1,989**	**–762**	**–2,751**
Employer contribution	—	–466	–466	—	–359	–359
Employee contribution	25	–5	20	20	–4	16
Benefit payments	–1 833	1 199	–634	–1,562	165	–1,397
Subtotal cash flow[1)]	**–1,808**	**728**	**–1,080**	**–1,542**	**–198**	**–1,740**
Other [2)]	7	2	9	19	–134	–115
Translation differences	2,502	–1,583	919	1,799	–1,302	497
Closing balance 31 December	**25,719**	**–17,098**	**8,621**	**31,159**	**–19,448**	**11,711**

1) Cash outflows for 2023 are expected to be some MSEK 831 which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.
2) Other includes reclassification of the German pension plans from defined contribution plans to defined benefit plans for 2021.

Components of total post-employment benefit expenses (MSEK)	2022	2021
Post-employment defined benefit expense	736	684
Post-employment defined contribution expense	682	575
Total post-employment benefit expenses	**1,418**	**1,259**
Whereof amounts charged to:		
Cost of goods sold	681	658
Selling expenses	489	435
Administrative expenses	66	20
Financial expenses	182	146
Total	**1 ,418**	**1,259**

18 Provisions for post-employment benefits, cont.

	2022			2021		
Plan asset composition (MSEK)	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Government bonds	1,533	—	1,533	1,721	—	1,721
Corporate bonds	6,077	—	6,077	6,072	—	6,072
Equity instruments	4,767	395	5,162	6,223	434	6,657
Real estate	254	1,861	2,115	259	1,648	1,907
Other, primarily cash and other financial receivables	1,115	1,086	2,201	2,174	917	3,091
Total	**13,746**	**3,342**	**17,088**	**16,449**	**2,999**	**19,448**

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 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.

2022 Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	5.2	5.1	3.8	4.5	3.5	3.5
Pension increase rate[1]	n/a	n/a	2.0	2.9	2.0	n/a
Salary growth rate[2]	n/a	n/a	2.3	3.1	3.4	5.2
Longevity male/female[3]	20.7/22.6	20.6/22.6	21.0/23.5	22.0/24.4	22.0/25	17.0/24.9
Weighted average duration of the plan (in years)[4]	8.7	7.4	15.4	16.1	18.5	8.0

2021 Significant weighted-average assumptions at end of year	USA pension	USA medical	Germany pension	U.K. pension	Sweden pension	Other
Discount rate	2.7	2.6	1.2	1.8	1.5	1.3
Pension increase rate[1]	n/a	n/a	3.0	3.3	1.8	n/a
Salary growth rate[2]	n/a	n/a	2.2	3.3	3.1	3.2
Longevity male/female[3]	20.6/22.5	20.5/22.5	20.4/23.9	21.9/24.3	22.1/24.9	21.0/24.0
Weighted average duration of the plan (in years)[4]	10.1	9.4	18.5	19.1	21.2	10.7

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 defined benefit obligations, MSEK
Discount rate	+1%	–2,510
	–1%	3,141
Salary growth rate	+0.5%	271
	–0.5%	–260
Pension increase rate	+0.5%	1,097
	–0.5%	–1,004
Longevity	+1 year	831
	–1 year	–835

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. SKF is subject to an investigation in Brazil by the General Superintendence of the Administrative Council for Economic Defense, regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. 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.

Claims decreased during 2022 with MSEK –25, related to warranty claims.

In 2022, the total restructuring cost amounted to around MSEK 851, whereof MSEK 498 refers to provisions, and includes the consolidation of factories in Europe as well as a general reduction in headcount driven by new ways of working and simplified organizational structures. This cost includes voluntary and involuntary termination benefits spread over several countries. The majority of the remaining restructuring provisions are expected to be settled in 2023 and 2024.

The largest items in other employee benefits are jubilee bonus in Italy, part-time retirement programmes in Germany and special payroll tax in Sweden.

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

MSEK	2022 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2022 Opening balance
Claims	238	93	–75	–64	–4	25	263
Other employee benefits	580	202	–401	–42	–223	54	990
Restructuring	959	680	–485	–43	–87	70	824
Other	528	214	–78	–46	–43	41	440
Total	**2,305**	**1,189**	**–1,039**	**–195**	**–357**	**190**	**2,517**

MSEK	Of which current
Claims	129
Other employee benefits	3
Restructuring	871
Other	236
Total	**1,239**

Contingent liabilities at nominal values (MSEK)	2022	2021
Guarantees	51	47
Tax claims	729	347
Other contingent liabilities	32	28
Total	**812**	**422**

MSEK	2021 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2021 Opening balance
Claims	263	107	–143	–88	86	5	296
Other employee benefits	990	391	–296	–511	37	18	1,351
Restructuring	824	419	–633	–142	–2	40	1,142
Other	440	189	–94	–222	–144	18	693
Total	**2,517**	**1,106**	**–1,166**	**–963**	**–23**	**81**	**3,482**

MSEK	Of which current
Claims	102
Other employee benefits	48
Restructuring	771
Other	184
Total	**1,105**

20 Financial liabilities

Accounting policy
Financial liabilities are recognized in the balance sheet 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 analyses based on observable market data.

Derivatives are measured at fair value and fall into Level 2 of the fair value hierarchy. See Note 14 for a description of the fair value hierarchy.

The maturities for bonds and loans stated in the table below 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 loan has been swapped into floating USD interest rate and the fixed EUR interest on the MEUR 400 loan has been swapped into floating EUR interest rate.

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.

		2022		2021	
MSEK	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
MSEK 900	2024	899	875	899	922
MSEK 2,100	2024	2,098	2,134	2,097	2,153
MEUR 300	2025	3,095	3,113	3,118	3,143
MUSD 100	2027	1,042	1,076	905	1,057
MEUR 400	2028	4,213	4,273	—	—
MEUR 300	2029	3,326	2,881	3,057	3,243
MEUR 300	2031	3,290	2,666	3,019	3,079
Long-term lease liabilities	2023 and thereafter	2,286	2,286	2,179	2,179
Other long-term loans	2023–2029	212	227	181	197
Derivatives held for hedge accounting		758	758	18	18
Derivatives held for trading		—	—	—	—
Subtotal long-term financial liabilities		**21,219**	**20,289**	**15,473**	**15,991**
Short-term financial liabilities					
MEUR 296	2022	—	—	3,031	3,094
Trade payables	2023	11,594	11,594	9,881	9,881
Short-term lease liabilities	2023	635	635	579	579
Short-term loans	2023	170	170	147	147
Derivatives held for hedge accounting	2023	—	—	—	—
Derivatives held for trading	2023	111	111	106	106
Subtotal short-term financial liabilities		**12,510**	**12,510**	**13,744**	**13,807**
Total		**33,729**	**32,799**	**29,217**	**29,798**

21 Other short-term liabilities

MSEK	2022	2021
Employee related accruals	3,792	3,366
Accrual for rebates	1,622	1,270
Income tax payable	735	972
Deferred income	340	245
Customer advances	430	315
Value added taxes payable, net	808	640
Other current liabilities	893	834
Other accrued expenses	2,071	2,033
Total	**10,691**	**9,675**

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 Wallenberg Investments AB, which 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 2022 FAM is the major shareholder of the Parent Company, holding 28.9% (29.3) of the voting rights and 15.0% (14.0) of the share capital.

Investments in associated companies include a 28% shareholdning of Sunstrength Renewables Pvt Ltd. in India, a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, a 20% shareholding of Colinx, LLC in USA, a 50% shareholding of Wuhan Economos seals technology Co., Ltd. in China, and a 25% shareholding of Schwarz GmbH Technischer Großhandel in Germany.

During 2022, significant influence has been obtained in Hunan SUND Technologies Co., Ltd. in China as SKF has a representative in the company's board. The shareholding amounts to 7%.

Previous year a 25% shareholding in Simplex Turbolo Co. Ltd. in UK was reported. The shareholding was divested during 2022.

Transactions with Associated companies (MSEK)	2022	2021
Sales of goods and services	64	55
Purchases of goods and services	550	437
Receivables as of 31 December	37	37
Liabilities as of 31 December	9	50

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. No other significant transactions with related parties have occurred.

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 2022, 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 shall apply to remuneration agreed and amendments to remuneration already agreed, after the adoption of the principles by the Annual General Meeting 2022, 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.

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 also, irrespective of the principles of remuneration for Group Management, resolved on SKF's Performance Share Programme 2022 for senior managers and key employees, where Group Management is included. For more information on SKF's Performance Share Programme 2022, see page 75.

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, financial and sustainability 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 which can be both financial and non-financial and which contribute to the company's longterm and sustainable development. The criteria shall primarily be based on the annual financial performance of the SKF Group, such as financial result, growth and capital efficiency and shall promote sustainability targets of the SKF Group.

The satisfaction of criteria for awarding variable salary shall be measured over a period of one year.

The maximum variable salary shall vary between 50 to 70% of the accumulated annual fixed salary of Group Management members.

23 Remuneration to key management, cont.

Other benefits
The SKF Group may provide other benefits to Group Management members in accordance with local practice. 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% of the accumulated annual fixed salary of the members of Group Management.

Other benefits can for instance be a company car or health and medical insurance.

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% of the accumulated annual fixed 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' of 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.

Board of Directors
The Chair 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 2022 it was decided that the Board should be paid fees according to the following: – an allotment of SEK 2,530,000 to the Chair of the Board and with SEK 825,000 to each of the other Board members; and – an allotment of SEK 285,000 to the Chair of the Audit Committee, with SEK 210,000 to each of the other members of the Audit Committee, with SEK 165,000 to the Chair of the Remuneration Committee and with SEK 130,000 to each of the other members of the Remuneration Committee. A prerequisite for obtaining an allotment is that the Board member is elected by the Annual General Meeting and not employed by the company.

President and Chief Executive Officer
Rickard Gustafson, President and Chief Executive Officer of AB SKF has received remuneration from the company during 2022 governed by the remuneration principles decided upon by the Annual General Meeting; salary and other remunerations amounted to a total of SEK 17,496,263 of which 14,634,867 SEK was fixed annual salary and other benefits.

Alrik Danielson, former President and Chief Executive Officer of AB SKF, has received remuneration from the company in year 2022 in accordance with the remuneration principles of a total of SEK 13,844,639 of which SEK 11,921,879 was severence payment and SEK 1,922,760 was variable salary related to 2021 year's performance.

The pension arrangement for Rickard Gustafson and Alrik Danielson is a combination of the ITP scheme and a defined contribution of 40% of the annual fixed salary above 30 income base amounts.

Rickard Gustafson'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 11 people at the end of the year, received in 2022 (exclusive of the President) salary and other remunerations amounting to a total of SEK 92,675,082 of which SEK 71,707,325 was fixed annual salary, SEK 16,756,751 was variable salary related to 2021 year's performance, and SEK 4,211,006 was alottment of shares under the Performance Share Programme 2019.

23 Remuneration to key management, cont.

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 with criteria such as operating profit and cash flow.

SKF's Performance Share Programmes are further described on page 75.

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). 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.

	Fixed salary and other benefits[1]/ fixed Board remuneration		Short-term variable salary		Performance Share Programmes		Remuneration for committee work		Gross pension costs[2]		
Amounts in SEK	Amounts paid in 2022[3]	Amounts expensed in 2022[3]	Amounts paid in 2022 related to 2021[3]	Amounts expensed in 2022[3]	Amounts paid in 2022 related to prior years[3]	Amounts expensed in 2022[3]	Amounts paid in 2022[3]	Amounts expensed in 2022[3]	Amounts expensed in 2022[3]	Total expensed in 2022	Total expensed in 2021
Board of directors of AB SKF											
Hans Stråberg	2,415,000	2,530,000	—	—	—	—	375,000	375,000	—	2,905,000	2,640,000
Hock Goh	787,500	825,000	—	—	—	—	—	—	—	825,000	750,000
Barb Samardzich	375,000	—	—	—	—	—	—	—	—	—	750,000
Colleen Repplier	787,500	825,000	—	—	—	—	130,000	130,000	—	955,000	870,000
Geert Follens	787,500	825,000	—	—	—	—	210,000	210,000	—	1,035,000	940,000
Håkan Buskhe	787,500	825,000	—	—	—	—	415,000	415,000	—	1,240,000	1,130,000
Susanna Schneeberger	787,500	825,000	—	—	—	—	—	—	—	825,000	750,000
CEO	14,634,867	15,496,287	2,861,396	4,352,487	—	5,380,450	—	—	5,780,066	31,009,230	17,454,998
Former CEO	11,921,879[4]	—	1,922,760	—	—	—	—	—	4,011,309	4,011,309	11,664,920
Former acting CEO[5]	—	—	—	—	—	—	—	—	—	—	763,750
Group Management[6] [7]	71,707,325	68,057,796	16,756,751	16,728,600	4,211,006	3,584,681	—	—	22,911,657	111,282,733	86,757,468
whereof AB SKF	44,179,627	40,530,098	9,664,725	8,809,766	3,304,119	3,366,144	—	—	16,691,056	69,397,063	55,577,995
Total 2022	104,991,572	90,209,082	21,540,907	21,081,087	4,211,006	8,965,131	1,130,000	1,130,000	32,703,032	154,088,332	—
whereof AB SKF	77,463,874	62,681,384	14,448,881	13,162,253	3,304,119	8,746,594	1,130,000	1,130,000	26,482,431	112,202,662	—
Total 2021	76,112,463	65,247,261	13,867,673	21,019,266	13,964,369	20,005,419	1,030,000	1,030,000	17,169,190	—	124,471,136
whereof AB SKF	56,281,026	45,415,824	8,144,714	13,284,908	11,638,084	17,096,734	1,030,000	1,030,000	16,464,197	—	93,291,663

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) Compensation for the non-compete undertaking is not included in the table.
5) Compensation specifically for the assignment as acting CEO. Niclas Rosenlew's ordinary compensation as CFO is not included in the amount.
6) Total pension obligations, for SKF Group, related to Group Management (including CEO) were MSEK 64.
7) Exclusive of CEO.

23 Remuneration to key Management, cont.

SKF's Performance Share Programme

Performance Shares

The Annual General Meeting 2022 decided on the introduction of SKF's Performance Share Programme 2022. 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. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

The allotment of shares shall be related to the level of achievement of the TVA target level, as defined by the Board of Directors, and the SKF Group Net Zero 2030 objective.

90% of the maximum allocation of shares under the programme is based on the level of TVA increase. The allocation of shares is based on the level of TVA increase during the financial years 2022–2024 compared to the financial year 2021. 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.

10% of the maximum allocation is based on the reduction of CO_2e emissions. After the expiry of the financial year 2024, a comparison will be made of the level of CO_2e reduction achieved during the programme period and the net zero 2030 objective trajectory. If the trajectory reduction level is met or exceeded full allotment is awarded, i.e. 10% of the total maximum allotment under the programme. If the reduction does not meet the trajectory level, no allotment is awarded in relation to this part of the programme.

Provided that the TVA increase reaches the target level and that the Net Zero 2030 objective is met, the participants of the programme may be allotted the following maximum number of shares per person within the various key groups:

- CEO and President: 36,500 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.

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 139.8 for SKF's Performance Share Programme 2022.

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 2019:
Allotment of shares was made in February 2022. In total, 200,010 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 2019–2021.

Men and women in Board of Directors and Group Management	2022 Number of persons	2022 Whereof men	2021 Number of persons	2021 Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	7	71%	8	63%
Group Management incl. CEO	12	83%	10	80%
Parent Company				
Board of Directors of the Parent company incl. CEO	7	71%	8	63%
Group Management incl. CEO	8	75%	8	75%

SKF's Performance Share Programme 2020:
Allotment of shares was made in February 2023. In total 225,779 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 2020–2022.

SKF's Performance Share Programme 2021:
Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2024, if all the conditions of the programme are met and the allotment is approved by the Board.

SKF's Performance Share Programme 2022:
Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2025, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2022 for all programmes were MSEK 83 (95) excluding social charges.

24 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (MSEK)	2022	2021
Deloitte		
Audit fees	57	50
Where of Deloitte AB	12	10
Audit related fees	2	2
Where of Deloitte AB	2	2
Tax fees	2	7
Where of Deloitte AB	—	2
Other fees	2	3
Where of Deloitte AB	1	2
PricewaterhouseCoopers		
Audit fees	—	1
Where of PricewaterhouseCoopers AB	—	—
Audit related fees	—	—
Where of PricewaterhouseCoopers AB	—	—
Tax fees	—	0
Where of PricewaterhouseCoopers AB	—	—
Other fees	—	—
Where of PricewaterhouseCoopers AB	—	—
	63	**63**

The Parent Company's share (MSEK)	2022	2021
Deloitte		
Audit fees	9	7
Audit related fees	2	2
Tax fees	—	1
Other fees to auditors	1	1
	12	**11**

Audit fees related to examination of the Annual Report and financial reporting 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.

25 Average number of employees

	2022		2021	
	Number of employees	Whereof men,%	Number of employees	Whereof men,%
Parent Company in Sweden	701	66	689	66
Subsidiaries in Sweden	1,949	81	1,900	81
Subsidiaries abroad	38,123	78	38,272	76
	40,773	**78**	**40,861**	**75**

	2022		2021	
Geographic specification of average number of employees in subsidiaries abroad	Number of employees	Whereof men,%	Number of employees	Whereof men,%
France	2,215	82	2,197	82
Italy	2,854	78	3,039	70
Germany	4,949	87	5,142	88
Other Western Europe excluding Sweden	3,304	82	3,163	83
Central and Eastern Europe	4,047	62	4,301	65
USA	3,657	73	3,677	74
Canada	189	79	192	80
Mexico	1,837	70	1,649	69
Latin America	3,142	88	3,303	88
China	6,833	71	6,390	69
India	2,688	92	2,730	95
Other Asian countries/Pacific	2,025	82	2,104	82
Middle East and Africa	383	73	385	69
	38,123	**78**	**38,272**	**76**

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 long-term 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 net debt/equity ratio, excluding pension liabilities of below 40%.

Key figures[1]	2022	2021
Total equity, MSEK	54,043	45,365
Gearing, %	35.6	40.5
Equity/assets ratio, %	48.7	45.5
Net debt/equity ratio, excluding post-employment benefits, %	19.3	12.5
Adjusted Return on capital employed[2], %	12.6	14.9

1) Definition of these key figures is available on page 144.
2) Adjusted for items affecting comparability.

This together with the self funding principle in the new strategic framework, operating cash flow to fund investments and shareholder distribution, underpins the Group's financial flexibility and its ability to execute on the strategy 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 minimize 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 centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized 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 77,793 (70,357) to MSEK 6,206 (6,594). This amount represented the Group's main transaction exposure excluding hedges.

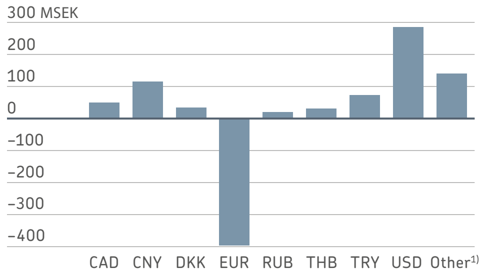
Net currency flows (MSEK)	2022	2021
CAD	949	747
CNY	2,249	2,666
DKK	622	626
EUR	–7,856	–6,833
RUB	333	958
THB	567	427
TRY	1,395	909
USD	5,667	5,331
Other[1]	2,280	1,763
SEK	–6,206	–6,594

1) Other is a sum comprising 11 different currencies.

Based on the assumption that the net currency flows will be the same as in 2022, 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

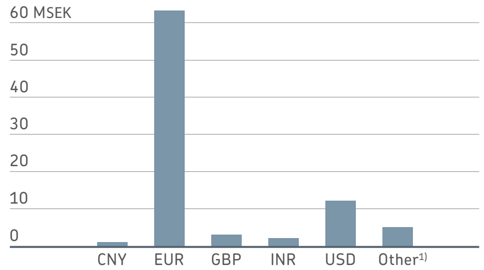


1) Other is a sum comprising 11 different currencies.

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 2022 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 78–79.

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



1) Other is a sum comprising 47 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 29,888 (30,923) and total interest-bearing financial assets amounted to MSEK 11,682 (14,374). 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.

26 Financial risk management, cont.

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavorable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around MSEK 60 (–70). 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 395 (402), 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 20 (20) higher/lower.

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 one unutilized committed credit facility of MEUR 500 syndicated by nine banks that will expire in 2025, and one unutilized committed credit facility of MEUR 250 that will expire in 2023.

A good rating is important in the management of liquidity risks. As of 31 December 2022 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 shows 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 2022 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 2022. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2022 Cash flows			
MSEK	2023	2024	2025–2027	2028 and thereafter
Loans	–601	–3,330	–4,733	–11,018
Trade payables	–11,594	—	—	—
Derivatives, net	–275	—	–530	–228
Lease liabilities	–677	–895	–894	–599
Total	**–13,147**	**–4,225**	**–6,157**	**–11,845**

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 28,958 (28,440) 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)	2022	2021
Trade receivables	16,905	13,972
Other receivables	1,428	1,155
Derivatives	370	94
Cash and cash equivalent	10,255	13,219
Total	**28,958**	**28,440**

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 369 (94) and derivative liabilities of around MSEK 852 (117) 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 2022, by using cross-currency interest rate swaps.

The MEUR 300 loan with fixed interest payments has been swapped into floating USD interest. In addition, the MEUR 400 bond, which is due in 2028, with fixed interest payments has been swapped into floating EUR interest. Maturity and carrying amount are disclosed in Note 20. 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 –758 (–18) as fair value hedges as of 31 December 2022.

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

26 Financial risk management, cont.

MSEK	Financial expense 2022	Financial expense 2021
Financial liabilities (hedged items)	522	70
Cross-currency interest-rate swaps (hedging instruments)	–531	–69
Difference (inefficiency)	**–9**	**1**

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

The result of the hedges totaled MSEK –21 (–6) before tax in 2022 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	2022	2021
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	–758	–18
Economic hedges	Trading	—	—
Currency forwards/ currency options			
Economic hedges	Trading	260	–11
Share swaps			
Economic hedges	Trading	–1	—
		–499	**–29**

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 2022, there has been no change in significant non-controlling interests.

The largest non-controlling interest is SKF India Ltd. The non-controlling interests holds a 47.4% (47.4) shareholding in the company. This represents 2.4% (2.2) of the Group's total equity. The tables present the summarized financial information of SKF India Ltd.

Summarized income statement (MSEK)	January–December 2022	2021
Net sales	5,378	3,973
Operating profit	1,027	675
Net income	**672**	**435**
Other comprehensive income	72	161
Total comprehensive income	**744**	**596**
Profit allocated to NCI	319	206
Dividends paid to NCI	–45	–40

Summarized balance sheet (MSEK)	As of 31 December 2022	2021
Non-current assets	741	608
Current assets	3,208	2,627
Total assets	**3,949**	**3,235**
Equity attributable to shareholders of AB SKF	1,465	1,123
Equity attributable to NCI	1,321	1,013
Non-current liabilites	54	45
Current liabilities	1,109	1,054
Total equity and liabilities	**3,949**	**3,235**

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 company within the Group that makes the strategic decisions and pays for the research and development. AB SKF owns and controls the Intellectual Property Rights within the Group. Subsidiaries perform tasks decided by AB SKF and thus have a limited commercial liability.

Dividend income from consolidated subsidiaries amounted to MSEK 3,019 (2,010).

Net investments in subsidiaries increased by MSEK 367 (–421) whereof MSEK –165 (–60) is attributable to impairments and MSEK 533 (70) related to capital contributions. Shares with a booked value of MSEK 0 (–354) were sold during the year.

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 24,061.

Parent Company income statements

		January–December	
MSEK	Note	2022	2021
Revenue	2	6,658	7,775
Cost of revenue	2	–5,923	–5,036
General management and administrative expenses	2	–1,799	–1,470
Other operating income and expenses, net	2	8	0
Operating profit		**–1,056**	**1,269**
Financial income and expenses, net	3	3,549	2,325
Profit after financial items		**2,493**	**3,594**
Appropriations	4	1,115	–793
Profit before tax		**3,608**	**2,801**
Income taxes	5	5	–54
Net profit		**3,613**	**2,747**

Parent Company statements of comprehensive income

		January–December	
MSEK	Note	2022	2021
Net profit		3,613	2,747
Items that may be reclassified to the income statement			
Assets at fair value through other comprehensive income	9	–15	95
Other comprehensive income, net of tax		**–15**	**95**
Total comprehensive income		**3,598**	**2,842**

Parent Company balance sheets

MSEK	Note	As of 31 December 2022	2021
ASSETS			
Non-current assets			
Intangible assets	6	1,234	1,371
Property, plant and equipment	7	78	63
Investments in subsidiaries	8	22,442	22,074
Long-term receivables from subsidiaries		18,387	13,022
Investments in equity securities	9	338	349
Other long-term receivables		113	167
Deferred tax assets	5	398	312
		42,990	**37,358**
Current assets			
Short-term receivables from subsidiaries		5,555	6,958
Other short-term receivables		145	140
Prepaid expenses and accrued income		203	130
Cash and cash equivalents		10	3
		5,913	**7,231**
Total assets		**48,903**	**44,589**

MSEK	Note	As of 31 December 2022	2021
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		—	—
		2,056	**2,056**
Unrestricted equity			
Fair value reserve		148	163
Retained earnings		20,300	20,717
Net profit		3,613	2,747
		24,061	**23,627**
		26,117	**25,683**
Untaxed reserves	4	—	—
Provisions			
Provisions for post-employment benefits	10	602	430
Other provisions		64	15
		666	**445**
Non-current liabilities			
Long-term loans	11	18,386	13,023
		18,386	**13,023**
Current liabilities			
Short-term loans	11	—	3,031
Trade payables		495	320
Short-term liabilities to subsidiaries		2,581	1,488
Other short-term liabilities		153	132
Accrued expenses and deferred income		505	467
		3,734	**5,438**
Total shareholders' equity and liabilities		**48,903**	**44,589**

Parent Company statements of cash flow

MSEK	Note	January–December 2022	2021
Operating activities			
Operating loss/profit		–1,056	1,269
Adjustments for			
Depreciation, amortization and impairments	6, 7	214	202
Other non-cash items		338	126
Payments under post-employment defined benefit plans	10	–38	–36
Income taxes paid/received		–20	—
Changes in working capital			
Trade payables		175	140
Other operating assets and liabilities, net		–564	–2,394
Interest received		270	203
Interest paid		–281	–252
Other financial items		–73	404
Net cash flow from operating activities		**–1,035**	**–338**
Investing activities			
Additions to intangible assets	6	–70	–112[1]
Additions to property, plant and equipment	7	–22	–4
Sales of property, plant and equipment	7	—	17
Dividends received from subsidiaries	3	3,819	2,010
Investments in subsidiaries	8	–533	–464
Sales of shares in subsidiaries	8	—	354
Capital repayments from subsidiaries	8	—	472
Investments in equity securities	9	–5	–1
Net cash flow used in investing activities		**3,189**	**2,272**
Net cash flow after investments before financing		**2,154**	**1,934**
Financing activities			
Proceeds from medium- and long-term loans		4,276	3,045
Repayment of medium- and long-term loans		–3,236	–2,018
Cash dividends to AB SKF's shareholders		–3,187	–2,960
Net cash flow used in financing activities		**–2,147**	**–1,933**
Increase(+)/decrease(–) in cash and cash equivalents		**7**	**1**
Cash and cash equivalents at 1 January		3	2
Cash and cash equivalents at 31 December		**10**	**3**

1) Includes intangible assets of MSEK 112 paid in 2021.

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 2021	**1,138**	**918**	**99**	**68**	**23,578**	**25,801**
Net profit	—	—	—	—	2,747	2,747
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	95	—	95
Capitalized development reserve	—	—	–99	—	99	0
Transactions with shareholders						
Cost under Performance Share Programmes[2]	—	—	—	—	0	0
Dividends	—	—	—	—	–2,960	–2,960
Closing balance 31 December 2021	**1,138**	**918**	**0**	**163**	**23,464**	**25,683**
Net profit	—	—	—	—	3,613	3,613
Components of other comprehensive income						
Change in assets to fair value through other comprehensive income	—	—	—	–15	—	–15
Capitalized development reserve	—	—	—	—	—	—
Transactions with shareholders						
Cost under Performance Share Programmes[2]	—	—	—	—	23	23
Dividends	—	—	—	—	–3,187	–3,187
Closing balance 31 December 2022	**1,138**	**918**	**0**	**148**	**23,913**	**26,117**

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 the company within the Group that makes the strategic decisions and pays for the research and development and is as such entitled to residual profits. Consequently the revenues are comprised of residual profits and royalties from subsidiaries.

Cost of revenue include research and development expenses totalling MSEK 2,874 (2,501).

Of the total operating expenses, MSEK 4,185 (3,782) was invoiced from subsidiaries.

3 Financial income and financial expenses

MSEK	2022	2021
Income from participations in Group companies		
Dividends from subsidiaries	3,819	2,010
Other financial income from investments in subsidiaries	–2	483
Impairment and disposals of investments in subsidiaries	–165	–60
	3,652	**2,433**
Financial income		
Interest income from subsidiaries	270	203
Interest income from external parties	1	—
	271	**203**
Financial expenses		
Interest expenses to subsidiaries	–72	–73
Interest expenses to external parties	–266	–202
Other financial expense	–36	–36
	–374	**–311**

4 Appropriations

Appropriations (MSEK)	2022	2021
Paid/received group contribution	1,115	–793
Untaxed reserves		
Change in accelerated depreciation reserve	—	—
	1,115	**–793**
Untaxed reserves in the balance sheet		
Accelerated depreciation reserve	—	—

5 Taxes

Taxes on profit before tax (MSEK)	2022	2021
Current taxes	—	—
Other taxes	–81	–65
Deferred tax	86	11
	5	**–54**

Net deferred assets per type net (MSEK)	2022	2021
Provisions for post-employment benefits	129	126
Tax credit carry forwards	266	186
Tax loss carry forwards	3	—
Other	—	—
Deferred tax assets	**398**	**312**

Reconciliation of the statutory tax in Sweden and the actual tax (MSEK)	2022	2021
Tax calculated using the statutory tax rate in Sweden	–743	–577
Non-taxable dividends and other financial income	787	526
Tax referring to previous years	24	23
Other non-deductible and non-taxable profit items, net	–63	–26
Actual tax	**5**	**–54**

The corporate statutory income tax rate in Sweden is 20.6% (20.6).

6 Intangible assets

MSEK	2022 Closing balance	Additions	Impairments	Derecognitions	2022 Opening balance
Acquisition cost					
Goodwill	42	7	—	—	35
Technology, Intellectual property and similar items	1,058	45	—	—	1,013
Internally developed software	2,308	18	—	—	2,290
	3,408	**70**	**—**	**—**	**3,338**

MSEK	2022 Closing balance	Amortization	Impairments	Derecognitions	2022 Opening balance
Accumulated amortization					
Goodwill	31	6	—	—	25
Technology, Intellectual property and similar items	944	19	—	—	925
Internally developed software	1,199	182	—	—	1,017
	2,174	**207**	**—**	**—**	**1,967**
Net book value	**1,234**				**1,371**

MSEK	2021 Closing balance	Additions	Impairments	Derecognitions	2021 Opening balance
Acquisition cost					
Goodwill	35	—	—	—	35
Technology, Intellectual property and similar items	1,013	—	—	—	1,013
Internally developed software	2,290	38	—	—	2,252
	3,338	**38**	**—**	**—**	**3,300**

MSEK	2021 Closing balance	Amortization	Impairments	Derecognitions	2021 Opening balance
Accumulated amortization					
Goodwill	25	5	—	—	20
Technology, Intellectual property and similar items	925	16	—	—	909
Internally developed software	1,017	174	—	—	843
	1,967	**195**	**—**	**—**	**1,772**
Net book value	**1,371**				**1,528**

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	2022 Closing balance	Additions	Disposals	2022 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	86	5	—	81
Assets under construction including advances	44	17	—	27
	135	**22**	**—**	**113**

MSEK	2022 Closing balance	Depreciation	Disposals	2022 Opening balance
Accumulated depreciation				
Buildings	3	—	—	3
Machine toolings and factory fittings	54	7	—	47
	57	**7**	**—**	**50**
Net book value	**78**			**63**

MSEK	2021 Closing balance	Additions	Disposals	2021 Opening balance
Acquisition cost				
Buildings	5	—	—	5
Machine toolings and factory fittings	81	—	—	81
Assets under construction including advances	27	4	–17	40
	113	**4**	**–17**	**126**

MSEK	2021 Closing balance	Depreciation	Disposals	2021 Opening balance
Accumulated depreciation				
Buildings	3	—	—	3
Machine toolings and factory fittings	47	7	—	40
	50	**7**	**—**	**43**
Net book value	**63**			**83**

8 Investments in subsidiaries

Investments in subsidiaries held on 31 December (MSEK)	2022	Additions	Impairment	Disposals and capital repayments	2021	Additions	Impairment	Disposals and capital repayments	2020
Investments in subsidiaries	22,442	533	–165	—	22,074	464	–60	–826	22,496

The Group is composed of 172 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.

8 Investments in subsidiaries, cont.

Name of directly owned subsidiaries	Country/Region	Registration number	No. of shares	% owner-ship	Book value (MSEK) 2022	2021	Main activities[1)]
SKF Argentina S.A.	Argentina	—	14,677,299	86.25[2)]	94	94	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
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)]	626	626	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100	202	202	M,S
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	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	1,573	M,S
SKF Lubrication Systems Germany GmbH	Germany	—	2,574	10,1[2)]	223	223	M,S
SKF Hellas S.A.	Greece	—	2,000	100	—	—	S
SKF Svéd Golyóscsapágy Zrt	Hungary	—	20	100	—	—	S
SKF Engineering and Lubrication India Private Ltd.	India	—	1,196,450	52.8[2)]	314	314	M,S
SKF India Ltd.	India	—	22,666,055	45.8[3)]	87	87	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60	26	26	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	96.3[2)]	1	1	S
SKF AI Ltd	Israel	—	2,413,322	100	220	220	S
SKF Industrie S.p.A	Italy	—	465,000	100	912	912	M,S
SKF Japan Ltd.	Japan	—	32,400	100	174	174	M,S
SKF Malaysia Sdn Bhd	Malaysia	—	1,000,000	100	57	57	S
SKF de México, S.A. de C.V.	Mexico	—	375,623,529	99.9[2)]	600	204	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	—	8,395	100	20	20	S
SKF Financial Services Poland sp.zoo	Poland	—	100	100	37	30	O
SKF Polska S.A.	Poland	—	3,701,466	100	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	—	64,843	100	5	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 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)]	4,144	4,144	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)]	99	99	O
SKF Eurotrade AB	Sweden	556206-7610	83,500	100	12	12	S
SKF Lager AB	Sweden	556219-5288	2,000	100	—	—	O
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100	—	—	O
The Waste Company Sweden AB	Sweden	559128-2016	50,000	100	—	—	O
SKF Efolex AB	Sweden	559233-1275	2,500	100	2	31	O
SKF Edge AB	Sweden	556785-4640	1,000	100	2	9	O
SKF Verwaltungs AG	Switzerland	—	500	100	502	502	O
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100	102	102	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 USA Inc.	USA	—	1,000	100	4,155	4,155	M,S
SKF Venezolana S.A.	Venezuela	—	20,014,892	100	—	—	O
					22,442	**22,074**	

1) M=Manufacturing, S=Sales, O=Other incl treasury, reinsurance, holding and/or dormant activities.
2) Parent Company together with subsidiares own 100%.
3) Parent Company together with subsidiaries own 52.6%.

8 Investments in subsidiaries, cont.

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
BFW Coupling Services Ltd.	Canada	100	Canada	S
Cooper Roller Bearings Co. Ltd.	United Kingdom	100	United Kingdom	M
Kaydon Corporation	USA	100	USA	M,S
Kaydon S de R.L. de C.V.	Mexico	100	the Netherlands	M
Lincoln Industrial Corporation	USA	100	USA	M,S
M3M S.A.S	France	100	France	M
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
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 (U.K.) Ltd.	United Kingdom	100	United Kingdom	M,S
SKF (Xinchang) Bearings and Precision Technologies	China	100	China	M
SKF (Zambia) Ltd.	Zambia	100	Sweden	S
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 Intelligent Clean Technology (Shanghai)	China	100	China	M,S
SKF Latin Trade S.A.S	Colombia	100	Chile	S
SKF Lubrication Systems CZ s.r.o	Czech Republic	100	Germany	M
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 RecondOil AB	Sweden	100	Sweden	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 S.A. de C.V.	Mexico	100	USA	M,S
SKF Sealing Solutions (Wuhu) Co. Ltd.	China	100	China	M,S
SKF Seals Italy S.p.A.	Italy	100	Italy	S,M
SKF Slovensko, spol. S.r.o.	Slovakia	100	Sweden	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
SKF Uruguay S.A	Uruguay	100	Argentina	S
SKF Vietnam Co. Ltd.	Vietnam	100	Singapore	S
Stewart Werner Corporation of Canada	Canada	100	USA	S
Venture Aerobearings LLC.	USA	51	USA	M,S
Vesta Si Sweden AB	Sweden	100	Sweden	M

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	2022 Book value	2021 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	316	332
Other			SEK	22	17
				338	**349**

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)	2022	2021
Present value of funded pension obligations	705	546
Fair value of plan assets	–292	–313
Net obligation	**413**	**233**
Present value of unfunded pension obligations	189	197
Net provisions	**602**	**430**

Change in net provision for the year (MSEK)	2022	2021
Opening balance 1 January	430	431
Defined benefit expense	210	35
Pension payments	–38	–36
Closing balance 31 December	**602**	**430**

Components of expense (MSEK)	2022	2021
Pension cost	174	56
Interest expense	15	17
Return on plan assets	21	–38
Defined benefit expense	**210**	**35**
Defined contribution expense	115	119
Total post-employment benefit expense	**325**	**154**

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 2.85% (3.84) and for the other defined benefit plan it was 2.51% (0.39).

Next year's expected cash outflows for pension obligations are MSEK 165.

In January 2022, the calculation basis for discount rate was changed by –1%, life expectancy and consolidation reserve, which meant a substantial increase in AB SKF's pension liability. In January 2023, the pension debt is expected to increase significantly due to the accrual of debt for free bond holders according to the inflation index of 10.84%.

11 Loans

			2022		2021	
MSEK	Maturity	Interest rate	Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
MEUR 296	2022	1.63	—	—	3,031	3,094
MSEK 900	2024	1.13	899	875	899	922
MSEK 2,100	2024	3.49	2,098	2,134	2,097	2,153
MEUR 300	2025	1.25	3,324	3,113	3,046	3,143
MUSD 100	2027	4.06	1,043	1,076	905	1,057
MEUR 400	2028	3.13	4,406	4,273	—	—
MEUR 300	2029	0.88	3,326	2,881	3,057	3,243
MEUR 300	2031	0.25	3,290	2,666	3,019	3,079
			18,386	**17,018**	**16,054**	**16,691**

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

MSEK	2022	2021[1)]
Salaries, wages and other remuneration	817	798
Social charges (whereof post-employment benefit expense)	585 (325)	466 (154)

1) 2021 includes cost of MSEK 59 related to 2020s short-term variable salary programme.

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	2022	2021
General partner	2	4
Other contingent liabilites	30	24
UK Pension guarantee	160	—
	192	**28**

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

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

Proposed distribution of surplus

Fair value reserve	SEK	147,225,341
Retained earnings	SEK	20,300,330,868
Net profit for the year	SEK	3,613,048,508
Total surplus	**SEK**	**24,060,604,717**
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 7.00 per share[1]	SEK	3,187,457,476[2]
to be carried forward:		
Fair value reserve	SEK	147,225,341
Retained earnings	SEK	20,725,921,900
	SEK	**24,060,604,717**

1) Suggested record day for right to dividend, 27 March 2023.
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 2022 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, March 1 2023

Hans Stråberg, *Chair*
Hock Goh, *Board member*
Colleen Repplier, *Board member*
Geert Follens, *Board member*
Håkan Buskhe, *Board member*

Susanna Schneeberger, *Board member*
Rickard Gustafson, *President and CEO, Board member*
Jonny Hilbert, *Board member*
Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued March 1 2023.

Deloitte AB

Hans Warén
Authorized Public Accountant

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 financial year 1 January–31 December 2022. The annual accounts and consolidated accounts of the company are included on pages 14–89 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 the parent company as of 31 December 2022 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 2022 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 audit committee 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.

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.

Valuation of Goodwill

As of 31 December 2022, AB SKF (publ) accounts for goodwill in the consolidated balance sheet amounting to SEK 12 351 M. The value of the goodwill is dependent on future income and profitability in the cash-generating units, to which the goodwill refers, and is assessed for impairment at least once a year. Management bases its impairment test on several judgements and estimates such as growth, EBIT development and cost of capital (WACC) as well as other complex circumstances. Incorrect judgements and estimates may have a significant impact on the group's result and financial position. Management has not identified any need for impairment for any of the cash-generating units within the Group.

For further information, see Note 1 about critical judgments and estimates and Note 10 about intangible assets.

Our audit procedures included, but were not limited to:

- Review and assessment of SKF's procedures and model for impairment tests of goodwill and evaluation of judgements and estimates made, that the procedures are consistently applied and that there is integrity in calculations;
- Verification of input data in calculations including information from business plans for the forecast period;
- Test of head room for each cash-generating unit by performing sensitivity analyses; and
- Review of the completeness in relevant disclosures to the financial reports.

When performing the audit procedures our valuation experts have been involved.

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 1–13 and 90–150. 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 Directors 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 have 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 financial 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 responsibilities for the audit of the annual accounts and consolidated accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar This description forms part of the auditor´s report.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

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 Directors and the Managing Director of AB SKF (publ) for the financial year 1 January–31 December 2022 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors 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 Directors 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's 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 responsibilities for the audit of the management's administration is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

The auditor's examination of the Esef report

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528) for AB SKF (publ) for the financial year 1 January–31 December 2022.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report has been prepared in a format that, in all material respects, enables uniform electronic reporting.

Basis for opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of AB SKF (publ) 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of The Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Esef report in accordance with the Chapter 16, Section 4 a of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4 (a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Esef report.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a validation that the Esef report has been prepared in a valid XHMTL format and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the consolidated statement of financial performance, financial position, changes in equity, cash flow and disclosures in the Esef report have been marked with iXBRL in accordance with what follows from the Esef regulation.

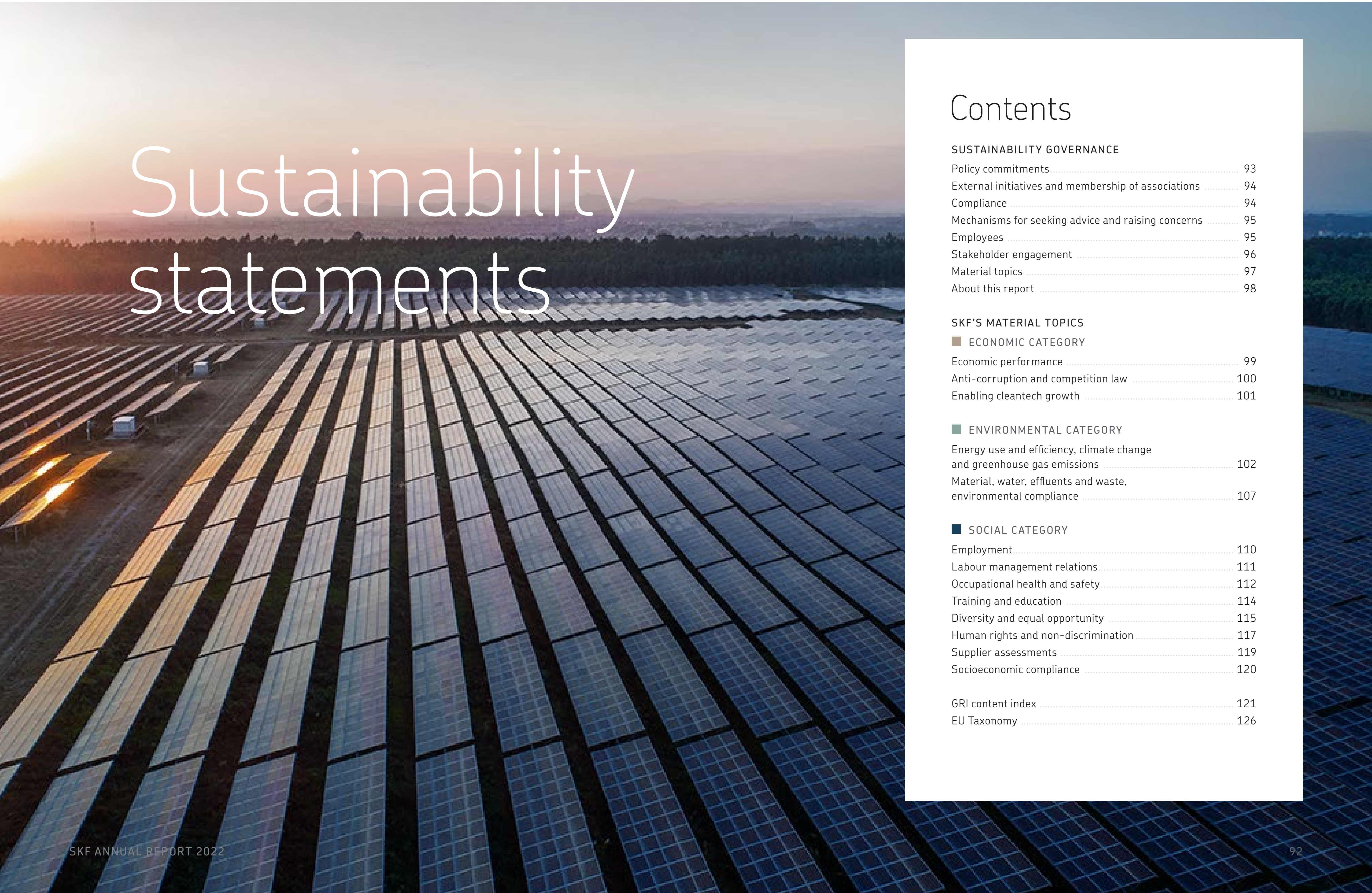
Deloitte AB was appointed auditor of AB SKF (publ) by the general meeting of the shareholders on 25 March 2021 and has been the company's auditor since 25 March 2021.

Gothenburg, March 1, 2023

Deloitte AB

Hans Warén

Authorized Public Accountant



Sustainability statements

Contents

Sustainability governance

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.

Group Management and the Board of Directors are continuously informed about new developments, requirements and regulations within the sustainability area and about how SKF is working for a sustainable development. For example, monthly meetings are held in the Sustainability steering group between the CEO, CFO, CTO, SVP Group Operations and the Head of Sustainability, to discuss ongoing and emerging sustainability and climate actions, events and expectations.

The President & CEO is appointed by the Board and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. More information about the SKF Corporate Governance, including sustainability, is available in the Corporate Governance Report 2022 on pages 131–135.

The Head of Sustainability reports to the Sustainability, EHS & Quality Director, who in turn reports to the Senior Vice President, Group Operations and has the task to assure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group. The Head of Sustainability also establishes 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 NetZero board oversees issues related to the EHS Management System, as well as the certification to ISO 14001, ISO 45001 and ISO 50001, and coordinates the deployment of the Group´s related priorities.
- The Group Ethics and Compliance Committee, which oversees the risks and opportunities related to the ethics and compliance areas.
- The Global Energy Committee, which drives and coordinates the procurement of energy, owns and drives the plan to transition to 100% renewable energy for the entire Group.
- The Green Finance team which oversees the green finance funds allocation process, reporting, approval and follow up of eligible projects.
- The Group Health and Safety Committee, which brings together senior managers from EHS and People Experience with employee representatives from the World Union Council to ensure consultation and participation with the employee representatives at Group level.

In general, EHS and Sustainability topics are integrated into SKF processes and governance structures – for example, performance and strategy are regularly addressed by all operational management teams. 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.

Policy commitments

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, at 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 19 languages and publicly available on skf.com/code.

The Group EHS Policy and other relevant documentation can be found on skf.com/ar2022.

SKF Policy for Hazardous Substances in Products confirms the commitment of the company to eliminate chemicals that are dangerous to the environment or human beings from its portfolio. The main tool used for this purpose is the SKF Restricted Substances List, which outlines the details of regulation that SKF wishes to enforce.

SKF's commitment to respect human rights is described under the material topic Human rights and non-discrimination on page 117.

The management of SKF's operations is based on a decentralized operating model and the principle of autonomy for the business areas, however within a set of frameworks ensuring compliance, risk management and synergies across the SKF Group. Group staff functions govern these defined frameworks of the SKF Group. Policies and instructions are in place to manage risk and ensure compliance. SKF policies are applicable for the entire SKF Group and are communicated and implemented by the relevant group staff function. The SKF Code of Conduct is the main policy. For third party risk management, SKF has a Code of Conduct for Suppliers and Subcontractors, and a Code of Conduct for Distributors, Agents and Intermediaries, enforced to third parties via relevant Group staff and operational units. Through its policies, instructions and organizational structure, SKF has documented the division of responsibility throughout the SKF organization. This includes the responsibility to ensure compliance and a proper, systematic internal control environment to detect, correct and prevent deviations from legislation, policies, instructions and good business practice.

As required by the International Chamber of Commerce 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.

External initiatives and membership of associations

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.
- 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 International Chamber of Commerce (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.
- Pursuant to SKF's net zero scope 1 and 2 emissions by 2030 target, SKF joined the RE100 initiative in 2020. This global initiative brings together some of the world's most influential businesses committed to using 100% renewable electricity.
- Pursuant to SKF's overall climate strategy and ambitions, SKF committed to the Science Based Targets initiative during 2021.
- Pursuant to SKF's net zero scope 3 (upstream) by 2050 target, SKF joined the SteelZero initiative in 2021. This global initiative brings together industrial users of steel committed to decarbonization of the global steel industry by 2050.
- As part of SKF's overall Responsible Sourcing strategy, SKF joined the Responsible Steel Initiative (RSI) in 2021. The RSI is the steel industry's first global multi-stakeholder standard and certification initiative.
- 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 economic, governance, environmental and social dimensions. SKF takes part in 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 several internationally recognized universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy.
- SKF maintains a central list of the organizations SKF is a member of. This list is reviewed annually to make sure that the organizations are in line with SKF's values and commitments.

Compliance

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 on SKF's operations and parties with whom SKF has a direct business relationship. Compliance with international declarations, conventions, 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.

There is a Group-wide programme of online training courses, which are mandatory for all employees having an SKF email address. The training courses cover key topics related to ethics and compliance, such as Antitrust in relation to competitors (81%), Corruption at SKF (82%), Fraud awareness (69%), How to avoid antitrust risks in the sales channel (71%), Workplace harassment (84%), Ethical leadership (86%) and Reporting ethical concerns (86%). The numbers in brackets represents the % of the total number of the employees who have completed the training as per January 2023.

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 also 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. The mandatory training on Data privacy is largely based on the GDPR requirements.

SKF monitors and follows closely the development and recommendations from the OECD and the European Union with regards to tax transparency. In line with the OECD recommendations, Sweden has introduced rules on country-by-country reporting. 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 8–9. 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.

No cases of non-compliance with laws and regulations in the social and economic area have been identified and SKF received no significant fines or directives from the environmental authorities in 2022.

Mechanisms for seeking advice and raising concerns

SKF employees are requested to report behaviour that is not in line with SKF's Code of Conduct to their manager, local People Experience function 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 party and reports can be made anonymously, unless this is prohibited by local legislation. The SKF Ethics and Compliance Reporting Line is also available to external parties through 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 2022, 312 concerns were reported to the central functions via the SKF Ethics and Compliance Reporting Line or via other channels.

During 2022, SKF has focused on improving the quality of received and reported concerns (e.g. removing doublets and removing concerns that are not suspected Code of Conduct violations). Thus, the reduction of concerns reported between 2021 and 2022, can mainly be explained by this improved reporting quality. The major types of concerns reported were discrimination or harassment (29%), conflict of interest (11%), internal fraud (4%), corruption (4%) and bribery (3%). In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management. There is also a procedure for local grievances related to discrimination and harassment to be reported centrally.

All reported concerns are reviewed and assessed by Group Ethics & Compliance, for assignment to appropriate investigator. Concerns deemed as critical are communicated on case-by-case basis to the General Counsel and on a quarterly basis to the Audit Committee.

Employees

Employees and other workers by employment type

	Permanent		Temporary		Agency[1]	Total[2]
2022	White collar	Blue collar	White collar	Blue collar		
Europe, Middle East & Africa	8,874	12,402	336	1,359	1,644	**24,615**
The Americas	3,006	5,020	136	619	570	**9,351**
China and Northeast Asia	2,204	4,717	15	—	1,037	**7,973**
India and Southeast Asia	1,645	1,997	31	247	1,865	**5,785**
Total	**15,729**	**24,136**	**518**	**2,225**	**5,116**	**47,724**

1) Employed by an agency to which SKF pays a fee; working within the business under SKF Management responsibility.
2) Reported as total Headcount as of 31 December 2022.

Employees by contract and region

2022	Full time	Part time
Europe, Middle East & Africa	22,006	965
The Americas	8,744	37
China and Northeast Asia	6,936	—
India and Southeast Asia	3,912	8
Total	**41,598**	**1,010**

Employees by gender and contract

2022	Full time	Share, %	Part time	Share, %
Men	32,934	77.3	426	1.0
Women	8,664	20.3	584	1.4
Total	**41,598**	**97.6**	**1,010**	**2.4**

For this year a new method was used for following-up headcount numbers, enabled by a globally rolled-out employee master data system. One effect was a re-classification from worker to staff throughout 2022.

Collective bargaining agreements

SKF holds collective bargaining agreements in most countries where it is present. The 20 countries that are part of the SKF World Union Council, i.e Argentina, Austria, Brazil, Bulgaria, China, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, Republic of Korea, Sweden, the U.K., Ukraine and USA – all have collective bargaining agreements. These countries make up over 95% of all blue-collar workers (around 25,000 of SKF's total workforce of about 42,000). 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 are part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 600 people in blue-collar roles mainly in services & solutions delivery, manufacturing and logistics, of which the biggest countries are Colombia, Finland, Canada, Australia, Thailand and Zambia.

Stakeholder engagement

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 establish ongoing dialogue. 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, People Experience, Communication, Sales, Business Areas, Purchasing, Legal and Compliance). This includes managing the direct dialogue and identifying individuals from whom to seek feedback.

	Approach to stakeholder engagement	Material topics of highest concern to stakeholder group
Customers	Customers' input is sought and received via sales, marketing operations and activities carried out by the Group. These range 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.	• Energy use and efficiency • Climate change and greenhouse gas emissions • Enabling cleantech growth • Environmental compliance • Materials
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.	• Economic performance • Energy use and efficiency • Climate change and greenhouse gas emissions • Human rights • Enabling cleantech growth
Employees and union organizations	SKF holds an annual World Union 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, on pages 131-135. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.	• Occupational health and safety • Diversity and equal opportunity • Training and education • Environmental compliance • Employment and labor management relations
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.	• Energy use and efficiency • Climate change and greenhouse gas emissions • Employment and labor management relations • Anti-corruption and competition law • Human rights
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.	• Energy use and efficiency • Climate change and greenhouse gas emissions • Employment and labor management relations • Anti-corruption and competition law • Human rights.

Material topics

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 shortlist 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.

SKF's material topics

When combining the feedback above with previously collected input from other stakeholder groups the result is translated and presented in terms of GRI Standard topics.

All these topics are considered material and relevant to report. The context, scope and boundaries of each topic are described further in the specific disclosures on pages 99–120, along with descriptions of the management of material topics.

Updates to the materiality analysis

In line with GRI recommendations, SKF has reviewed and validated its material topics and impact assessment from previous reporting period to account for any changes in impacts and stakeholder expectations. The validation builds on previous materiality analysis that has been complemented with input from stakeholders through semi-structured interviews with internal functions that has direct dialogues with the respective stakeholder group throughout the year.

The validation generated minor changes to previous analysis which were implemented in this year's analysis to increase the completeness, materiality and transparency of the reporting.

The changes are summarized here:

- No material aspects were removed or added.
- The naming of some topics was updated to increase clarity and focus: the former material topic called "Energy" was renamed to "Energy use and efficiency", "Emissions" was renamed to "Climate change and greenhouse gas emissions" and "Customer sustainability performance" was renamed to "Enabling cleantech growth".
- The impact assessment was updated with a separate column for SKF's impact on climate and nature to increase transparency of the impact and to distinguish between social and environmental impact.
- In general, the validation highlighted an increased interest in both energy-related and climate-related topics.

Biodiversity loss and ecosystem disturbances are increasing challenges for our planet and society. SKF is currently not including biodiversity loss as a separate material topic. However, SKF has during 2022 initiated a pre-study to improve the understanding of its risks and opportunities as well as impact and dependencies of biodiversity.

	Impact on				
Material topics	Suppliers	SKF	Customers	Society and people	Climate and nature
Economic performance	●	●	●	●	●
Anti-corruption and competition law	●	●	●	●	
Enabling cleantech growth		●	●	●	●
Energy use and efficiency	●	●	●	●	●
Climate change and greenhouse gas emissions	●	●	●	●	●
Materials	●	●	●	●	●
Water		●	●	●	●
Effluents and waste	●	●	●	●	●
Environmental compliance	●	●	●	●	●
Supplier environmental performance	●	●	●	●	●
Employment and labour management relations	●	●		●	
Occupational health and safety	●	●	●	●	
Training and education	●	●		●	●
Diversity and equal opportunity	●	●		●	
Non-discrimination	●	●	●	●	
Human Rights	●	●	●	●	
Supplier social performance	●	●	●		
Socioeconomic compliance		●		●	

About this report

SKF's Sustainability report is produced annually, and the reporting period corresponds to the fiscal year 1 January to 31 December 2022. The previous report was published on 2 March 2022. SKF's Sustainability report has been prepared in accordance with GRI Standards 2021. The GRI content index is found on pages 121–125.

Entities included in reporting see pages 85–87.

The Board of Directors is ultimately responsible for this report as part of the Annual Report.

Contact point for questions regarding the report is Magnus Rosén, Head of Sustainability, email: magnus.rosen@skf.com.

Restatements of information
On pages 105 to 107, as defined by the GHG reporting protocol, energy and CO_2e statements relating to scope 1 and 2 emissions have been restated due to acquisitions and divestments.

Changes in reporting
During 2022 SKF has further explained the reported scope of scope 3 greenhouse gas emissions related to purchased materials – specifically steel and forgings, see page 106.

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 sustainability report is subject for limited assurance by our auditors in accordance with the standard ISAE 3000. Please refer to the Auditor's Limited Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report on page 130.

Topics related to the Annual Report
In addition to the information provided in this Annual Report, related topics can be found at skf.com/ar2022.

- Greenhouse gas emissions data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Energy, Health and Safety (EHS) Policy
- Manufacturing units 2022
- TCFD Report
- Green Bond Investor Letter and Impact Report
- SDG analysis

Statutory Sustainability Report
SKF has prepared a separate report according to the Swedish Annual Account Act chapter 6, § 11 on sustainability reporting and reports on the topics:

- Business model pages 14-16
- Anti-corruption page 100
- Climate and environment pages 102–109
- Employees pages 110–116
- Human rights and other relevant social topics pages 117–118
- EU Taxonomy pages 126–129

Risks associated with the topics above are found in connection to the topics in SKF's overall risk management on pages 36–39.

SKF's material topics

Economic Performance

Management approach – GRI 3: Material topics 2021
Material topic – GRI 201: Economic Performance 2016

Management approach
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.

SKF is a profit-driven organization. The financial performance is the overall indicator of the economic impact SKF has on society, as an employer, a member of the stock market and a customer and supplier to other companies.

All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS. For more information about SKF's financial accounting policies and the effectiveness of them, see page 52.
Other impacts are further described in the Material Topics section.

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 in the following table.

Economic value generated and distributed (MSEK)	2022	2021
Net sales	96,933	81,732
Revenue from financial investments and other operating income	240	506
Economic value generated	**97,173**	**82,238**
Operating costs	–62,796	–47,618
Employee wages and benefits	–26,702	–24,270
Economic value distributed to providers of capital	–3,594	–3,496
Economic value distributed to government (income taxes)	–2,438	–2,484
Economic value distributed	–95,530	**–77,868**
Economic value retained	**1,643**	**4,370**

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 Group income taxes. For the actual payment of taxes during the year, see consolidated statement of cash flow on page 48.

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 customers into some 40 different industries. SKF owns and operates more than 77 manufacturing sites in 21 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. Therefore, SKF does not anticipate climate-related risks to have substantive financial or strategic impact on Group level. SKF reports to CDP and has aligned it's reporting approach with the Taskforce for climate-related disclosures (TCFD) framework.

SKF sees it as a key element in its strategy to provide products and offerings which are sustainable, low carbon and which can improve customers' operations in these regards. SKF is also focusing on markets and industries that will benefit and grow due to the actions needed to manage climate crisis. One example is SKF's early participation in the industrialization of wind and tidal energy. Another example is SKF's close partnerships with automotive customers in electrification and to improve energy efficiency of drivelines. Many industries, especially those producing vehicles or input material to vehicles are 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.

Further information and details about SKF's climate-related risks and opportunities can be found in the TCFD report which is included in the Topics Related at skf.com/ar2022.

For an overview of SKF's business areas, see pages 8–9.

SKF operations and supply chain
SKF has a globally unified EHS management system, which requires that all sites conduct regular risk assessments including the identification of acute physical climate related risks such as flooding, water shortages or forest fires which could impact the facilities. 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 operations is an increased cost of energy. It is with high uncertainty how and where, e.g. CO_2e 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 most of the energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. To give an indication of the financial impact, a 20% increase in costs related to energy would impact the Group's result by around MSEK 260. For more information on SKF's climate objectives, please refer to Energy use and efficiency, climate change and greenhouse gas emissions on page 102.

A general cost increase in energy and carbon taxes 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. 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 is also working with its suppliers to reduce the carbon intensity of the materials and components it purchases, and to understand and address the impact of emerging legislation such as the EU Carbon Border Adjustment Mechanism (CBAM).

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 competition law

Direct impact on
UN Sustainable
Development Goals

Management approach – GRI 3: Material topics 2021
Material topics – GRI 205: Anti-corruption 2016 and GRI 206: Anti-competitive Behavior

Management approach
SKF addresses anti-corruption and anti-trust (competition law) as part of the Group's compliance program. The compliance program includes the areas and supporting processes included in the illustration below.

SKF has, over many years, had a strong focus on business ethics in its corporate values. 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 via training and awareness, risk assessment, investigations, audits and internal controls.

SKF considers that an effective anticorruption and compliance program has a positive impact not only on the economic performance, but also to reduce risks or breaches that may impact the environment, people including but not limited to human rights and local communities.

SKF has Group policies and instructions, such as the Group Anti-corruption policy and the Group Antitrust policy, setting out the expectations on its employees and business partners, on how to act according to SKF standards. During 2022, SKF's Code of Conduct for Suppliers & Subcontractors was updated, including clarifications on SKF expectations on ethical conduct of its business partners.

Processes, controls, guidelines, training and tools are integrated parts of the program and are available for employees on the Group's internal websites. SKF's compliance program actions to prevent or mitigate the risks, are focused on the main risks identified in the Group's yearly compliance risk assessment. During 2022, an assessment of 20 compliance risks was responded to by 55 units in all Business areas. The number of units participating is a KPI for the quality of the risk assessment. During 2023, the goal is to increase the number of units participating in the compliance risk assessment.

SKF has dedicated compliance officers for all its business areas. Together with Group Ethics & Compliance, the business areas develop a compliance plan based on risks and identified issues, that is approved by the Audit Committee of AB SKF on an annual basis.

Positive examples of the compliance activities such as employee and business partner engagement, are shared in between the Group's Compliance core team.

During 2022, SKF developed and launched mandatory e-learnings regarding Conflict of Interest (89%), Export Control (86%) and the SKF Code of Conduct commitment (86%), numbers in brackets represent completion rates. The completion rates are followed up on a regular basis, and indicate the engagement level and effectiveness of the compliance program. Furthermore, SKF also launched an e-learning in Export control for its Distributors.

The number of concerns reported and investigated is an important KPI of the effectiveness of SKF's compliance program. The goal is to increase awareness about and compliance with the Code of Conduct, e.g. via additional e-learnings, to gradually decrease the number of serious concerns reported and investigated.

Internal control issues, training completion rates and number of reported and substantiated ethical concerns gives SKF indications of the needs for improving the compliance program.

During 2022, SKF has reviewed the controls and procedures related to corruption and other compliance risks of third parties, and concluded the need to establish a Third party risk management framework during 2023.

The number of ethical concerns reported via SKF ethics & compliance reporting line 2022 was 312, including 6 reports related to COVID-19. SKF does not see any significant trend or change in types of concerns reported compared to 2021.

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 focus areas, is to create a commitment by local management to take ownership of compliance risk management, including development and implementation of mitigating activities. The main corruption risk is when distributors and agents are used to represent SKF when interacting with governments or state-owned entities in regions with a high corruption risk. Together with Group Ethics & Compliance, each business area consolidate the results and set an action plan in accordance with the results.

At SKF's manufacturing units, risk-based ethics and compliance reviews are carried out, in conjunction with environmental, health and safety audits. The purpose is to assist units in their work to identify and address specific ethics and compliance risks, including corruption. During 2022, 14 such reviews have been reported.

205-3 Confirmed incidents of corruption and actions taken
During 2022, SKF substantiated 25 incidents of corruption (incl bribery, fraud, conflict of interest). As a consequence, 18 employees have left SKF.

206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices
For any ongoing investigations, see note 19 on page 70.

Enabling cleantech growth

Direct impact on UN Sustainable Development Goals

Management approach – GRI 3: Material topics 2021 Material topic, SKF indicator: Enabling cleantech growth

Management approach
SKF's products are used all over the world and in a large variety of rotating applications, ranging from renewable energy, such as wind and ocean power, to heavy industries like mining, metal, and pulp & paper. SKF's products are also used in cars and commercial vehicles, as well as in bicycles, skateboards and household appliances.

Over many years, SKF has conducted numerous life cycle assessments and in the large majority of cases, the use phase is dominant in terms of energy use and related greenhouse gas emissions. This is linked to the fact that most of SKF's products are applied in dynamic applications which require energy to perform their intended functions. If the energy source powering these applications is based on fossil fuel, then this will also mean a negative impact in terms of related greenhouse gas emissions. The same logic applies to the friction losses that occur within the SKF products themselves.

However, thanks to the inherent feature to reduce friction in the products and in the applications where they are used, SKF has the opportunity to help avoid energy use and related greenhouse gas emissions in all customer applications and systems.

SKF can enable improvements in customers' sustainability performance through products, services, business models and value propositions. The improvements include for example increased energy efficiency, reduced CO_2e emissions, improved safety, reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels and more. The Group also brings value to customers through the way we run our operations as a responsible business partner.

Recent years' development, with an increased understanding of the connection between economic, social and environmental issues and the implementation of the Sustainable Development Goals (SDGs) from the United Nations has provided the Group with the opportunity to collaborate more closely with customers to create and deliver even 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 how SKF can further support customers with engineered solutions.

SKF has made cleantech one of its strategic focus areas and will continue to add technologies and offerings to the value propositions. The Group enables and drives technology development in industries such as renewable energy generation and sustainable transport systems, including electric vehicles. Moreover, the Group develops new circular business models and works in collaboration with its customers to improve sustainability performance of their applications and systems. To support that work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating customer sustainability performance.

As part of the Group's climate and strategic objectives, SKF provides yearly aggregated revenue data from SKF customer solutions enabling cleantech growth in areas where SKF's customer solutions clearly contribute to climate change mitigation and circular economy, including: renewable energy, electric vehicles, electric railway, recycling industry, bearing remanufacturing, RecondOil and magnetic bearing solutions. The total revenue from customer solutions enabling cleantech amounted to SEK 10,1 billion in 2022.

SEK billion	2022	2021	2020
Total revenues from customer solutions enabling cleantech	10.1	9.2[1)]	9.1[1)]

1) Previously published figures have been restated based on adaptation of the scope to better reflect and align with the sectors of the EU Taxonomy.

Energy use and efficiency, climate change and greenhouse gas emissions

Direct impact on UN Sustainable Development Goals

Management approach – GRI 3: Material topics 2021
Material topics – GRI 302: Energy 2016 and GRI 305: Emissions 2016

Management approach
SKF is a relatively energy intensive business – directly using energy, mainly in the form of electricity and gas, in its operations around the world. In addition SKF utilizes materials and services which can be energy and carbon intensive – such as transports and raw material in production and processing. The combined impact of these direct and indirect energy uses (scope 1, 2 and 3 upstream) generates in excess of two million metric tons of CO_2e per year. This figure would however be significantly higher were it not for the actions SKF has taken to reduce both energy and carbon intensity. For example, more than 50% of the electricity which SKF uses is generated from renewable sources and this reduces the Groups scope 2 emissions dramatically. SKF's ability to run its operations and supply chain in a highly energy and carbon efficient manner also increases the company's competitive advantage.

In 2021, SKF signed up to the Science Based Targets initiative (SBTi) and committed that all its climate targets shall be in line with the Paris Agreement to reach net zero global emissions by 2050 at the latest, to limit global warming to 1.5°C. During 2022, SKF has been following the SBTi approval process and at time of writing was waiting for final confirmation from the SBTi.

The Group's climate objectives are based on this commitment and a comprehensive understanding of SKF's life cycle greenhouse gas (GHG) emissions. The graph on the next page shows an estimation of all relevant GHG impacts from SKF in 2019 from raw material extraction to finished product at the customer.

In line with this, during 2021 SKF announced its goal to achieve net zero greenhouse gas emissions (from raw material to finished product delivered to the customer) by 2050 – adding all relevant upstream scope 3 impacts to the existing scope 1, 2 and 3 impacts which SKF already reports on and addresses. This goal includes and incorporates a number of sub-goals and interim targets such as the existing goals for 40% reduction in CO_2e emissions/tonne of sold product by 2025, the 40% reduction in CO_2e per tonne of goods shipped by 2025 and net zero SKF operations by 2030 (scope 1 and 2). It also introduces a number of new interim (2025, 2030, 2035 and 2040) goals which are summarized in the table on page 103.

As part of this updated approach and in order to engage with other stakeholders to drive change, SKF joined the SteelZero and ResponsibleSteel multi-stakeholder initiatives in 2021.

A deeper explanation of the overall approach can be found on skf.com/decarbonizing where you can find a Position Paper with more details.

SKF is working to establish robust reporting approaches for those aspects of the new goals which are not previously reported. The Group is increasing the scope of reporting to include all these aspects over the coming few years, with highest priority on the most significant impacts.

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 use and emissions are disclosed.

SKF's own operations – Scope 1 and 2
In 2020, SKF announced the objective for manufacturing and other operations to achieve net zero GHG emissions by 2030. This relates to scope 1 and 2 emissions and will be achieved by a combination of efforts focused on energy and material efficiency, generating renewable energy, sourcing renewable energy, electrification of processes currently using fossil fuel such as heating and heat treatment, and, as a last resort to cover any remaining emissions, by purchasing Carbon Dioxide Removals to achieve climate neutralisation. As part of this approach, SKF joined the RE100 initiative – a signal that the Group intends to source 100% renewable electricity by 2030.

In 2022, SKF used 1,669 GWh of energy in its manufacturing operations, which has resulted in around 312,166 tonnes of CO_2e emissions. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2018. The certificate covers the 45 most 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_2e intensity. SKF's management approach is to some extent decentralized to SKF's sites and integrated in the environmental management system. During 2022 SKF has taken steps to increase the support provided to manufacturing units through the provision of good practice energy saving solutions and by closer follow up of energy savings plans, investments and implementation.

To increase focus and accelerate improvements, in both energy and greenhouse gas emissions performance, SKF applies a Group wide energy target to all units within the scope of the ISO 50001 standard. In 2022, SKF required an improvement in energy performance of 5% compared to unit, cluster, area or Group energy base line. 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. In 2022, the performance against this target was –3.8% vs. the –5.0% target. Energy performance improved in 2022, across the Group but in particular for the operations located in Europe, where a 4.6% improvement was achieved. This improvement came from a mix of investing in more energy efficient equipment, optimizing energy use, a more efficient use of the production facilities and waste detection and avoidance measures.

Goods transportation – Scope 3, category 4
SKF is directly managing 80% of the goods transportation downstream and about 70% of the transportation upstream. The Group focus on reducing transportation CO_2e emissions in four main areas: optimizing transport networks and routing; using energy-efficient modes of transport with low CO_2e intensity (e.g. ocean and rail instead of air where and when feasible); procuring transport with high fuel efficiency and low-carbon fuels; and optimizing mileage between suppliers, factories and end customers (i.e. optimize SKF's foot print).

Raw material and components – Scope 3, category 1
As seen in the organizational carbon footprint on the following page the emissions from raw material and components (direct materials) are typically the most significant of all 'cradle to customer gate' emissions.

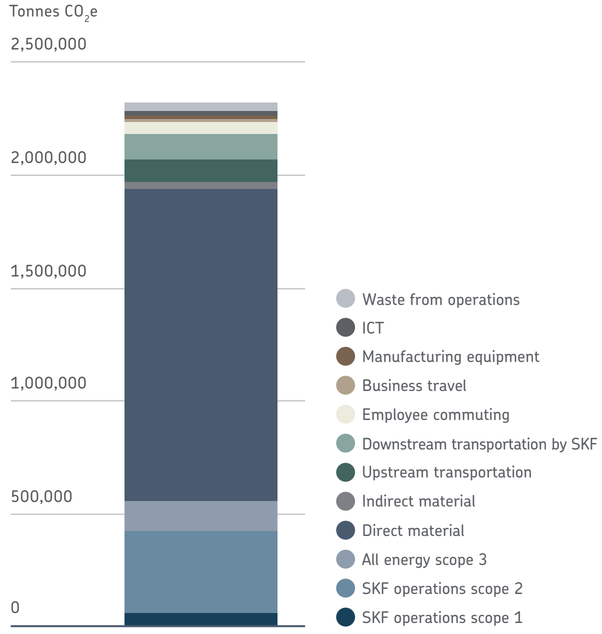
For several years, SKF has worked to influence energy intensive suppliers by requiring them to implement energy management systems certified according to ISO 50001. This standardized way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.

Energy use and efficiency, climate change and greenhouse gas emissions, cont.

Summary of SKF's climate goals

	Purchased direct material	Logistics	Other up-stream impacts	SKF operations
GHG Reporting Scope	Scope 3, Category 1	Scope 3, Category 4	Scope 3 Category 6 and others	Scope 1 & 2
2025	• ISO 50001 for energy intensive suppliers. • 15% reduction in CO_2e from forgings and rings suppliers, base year 2019.	• 40% reduction in CO_2e emissions per tonne of goods shipped to end customer, base year 2015.	• Ambition for maximum CO_2e for business travel < 50% of 2019 figure. • Goals and follow up defined for all other relevant emissions.	• 40% reduction of CO_2e emissions from manufacturing per tonne of bearings sold, base year 2015. • 5% year on year improvement in energy efficiency.
2030	• 32% reduction in CO_2e from direct material, base year 2019. • In accordance with the SteelZero initiative, we will ensure that at least 50% of all sourced steel is either; 1. ResponsibleSteel certified, 2. coming from steel companies with approved SBTi targets or 3. low embodied carbon steel. This can be achieved by each criteria or by a combination of them.	35% reduction in transport related CO_2e, base year 2019.	TBD	**Zero CO_2e for all SKF operations.**
2035	43% reduction in CO_2e from direct material, base year 2019.	55% reduction in transport related CO_2e, base year 2019.	TBD	
2040	60% reduction in CO_2e from direct material, base year 2019.	77% reduction in transport related CO_2e, base year 2019.	TBD	
2050	**Net zero CO_2e.**			

Estimated GHG emissions (tonnes), base year 2019



Energy use and efficiency, climate change and greenhouse gas emissions, cont.

In the last three years, SKF has been increasing its focus on driving reductions related to raw materials and components. The Group has investigated the emissions of most of the largest steel suppliers (representing 96% of total steel sourcing by weight), 26 suppliers of forgings and rings (representing 59% of total forging supply) and 15 rolling elements suppliers sites (representing 56% of total rolling elements supply).

SKF has started to focus on this because steel, forgings, rings and rolling elements are by far SKF's most energy and carbon intensive suppliers with steel representing more than 95% of weight of total direct material purchased by the company.

The focus is applied in several ways.

- Firstly, the companies in scope are required to report emissions related to the materials purchased by SKF from their own operations (scope 1 and 2) and if available their upstream emissions (scope 3). The aggregated report of this data is included in this report.
- Secondly, the suppliers are required to explain and present their plans to improve energy efficiency and CO_2e per tonne of output. SKF has developed a tool which allows product designers and purchasing colleagues to estimate the upstream CO_2e impact of different steel supplier options. This allows SKF to meet increasing customer focus on reducing the embedded CO_2e emissions in the products which they buy. During 2022, SKF continued the process to inform and engage the direct material suppliers in the scope of the Groups new net zero 2050 objective and this work will continue through 2023.
- Thirdly, during 2022, SKF has initiated an R&D activity which is investigating the feasibility and technical implications of lower embodied carbon steel production processes which are currently being developed by various steel companies.

In line with the Group's Net Zero 2050 strategy, SKF will systematically increase the scope of reporting GHG emissions related to its significant direct material suppliers in the next few years, with the aim to have at least 95% coverage by 2025.

Business travel, scope 3, category 6

SKF monitors CO_2e emissions from the large majority of business travel undertaken by its employees. Included in the scope are Argentina, Brazil, Canada, Chile, China, Europe, India, Mexico, Uruguay and USA. In 2020, SKF announced the ambition to reduce CO_2e emissions from business travel by limiting the amount of CO_2e at 50% of the full year 2019. The ambition commits to stay below this ceiling for the coming years and will be achieved by significantly increasing the use of digital collaboration.

Other upstream impacts

As described in the carbon footprint graph above and Position Paper referred to previously, there are several other upstream GHG impacts associated with SKF's activities. These include upstream energy related emissions, information and communications technology, employee commuting and indirect material purchasing. These impacts are much less significant compared to those from SKF operations, direct material purchasing and logistics. In total, they make up around 13% of the total footprint, nevertheless, as part of the Group's Net Zero 2050 commitment, SKF will work to find pragmatic ways to report and drive toward net zero also in these aspects.

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 101 (Enabling cleantech growth), 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 mitigate climate change.

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. Firstly, the Group works to predict maintenance and enable cost effective repair and service within the customers' processes. Secondly,

Automated lubrication system supports sustainability agenda at Smurfit Kappa

Smurfit Kappa's kraftliner mill in Piteå, Sweden, is the largest of its kind in Europe. Bearings in paper mills are subjected to heavy loads, varying temperatures and various types of contamination that can impact the performance of the bearing, which could result in failure and costly downtime.

Reducing the mill's environmental impact has been a focus area for many years and Smurfit Kappa wanted less waste, less leakages, and a way to remotely monitor the status of several hundreds of lubrication points on their machines. This with the aim of improving the working environment for their maintenance engineers and, ultimately, improving uptime.

SKF and Smurfit Kappa's teams designed and installed an SKF's Flowline automated lubrication systems, scaled for the needs of over 500 lubrication points. By analyzing the flow of lubrication fluids throughout the system together with temperature and vibration data from critical bearing positions, the system ensures that the flow of fluids is optimized for each of the lubrication points, with potential contaminants removed before being recirculated.

Energy use and efficiency, climate change and greenhouse gas emissions, cont.

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

SKF works to report all relevant scopes and categories of greenhouse gas emissions in accordance with the Greenhouse Gas Protocol Corporate Standard (ghgprotocol.org) and other related guidance documents (for scope 1, 2 and 3) also published by the Greenhouse Gas Protocol.

SKF has been reporting some aspects – such as scope 1 and 2 emissions for many years and has established robust and reliable processes to gather and report this data.

Scope 3, category 1

Measuring, reporting and reducing the upstream scope 3 category 1 emissions (from direct material production) is a critical challenge. It is however a relatively new dimension for SKF (and industry as a whole) and the majority of the Groups suppliers (and their suppliers). SKF (along with our partners in the supply chain) is therefore learning and evolving its approach so that the scope coverage, accuracy and value of this data as a management tool is improving every year.

SKF's reporting of this category makes use of primary data (direct from suppliers) to the greatest extent possible and where it is not possible, credible secondary data sources are applied. Although more complex and challenging to collect, primary data is preferred since it is more accurate and captures specific supplier performance year on year and shows the impact of supplier choice (which is not possible when using secondary data). As a result of the increased use of primary data vs the approach taken in the 2021 report, the accuracy of the reporting has improved and this has necessitated a re-statement of the previous year's data which increases the reported value by approximately 20%. In a small number of cases, steel suppliers were not able to provide their up-stream scope 3 emissions and these data are excluded from the reported numbers. It is also important to note that SKF has focused on the main raw material inputs to the Group which is the steel used in the rings and rollers of rolling bearings.

Other input such as the rubber used in seals, or other metallic components are not yet included and will be added in the coming years as reliable data is established. During 2023 and onwards the targets and the improvement plans in terms of CO_2e emissions of the major direct materials suppliers will be discussed in detail. The results will be aggregated and compared with the Net Zero 2050 strategy of SKF, in order to push the suppliers for more aggressive targets and for further reductions.

Scope 3, category 4

Considering scope 3 category 4 (emissions from upstream and downstream transportation), SKF covers some 80% of the emissions resulting from downstream flows (where SKF controls the transport), and around 60% upstream. SKF intends to further improve the process for collecting the upstream emissions for these categories during 2023 in order to achieve a more complete coverage of this aspect.

Depending on the data availability, SKF applies one of two methods to calculate and aggregate these emissions.

- Method 1: Transport statistics are collected from transport suppliers and the emissions are calculated using a tool developed by SKF. The tool calculates emissions based on modelling of the SKF transport network and uses emission factors per mode of transport combined with the distance and weight shipped.
- Method 2: Transport emission reports are collected directly from transport suppliers and aggregated.

Method 1 is used for all SKF operated transports with the exception of express shipments, were method 2 is used. In both cases the emissions reported are CO_2e with a well to wheel scope.

302-1 Energy consumption within the organization

Source, GWh	2022	2021[2]	2020[2]
LPG	19	18	16
Natural gas	288	295	253
Fuel oil	6	8	5
Renewable energy generated onsite[1]	46	32	20
District heating and cooling	114	141	118
Electricity	1,227	1,271	1,143
Total energy use	**1,699**	**1,764**	**1,555**

1) includes electricity procured with Power Purchase Agreement (PPA)
2) Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol (mainly Russia, divested).

302-3 Energy intensity

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

GWh per SEK million	2022	2021	2020
Total energy use within the organization (GWh)	1,699	1,764	1,555
Revenues, net sales (MSEK)	96,933	81,732	74,852
Energy intensity (GWh/SEK million x 1,000)	**17.53**	**21.58**	**20.77**

302-4 Reduction of energy consumption

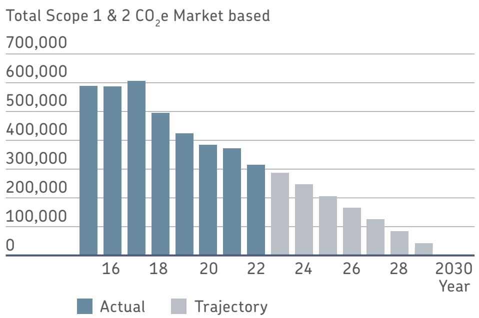
As mentioned, SKF uses a specific target and KPI to drive improved energy performance at the main manufacturing sites. 2022 showed a –3.8% improvement against this target indicating an underlying energy efficiency saving of 34 GWh.

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

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol (mainly Russia, divested).

Market-based emissions, tonnes	2022	2021	2020
Direct (scope 1) GHG emissions CO_2e emissions	52,816	55,941	49,828
Energy indirect (scope 2) GHG emissions CO_2e emissions market-based	259,350	312,180	330,267
Total CO_2e emissions, market-based	**312,166**	**368,121**	**380,095**

Progress towards Net Zero Goal



In general, SKF considers climate compensation to be a last resort in achieveing its targets - only to be deployed when all other measures to avoid emissions (energy and material efficiency, fuel switching, renewable energy sourcing or generation) have been exhausted.

Energy use and efficiency, climate change and greenhouse gas emissions, cont.

Location-based, tonnes	2022	2021	2020
Direct (scope 1) GHG emissions CO_2e emissions	56,580	55,941	49,828
Energy indirect (scope 2) GHG emissions CO_2e emissions, location-based	470,895	524,626	465,006
Total CO_2e emissions, location-based	**527,475**	**580,567**	**514,834**

Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2022	2021	2020
Direct (scope 1) LPG (3.0 per tonne)	3,696	3,890	3,468
Fuel oil (3.2 per tonne)	1,543	1,937	1,302
Natural gas (0.002 per cubic meter)	47,576	50,114	45,058
Supplied (scope 2), market-based Electricity	241,700	287,366	309,040
District heating and cooling	17,650	24,813	21,226
Total CO_2e emissions, market-based	**312,166**	**368,121**	**380,095**

Scope 1 emission factors have been derived from DEFRA, except Gothenburg where the local RECERT standard has been applied.

Scope 2 contractual emission factors have been provided by relevant electricity suppliers. Scope 2 location based emission factors have been taken from IEA, DEFRA and other recognized data sources.

Emission factors from DEFRA are used for district heat except certain sites in Germany, Sweden and Poland where specific emission factors from suppliers are provided by the local district heat provider.

305-3 Other indirect (scope 3) GHG emissions

Under scope 3 emissions, SKF reports CO_2e emissions from the most significant direct material suppliers (steel, forgings and rings, rolling elements), goods transportation and business travel.

Direct material supplier emissions

These data are based on aggregation of figures provided by the 38 major suppliers of steel, the 26 major suppliers of forgings and the 15 major suppliers sites of rolling elements (in terms of weight of material and CO_2e emission factor). The CO_2e emission factors for the remaining suppliers (when direct declarations are not yet available) have been estimated based on primary data collected for similar suppliers. This scope covers at least 50% by volume of total direct material spend and 96% by weight of steel purchased. This is only the third year in which SKF reports this information and the data should be considered as indicative rather than a precise quantification of these upstream impacts. SKF is working to increase both the scope and accuracy of the data collected and reported.

CO_2e Tonnes	2022	2021[2]
Scope 3 category 1 direct material supplier emissions in scope[1]	1,294,825	1,276,571

1) Total estimated emissions related to steel, forgings and rings, rolling elements.
2) Scope of reporting was increased and figure for 2021 recalculated (restated) accordingly.

Goods transportation data and related CO_2e emissions

	2022	2021	2020[1]	2015[1]
CO_2e emissions from transports scope 3, (tonnes)	213,061	227,228	144,466	153,031
Transport works (tonnes shipped)	487,779	422,720	340,934	352,641

1) Scope of reporting was increased and figure for 2020 recalculated, previous figures re-stated accordingly.

Shipped volumes and emissions per transport mode 2022

	Road	Sea	Air	Rail
Transport works, tonnes shipped, % of total	71.8	25.1	2.0	1.0
CO_2e emissions, % of total	25.1	31.2	42.4	1.3
Tonne * kilometer, % of total	12.7	82.3	2.3	2.7

Business travel (air travel)

	2022	2021	2020	2019
CO_2e emissions (tonnes) from air travel (scope 3, category 6)	6,395	3,990	3,584	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)

Intensity in tonnes unless otherwise stated	2022	2021[1]	2020[1]	2015[1]
CO_2e emissions – bearings & units factories	258,443	306,853	322,051	481,083
Weight bearings and units sold[2]	466,549	446,936	385,640	336,803
GHG emissions intensity CO_2e emissions/tonnes sold products	0,55	0,69	0,84	1,43
Change vs 2015, %	–61	–52	–42	—

1) All data has been restated to reflect acquisitions and divestments. Missing historical data for acquisitions are estimated.
2) "Weight bearings and units sold" for 2015 restated in 2020.

Goods transportation (scope 3)

	2022	2021	2020[1]	2015[1]
GHG emissions intensity kg CO_2e emissions per tonnes shipped goods to end customer[2]	437	538	424	434
Change vs 2015, %	1	24	–2	—

1) Scope of reporting was increased in 2020 and previous years restated accordingly. Restated 2015–2020.
2) "Weight bearings and units sold" for 2015 restated in 2020.

Energy use and efficiency, climate change and greenhouse gas emissions, cont.

Following the good trend of recent years, absolute CO_2e emmissions were again reducing in 2022. This despite increased production output. This was due to a combination of factors. Notably further increased in energy efficiency and an increased share of renewable electricity in China and a number of other regions.

Goods transportation (scope 3)
COVID-19 lockdowns, the war in Ukraine, climate change and geopolitics have made it difficult for the transport market in 2022. The market has suffered from ports congestions, capacity constraints and longer lead times, which has led to high air freight utilization, however lower than 2021 due to market recovery during 2022 second half.

The KPI (CO_2e/Tonnage delivered to end customer) decreased by 20%, which is mainly due to transport efficiencies and less use of air freight. SKF continues the regionalization of our sourcing and manufacturing footprint, which also contributes to fewer long-distance transports, and less usage of air freight.

Other scope 3 impacts
During 2022, the number of direct material suppliers in scope has drastically increased compared to 2021, from 28 to 79. SKF has focused on energy intensive suppliers, with the higher GHG emissions (steel, forgings and rings, rolling elements suppliers). All investigated suppliers have been requested to share their CO_2e emissions and weight of products for SKF. Most of the suppliers have also disclosed their CO_2e reduction targets for the next years.

During 2023 and onwards the targets and the improvement plans in terms of CO_2e emissions of the major direct materials suppliers will be discussed in detail. The results will be aggregated and compared with the NetZero 2050 strategy of SKF, in order to push the suppliers for more aggressive targets and for further reductions.

More direct materials categories will be included gradually from 2023 onwards.

As the scope of reporting is still evolving significantly, it is not yet possible to comment on the performance trend for most of other impacts such as ICT, employee commuting and indirect material purchasing.

Material, water, effluents and waste, environmental compliance

Direct impact on UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Management approach – GRI 3: Material topics 2021
Material topics – GRI 301: Material 2016, GRI 303: Water and Effluents 2018, GRI 306: Waste 2020
GRI 307: Environmental compliance 2016

Management approach
SKF is in a strong position to improve the sustainability of customers, own operations, and suppliers as the products and solutions provided aim at reducing friction. SKF's environmental impact comes mainly from the manufacturing sites. SKF is working actively to protect the environment by preventing pollution and applying measures which reduce or avoid material waste and promote sustainable resource utilisation. There is also an indirect environmental impact arising from the materials used to manufacture products and the related logistics required.

The output from SKF's overall materiality analysis (see page 97), consisting of stakeholder dialogue input, is used for the continual improvement of Environmental, Energy, Health and Safety (EHS) Management and related environmental activities and initiatives applied in the organization and its processes.

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

During 2022, the Group sourced about 622,000 tonnes of metal components. 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 upstream are also avoided.

Although SKF operations are not considered to be water intensive, 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 (see table below). In other locations the nature of SKF's processes (most systems utilising water are closed loop) means that SKF typically does not represent a major water user in the local industrial context. Water is withdrawn from municipal supplies or other sources (ground and surface water) and is discharged in surface water or sewage systems after treatment, with quality levels according to local regulations and in this way, water related impacts are addressed. Sites in water scarce areas establish specific targets for reducing water consumption (see which sites are affected in table on the next page). Indirect water use is relevant due to 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.

Material, water, effluents and waste, environmental compliance, cont.

Water efficiency performance for sites in water stressed areas

Site	KPI 2022 vs. 2021, %
Nankou	–39
Dalian, Large size bearings	–16
Dalian, Medium size bearings	–43
Jakarta	–5
Ahmedabad	–14
Bangalore, Deep groove ball bearings	3
Haridwar	8
Mysore	0
Puebla, Hub units	–26
Tudela	–5
Shanghai, Automotive Technologies Co	–7

KPI = water intensity (i.e. water use / production volume).

SKF has deployed an environmental management system certified according to ISO 14001:2015. This is integrated with the health, safety and energy 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 (time frame is depending on size and complexity). The overall coordination of the work is managed by a central staff function and the responsibility to drive inclusion 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 and up through to business area/region and to Group. Local support, competence (particularly for legal compliance) and coordination for the sites is provided by the EHS country coordinators. Water quality, following local regulation, refers to the physical, chemical and biological characteristics.

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/ar2022.

Evaluation of the effectiveness of the management approach is done through internal and external audits and periodical reporting reviews.

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 119.

One important feature of SKF's Group environmental management system is to ensure that all SKF sites are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling.

Defined Group level objectives

- Eliminate solvents (emitting volatile organic compounds) from washing of bearings and bearing components by 2025.
- Grinding swarf recycling at a rate above 80% year by year.
- Water use targets are established at SKF sites with significant water risks. In 2022, SKF had 11 such sites.

For waste recycling, Group level objectives have been deemed not suitable due to the wide variation in the types and quantities of waste produced, as well as the local related infrastructure. SKF sites are required to define local objectives for:

- Waste recycling excluding direct material waste.
- Waste recycling including direct material waste.

Data collection

All environmental data is compiled either 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 site level and aggregated to country/area and Group level.

Performance

SKF has set realistic and ambitious objectives to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

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 favorable 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 from a significant proportion of scrap steel, however an exact percentage cannot be provided.

Non-renewable material

Tonnes	2022	2021[1)]	2020[1)]
Metal as raw material from external suppliers	621,794	581,428	458,081
Rubber as raw material from external suppliers	5,092	5,322	3,795
Oils	8,797	8,524	7,229
Greases	2,422	2,522	2,125

1) Past data are restated for divested units and data amendment.

Group objective: 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 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.

Group objective: Eliminate solvents (volatile organic compounds) from washing of bearings and bearing components by 2025

Tonnes	2022	2021[1)]	2020[1)]
VOC (volatile organic compounds) total use	821	1,139	967
VOC (volatile organic compounds) emitted to the atmosphere (washing of bearings and components in bearings manufacturing)	145	149	242

1) Past data are restated for divested units and data amendment.

303-1, Interactions with water as a shared resource and 303-2, Management of water discharge-related impacts

Water is used at SKF sites for processes and civil purposes (toilets, showers, cooking facilities, etc.). Focus on efficient water use is applied in various ways, for example, new factory building projects where latest technologies have been put in place also to achieve minimal impact on local resources. Practices like closed loop systems for industrial water used and rainwater harvesting are common in many SKF facilities.

Water use is metered at site level for "water from municipal supply" (the most common source) and "water from other sources". The first is the aqueducts supply and the second includes supply by wells or other surface sources (e.g. rivers, creeks) practiced according to regional regulations. There are no cases of sourcing from the sea, or local water production.

Material, water, effluents and waste, environmental compliance, cont.

Numerous lifecycle assessments (according to ISO 14044:2006) have been conducted both on product and process levels, and water impacts have been identified. The main findings from these studies are that SKF's direct water use is relatively insignificant compared to upstream use in energy generation, steel production, etc. However, SKF recognizes the increased importance of water efficiency and other measures at its sites located in areas of water scarcity. SKF uses the World Resources Institute's tools to identify those sites in areas of water stress or projected water stress. These sites are then required to define improvement plans and KPI's to drive reduced water use through various means.

Due to low water intensity of SKF's direct operations and the measures in place to follow applicable wastewater treatment requirements, the chances of SKF water usage impacting local community water availability/quality are very low.

As part of our overall environmental approach, SKF works with upstream users of water, such as steel and energy suppliers, to reduce water use. For example, by switching to renewable electricity sources, a dramatic reduction in water needed per/kWh can be achieved compared to thermal power sources. The SKF requirements for suppliers to adopt the ISO 14001 standard will also help increase focus on water in the direct material suppliers (e.g. steel).

303-3 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 sites 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

1,000 cubic metres	2022	2021[2)]	2020[2)3)]
Water from municipal supply	1,856	1,900	2,057
Water use from other source[1)]	1,307	1,117	1,075
Water withdrawal total	3,163	3,018	3,132

1) The "other source" is mostly wells from which water is extracted.
2) Past data are restated for divested units and data amendment.
3) In 2020, additional 461 000 cubic metres due to an undetected leakage at Falconer US site.

303-4 Water discharge

Water discharge follows regional regulations. The flow is going to local sewage systems or to surface water flow in compliance to mentioned regulations for the quality of discharged water (suspension, temperature, etc.). Metered discharge flows are thus not reported.

306-2, 306-3, 306-4, 306-5 Waste by type and disposal method

SKF works to avoid waste generation in a number of ways. Upstream these include the use of near-net shape production technologies such as cold rolling (minimizing the amount of material which needs to be removed in subsequent processes). Examples within SKF operations include avoidance of scrap and excessive material use through optimized processes and downstream SKF works with its remanufacturing approach to extend the life of SKF products and the systems in which they operate – thereby avoiding waste.

Almost all recycling, reuse and recovery of waste which is diverted from disposal is undertaken by external companies (steel plants, waste management and recycling companies etc.). SKF is performing recycling (reconditioning) of lubrication oil at some sites using SKF's RecondOil solution, but this is not yet reported separately.

As part of the Group's overall responsible sourcing approach, SKF requires that waste management companies and other companies making use of SKF's residual materials operate in full compliance with the SKF Code of Conduct and therefore all applicable local legislation.

The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. Local objectives have been required by the Group to be established and these shall drive sites upwards in the waste hierarchy with the goal to reach zero waste.

The amounts of residual material and recycling rate are disclosed below, and in more detail in the Environmental data spreadsheet available at skf.com/ar2022. SKF reports all significant residuals and waste site-by-site. In this report, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. The data on weight of waste generated comes from both SKF measurements and those made by the waste management companies – depending on the fraction and the location.

Non-hazardous waste

Tonnes	2022	2021[1)]	2020[1)]
Total residuals generated	125,805	146,231	125,307
Recycled or reused	100,996	120,462	102,702
Recycling rate, %	80	82	82
Incinerated with energy recovery	9,200	8,935	8,401
Incinerated without energy recovery	1,357	1,364	1,930
Landfill, excl. grinding swarf	14,252	15,469	12,275

1) Past data are restated for divested units and data amendment.

Group objective: 80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles and abrasives mixed with emulsion. The Group objective is to achieve recycling at a rate above 80% year by year. 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 objective.

SKF is constantly working to find business partners who can use grinding swarf as input to their production, both as direct and indirect material. During 2022, the rate of recycled or reused grinding swarf increased to 69%. The improvement came primarily from establishment of new recycling routes where it had not previously been possible.

Hazardous waste, grinding swarf

Tonnes	2022	2021[1)]	2020[1)]
Grinding swarf generated	23,653	24,253	20,665
Recycled or reused	16,273	14,954	13,624
Recycling rate, %	69	62	66
Incinerated, heat recovery	430	1,581	1,491
Incinerated, no recovery	5,076	4,040	3,366
Landfill	1,875	3,678	2,185

1) Past data are restated for divested units and data amendment.

307-1 Non-compliance with environmental laws and regulations

SKF received no significant fines or directives from the environmental authorities in 2022.

Employment

Management approach – GRI 3: Material topics 2021
Material topic – GRI 401: Employment 2016

Management approach
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 focus is on the Group and its subsidiaries, where SKF works with central digitalization, recruitment processes, training, leadership, people development and an excellent overall employee experience to proactively safeguard the need of future capabilities.

SKF's People Experience function has a lean corporate structure, i.e. Group People Experience. The function is represented in SKF's Group Management by the Senior Vice President People Experience & Communication. During 2022 changes to the structure of the People Experience function have been made to align with the overall strategic framework of SKF. The changes follow the logic of end to end responsibility to be kept within the business areas and regions. In cases of Corporate Governance and defined synergies, the mandate is kept central, in the Group People Experience.

The vision of People Experience is "People Make it Happen". This firm belief calls for SKF to put the employees in the center of everything we do. Employee experience and customer centricity should always be top of the agenda.

SKF People Experience's contribution to SKF's strategy is clarified in the SKF 2025 People Agenda, which takes a holistic view on what is needed short-term and long-term. The top three strategic priorities are Culture & leadership, Workforce for the future and Employee experience. The strategic priorities are further broken down into strategic areas, i.e. Purpose & meaningful work, Develop self, others & business, Diversity trust and inclusion, Organizational efficiency, Attract & build critical skills & capabilities, Talent development, Employee wellbeing & growth and Reward & recognition.

"People make it happen" is a double-edged sword. If SKF as an employer is not offering good conditions for its' employees, negative consequences will spiral, and the impact will not be limited to the company itself. The SKF business will have difficulties to attract and develop talent and the business result will be weakening. Such situation brings consequences to the society, e.g. unemployment and healthcare constraints through poorer wellbeing. To avoid the negative spiral, the employee must see the company as an employer of choice and the employment conditions need to be designed to drive a positive employee experience.

Throughout the year, activities and projects are defined for each strategic area to ensure that steps are taken in accordance with the SKF 2025 People Agenda. The People Agenda is the guiding star and is shared with business management and the full People Experience community.

People Experience has a regular dialogue with the SKF World Union Council (WUC) and the European Work Council (EWC) 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 EWC and local unions. As 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.

The top risk in the workforce area during 2022 has been the ability to source the right skills and expertise. The company is reliant upon a workforce that is engaged and flexible in all its dimensions and geographies, and has the competencies, energy and capabilities needed to deliver on the SKF strategy. There is a skill deficit in the labor market. Examples of challenges are within IT and cyber security, engineering, and deep technical expertise in the core technologies. Due to this skill deficit and the fierce competition in the labor market, the success of companies is dependent on the ability to attract, develop and retain critical competences and capabilities for the future. During 2022, the shortage of critical capabilities has continued to increase, as more companies are actively recruiting within the deficit competence areas. More companies are also actively promoting their employee value proposition to a broader audience, to ensure continuous high engagement with the future workforce.

To mitigate the risk of competence deficit, SKF is strengthening its' efforts to be an attractive employer. During 2022, a program has been initiated to clearly define the higher purpose of SKF. This will also be the start of reenforcing the SKF culture and building clarity around the employee value proposition. The program aims to involve the larger part of the employees, to impact the outcome. After implementation, during 2023, SKF anticipates a positive effect on engagement, speed in decision making and company attraction.

To monitor progress in creating a clear purpose and strong engagement, the quarterly employee satisfaction survey (SKF Team Pulse) is recognized as an essential tool with a global reach.

In SKF, not only the people managers are recognized as leaders. All employees are exercising leadership through being experts in their own work fields and are expected to act in line with the SKF leadership expectations. Strong leaders at SKF can balance leading yourself, leading others and leading the business. This is a model that has been focused on during 2022 and is now a foundation in leadership assessments and the performance development process.

During 2022, SKF have decommissioned its learning management system (LMS) Cornerstone, enabled by increased SuccessFactor functionality. A new LMS has been implemented and the foundation for the development of a learning experience platform is being formed (more details in Training and education)

People Experience has a strong local presence with delegated authority.

However, synergies through digitalization in operations and business are important to reach efficiency. This is enabled through a more centralized and regionalized approach to processes and systems. New common systems and functionality are being put in place to facilitate this work. During 2022, the new Performance Development Process, replacing the Performance Management Process, has been applied. This drives continuous alignment and feedback between managers and employees, and increases focus on what will come, rather than looking in the rearview mirror. Additional people digital tools have developed further. People Core is now collecting the global master data and the system carries the formal headcount data. People Service and the new learning management system are other systems taking leap steps during 2022.

Employment, cont.

401-1 New employee hires and employee turnover

Employee turnover by region

%	2022 Women	Men	Total	2021[1]
Europe, Middle East & Africa	14.8	10.4	11.3	6.4
The Americas	22.8	21.8	22.0	17.4
China and Northeast Asia	19.5	17.9	18.4	15.5
India and Southeast Asia	25.3	15.0	15.9	10.1
The Group	**17.7**	**14.2**	**14.9**	**10.3**

New hires by region

Total number	2022 Women	Men	Total	Women as share of total, %
Europe, Middle East & Africa	619	1,528	2,147	28,8
The Americas	497	1,601	2,098	23.7
China and Northeast Asia	504	1,237	1,741	28.9
India and Southeast Asia	119	519	638	18.7
The Group	**1,739**	**4,885**	**6,624**	**26.3**

1) Data for 2021 have been restated according to the new geographical regions implemented during 2022.

Age (groups) by region

Total number	<30	30–50	>50	Total
Europe, Middle East & Africa	1,106	865	176	2,147
The Americas	783	1,089	226	2,098
China and Northeast Asia	649	1,080	12	1,741
India and Southeast Asia	365	265	8	638
Total	**2,903**	**3,299**	**422**	**6,624**

Age (groups) by region

%	<30	30–50	>50	Total
Europe, Middle East & Africa	16.7	13.1	2.7	32.4
The Americas	11.8	16.4	3.4	31.7
China and Northeast Asia	9.8	16.3	0.2	26.3
India and Southeast Asia	5.5	4.0	0.1	9.6
Total	**43.4**	**49.8**	**6.4**	**100**

Labour management relations

Direct impact on UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

Management approach – GRI 3: Material topics 2021
Material topic – GRI 402: Labour management relations 2016

Management approach
SKF is a truly international company, with organizations present in many different cultures and contexts. In addition, accountability and mandate are moved as close to the business as possible. Decentralization comes with the risk of differences in practice also in the Labour Relation area. This could impact the employee experience at SKF and the overall SKF brand. Labour Relations has a strong presence in SKF Code of Conduct and strong relations are a foundation that SKF needs to maintain and develop. Open information sharing and dialogue builds a strong culture, with high loyalty and trust. This is protected by the Global Framework Agreement and the Labour Affair Director is a part of the Global People Experience Management team.

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.

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 the 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 ongoing to ensure that it works for both SKF and the union members.

The WUC, which today includes 20 countries (see page 95) meets every year to openly discuss labor issues and to share what is on the Groups' agenda. An EWC meeting involving only European delegates is held in conjunction to the WUC meeting. All countries fulfilling the EWC/WUC agreement requirements and with major operations, have the right to send appointed union officials or observers to the SKF EWC/WUC meeting.

In 2022, the annual EWC and WUC meeting was held in the first week of October. For the first time since the pandemic a physical meeting was possible, according to normal procedures. It was held in Gothenburg with online translations. During this one-week event, the EWC-meeting was conducted separately, according to the EU directive. This was followed by the WUC-meeting with Group Management and included a factory tour and internal meetings between the delegates. Main topics for the day with Group Management was the new SKF strategic framework and its' implications on organization, flexibility and digitalization.

Due to the change in senior management structure, one extra meeting for both EWC and WUC was held online in May 2022.

The focus areas were employment, environment, health & 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. All WUC

Labour management relations, cont.

meetings are followed up with lesson learned discussions, to have new practices introduced at the next meeting. The chairperson of WUC is continuously interacting with representatives in the different countries and Group Management. When needed the Chairperson brings issues to the Steering Committee, which includes internal and external union representatives.

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 Union Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

Occupational health and safety

Direct impact on UN Sustainable Development Goals

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

Management approach – GRI 3: Material topics 2021
Material topic – GRI 403: Occupational health and safety 2018

Management approach

SKF gives top priority to the health and safety of employees, contractors, agency workers and visitors. This is clearly stated in the Group EHS policy together with SKF's commitment to provide safe and healthy working conditions to prevent work-related injury and ill health as well as to assure well-being in the work environment. The Group EHS Policy is available both internally and externally.

Health and safety are material topics in different aspects of SKF's direct operations, as well as activities occurring along the value chain. In blue-collar work roles the focus 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 119. In addition, psychological health and wellbeing are increasingly material across all job roles within the company.

The overall health and safety ambition for SKF is to reach zero accidents (objective established since year 2000). In addition, accident rate and severity rate is monitored together with other categories of incidents described in the health and safety pyramid on page 114. In this pyramid, near misses and unsafe conditions and behaviours are presented which is monitored to ensure increasing proactivity in the health and safety management. SKF's accident rate has steadily improved over the last two decades and, while the improvement rate has slowed down in recent years, the accident rate for 2022 was 0.68 (0.67) showing a comparable performance as in 2021. 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.

The overall EHS governance in SKF emphasizes line ownership for health and safety. EHS managers

Occupational health and safety, cont.

are appointed in the regions, business areas 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 to health and safety in their respective units. They are supported in this work by the long established EHS country coordinators who provide local expertise, guidance and support to the sites.

The employees are key stakeholders for occupational health and safety, and as part of the governance structure, health and safety committees are available on all certified sites (ISO 14001/ISO 45001) with more than 50 employees to ensure effective communication (consultation and participation) with employee representatives. A similar committee is available also on Group level, and brings together senior managers from EHS and People Experience with employee representatives from the World Union Council.

Even if the effects of the COVID-19 pandemic have decreased during the year, SKF has continued to work in accordance with the following priorities;

- Protecting the health and safety of employees and their families.
- Following all applicable guidance and requirements from relevant authorities.
- Protecting SKF customers by keeping workplaces safe and maintaining production.

Due to the highly dynamic and regionalized nature of the pandemic, the definition and execution of risk assessments and control measures has been largely devolved to the locally established crisis response teams which have been set up at country and site level.

403-1 Occupational health and safety management system

SKF has established and deployed a Group-wide health and safety management system according to the ISO 45001:2018 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, energy, 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.

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), contractors, and vistors at SKF sites. Please refer to disclosure 403-8 for more information on the management system and its coverage.

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 defined Group requirements and provision of training for EHS staff and other persons undertaking them. Risk assessments are a part of internal and external audits, where typically a sample of risk assessments and 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 an accident or serious near miss 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 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 measures to avoid a repeat are shared

Occupational health and safety, cont.

within the organization. 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 and behaviours, as they are vital sources 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.

Health and safety incidents 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 as part of the SKF Improvement 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 behaviors.

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 EHS policy is distributed and is 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 employees at most sites and vary from one country to another (depending on the need, 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

Employee 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 site or unit management level with the objective to bring together employee and management representatives to discuss and agree on needed measures to improve the health and safety performance at the site or unit. The committees meet at least once per quarter and decisions taken shall be communicated to the workforce and acted and followed up on. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this. A Group level Health and Safety Committee is also established with representatives from the World Union Council, Group EHS and Group People Experience. This committee meets formally once per quarter, however more frequent update meetings are conducted as needed.

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. 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. Employees are covered by locally defined health promoting programmes, including HIV/AIDS prevention, substance abuse, obesity, healthy lifestyle, and stress management. Increasingly these programmes or initiatives take a more holistic approach to health in line with the SKF Group Employee Wellbeing policy. This is focused on three areas: psychological health, 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 sub-contractors, 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 page 119, Supplier 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 assesses 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 health and 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 78%, or some 33,000 employees are covered by the certified health and safety management system. The system focuses on the manufacturing sites, workshops, logistics and technical centres. In addition, over 82% of the agency workers under SKF's management control (around 4,000 people) are also covered by health and safety management systems. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a time period before being included in the scope of SKF certification of management systems. All certified sites 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 ISO 45001:2018 certification. SKF is globally certified according to ISO 45001:2018. SKF engages a third party certification body to audit for compliance to this standard at Group and site level. In addition to these external audits, a number of SKF employees are qualified as Group internal auditors and these individuals also audit sites to assure compliance with the standards, the environment, energy, health and safety policy and related Group instructions and requirements.

Read more on the certification on skf.com/45001.

Occupational health and safety, cont.

403-9 Work-related injuries
Health and safety data are collected using the Group's main reporting and consolidation tool.

The accident rate is calculated with R × 200,000/h, where R = number of recordable accidents and h = total hours worked.

SKF does not separately report accidents on workers who are not employees (e.g. agency workers) but includes them in the total figures reported.

Accident rates

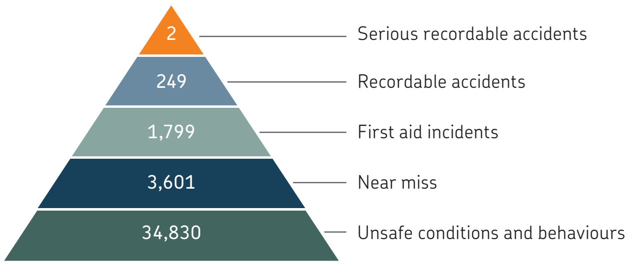
	2022	2021	2020	2019	2018	2017	2016	2015
Recordable accidents	0.68	0.67	0.75	0.77	0.81	0.85	0.87	0.99
Serious recordable accidents	0.005	0.003	0.003	0.013	0.013	0.013	—	—

Health and safety incident statistics

	2022	2021	2020
Work related fatalities	0	0	0
Serious recordable accidents	2	1	1
Recordable accidents	249	245	252
First aid incidents	1,799	1,863	1,987
Near miss incidents	3,601	3,582	4,016
Unsafe conditions and behaviours	34,830	30,171	20,988
Worked hours (x 200,000)	371	367	338

Near miss and first aid incidents, as well as unsafe conditions and behaviours, are addressed locally. Health and safety statistics are reported at Group level, however the incident details are not always included.

The ambition with the pyramid below is that an increasing attention to near miss incidents and unsafe conditions and behaviours, would result in better risk mitigation and a reduced number of recordable and serious accidents.



Training and education

Direct impact on UN Sustainable Development Goals

Management approach – GRI 3: Material topics 2021
Material topic – GRI 404: Training and Education 2016

Management approach
In today's world we accept that the speed of change has never been higher and continues to accelerate. Failing to build a continuous learning culture will result in several undesired effects such as competence deficit, increased attrition, and employer brand erosion. To compensate for such losses would require a more intensive recruitment activity which is challenging in today's war of talent and will be further challenging if the employer brand has been damaged due to a failed continuous learning culture. There is also an ethical dilemma, if not offering the employees opportunities for continuous development and safe employment over time.

SKF's history of success has been dependent on the collective skills and experiences of the employees. During 2022, SKF has increased the focus on life-long learning and will during 2023 launch a new global strategy to outline the journey towards becoming a learning organization. Our competence model builds on the 70-20-10, in which it is acknowledged that most of the learning happens "on the job". SKF needs to facilitate this and not only focus on more traditional/formal methods. Today SKF measures the time spent on our main LMS and is planning to track the progress of competece versus its top strategic skills. The overall aim with learning is to enable individuals to futureproof themselves and to futureproof the company.

Continuous learning and development are vital for SKF to stay competitive in the market. The employees' own commitment for competence development is the key component to keep skills and competence up to date. Increasingly important is the informal learning taking place in the daily work through knowledge sharing and collaboration, using social platforms, open forums, communities etc. SKF Academies are responsible to make sure that competence development supports the strategic business challenges on an overall level. To ensure that crucial local adoption takes place, there is also local learning initiatives and teams in place.

The Group People Experience function coordinates the overall strategy, methods, and tools for enhanced learning in SKF. Via the new global learning platform, People Learn, employees can access e-learnings and formal programs. This platform shall bring together training for various user groups, both internal and external. From 2023, also blue-collar employees will have access to the platform. This is a key step in making learning available and easily accessible for everyone. The new learning platform is based on Adobe Learning Manager. The platform is also used to track and monitor key compliance related trainings to make sure that SKF fulfills its obligations towards customers, the code of conduct and regulations.

The system and content for the performance development process has also been changed during 2022. The new process is fully based on SKF leadership expectations and supports a more continuous dialogue between managers and their reports.

The leadership expectations are the base for employee growth in SKF. The three Leadership pillars are Develop Yourself, Develop Others, Develop the Business. Development activities can include, e.g., job rotation, shadowing, mentoring, and specific technical training. To support employee engagement and to continuously track the employee satisfaction regarding

Training and education, cont.

development opportunities, SKF Team Pulse has now been rolled out in SKF and includes all employees worldwide. Utilizing the joint resources of Group People Experience, SKF Academies, learning experts, managers, and employees, SKF has a solid foundation for effective competence development activities.

404-2 Programmes for upgrading employee skills and transition assistance programmes

SKF offers internal programs 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, in some local organizations, also to children of employees. Training and skill upgrading are also done at varying depths or degrees in different parts of the organization, but always in dialogue with the manager.

In collaboration with the SKF World Union Council, the Group identified needs to re-skill people to meet the demands of new digital technologies and ways of doing business. During 2022, the Manufacturing Academy has focused on an ambitious scope, with the shop floor workers as target group. The aim is to upskill our employees within digitalization, maintenance, automatization etc. through internal training, or to combine part-time work with studies within production development.

With the new strategic framework and increased focus on sustainability, SKF has put further focus on upskilling our customer facing functions on how customers can lower emissions when using SKF products. This work has continued during 2022 in close collaboration with Sales and Technology Academy. SKF is also offering the possibility of outplacement assistance through coaching and training programs, for employees finding new demands difficult to fulfill and would like to explore opportunities outside SKF.

404-3 Percentage of employees receiving regular performance and career development reviews

Managers at SKF are accountable to work with their teams to define individual and team goals, to link their achievements to the overall result and strategy. This process is supported by a global platform (SuccessFactors) 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. This is used as input to the salary review and talent management for white collar employees. The global platform for performance development covers about 13,000 white collar employee users in 2022. For this year a new method was used for calculating documented performance rating: total number of staff/staff with performance rating as documented in the globally rolled-out employee master data system.

	2022		2021	
	Women	Men	Women	Men
Users with documented performance reviews in SKF's global system, %	85	86	91	92

Diversity and equal opportunity

Direct impact on UN Sustainable Development Goals

Management approach – GRI 3: Material topics 2021
Material topic – GRI 405: Diversity and Equal Opportunity 2016

Management approach

SKF operates in a competitive context, where the demand for complex problem solving and business acumen are central to the success. To really challenge and think outside the box, different perspectives need to be taken into consideration. Failing in diversity and equal opportunity will impact the ability to drive innovation and business development. It will also impact the SKF brand as a contemporary and fair company, which in turn makes it difficult to attract and retain talents and evokes negative perceptions from investors.

Equal opportunity and non-discrimination are central elements in the SKF Code of Conduct. It is crucial for SKF to offer equal prerequisites when applying for open positions. In the ever-increasing competition for talent, SKF needs to have an inclusive approach. The Code of Conduct was therefore the starting point stipulating the importance of encouraging inclusion and diversity, to gain competitive advantage.

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 in our society. SKF's overall approach is to start with equality and make sure that everyone in SKF has a fair chance to develop and fulfill career ambitions. Only professionalism should steer the selection.

To keep delivering in times of change, SKF is dependent on its' people. SKF needs a truly inclusive atmosphere where differences bring people together.

To stay competitive and attractive, SKF has, during 2022, put continued effort into gender diversity. Success in achieving a gender balance would strengthen the recruitment position and talent pipeline in SKF, mitigating the risk of competence deficit. SKF also strongly believes that diversity and inclusion have a positive impact on creativity and innovation.

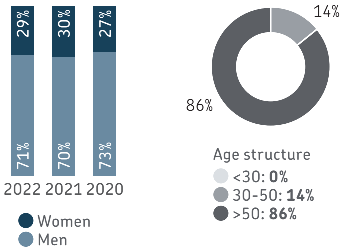
SKF integrates equality into the people processes, e.g., learning, succession planning and recruitment. The recruitment principles are based on the SKF Code of Conduct and facilitate skills-based recruitment by utilizing Assesio's Matrigma ability test. The test is a scientifically robust instrument, reviewed and certified by Det Norske Veritas. Through the quarterly engagement survey (SKF Pulse) we follow the experience of equal opportunities. Furthermore, employees are requested to report behavior that is not in line with SKF´s Code of Conduct to their manager, the local People Experience function or to other senior manager. Employees can also raise concerns or seek advice through the third party hosted SKF Ethics and Compliance Reporting Line.

During 2022, activities and programs have been running to maintain focus on improving equality. To drive this, SKF has defined and introduced a suite of KPIs setting the tone from the top. The aim is a more diverse leadership, with a good mix of experience. The target group is the top 150 senior leaders of the Company, but is planned to be expanded going forward. Progress is followed up through Annual People Business Reviews with top Management and by quarterly follow up on gender balance, conducted by Group People Experience. The virtual global program Elevate, targeting women with leadership ambition started in the beginning of 2020, continued during 2022. The ambition is to have a gender balance in all Global Leadership Programs. Further initiatives are launched to build awareness and knowledge around diversity, inclusion, and unconscious bias. One of many local initiatives is a new network for females in the Industrial Region India and Southeast Asia.

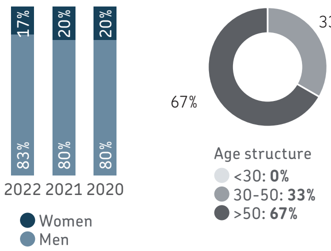
Diversity and equal opportunity, cont.

405-1 Diversity of governance bodies and employees
The graphs show the percentage of women and the age structure at different categories within the organization. Information on minorities is not available.

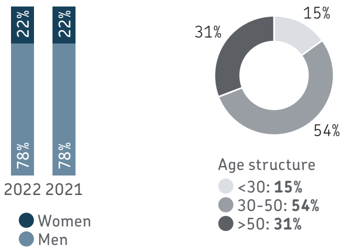
The Board
The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization. The percentace refers to Board members elected by the annual general meeting For more information, see page 136.



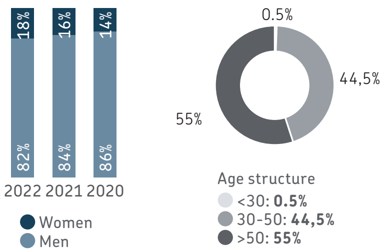
Group Management
Group Management is the operational management team of the SKF Group. For more information, see page 140.



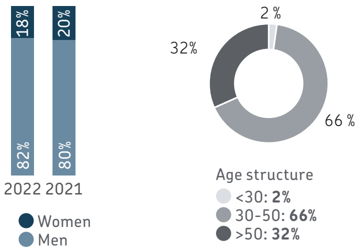
Total employees
Total employees refers to the total number of employees in SKF as per end of 2022.[1)]



Higher management
Higher management refers to the around top 400 managers in the SKF Group. The actual number in this population changes over time.



Managers
Managers refers to the employees who have direct reports.[1)]



1) New definition and data source from 2021 and therefore no data is presented for previous years.

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

Average annualized basic salary[1)], %	2022
Women's average basic salary as percentage of men's – Senior Management	88%
Women's average basic salary as percentage of men's – Local Management	97%
Women's average basic salary as percentage of men's – Other Staff	83%

1) Applies to staff basic salaries from all countries of the Group. Salaries for Group Management and blue collars are excluded. Total remuneration could not be reported at Group level.

SKF Code of Conduct requires that all employees are treated equally, fairly and with respect regardless of race, gender, age, national origin or nationality, disability, caste, religion, sexual orientation, union membership or political affiliation. We provide non-discriminatory working conditions, promote diversity, and ensure that wages and other related benefits meet at least the legal or industry minimum standard in the country in question. Wages and benefits are rendered in full compliance with laws and collective agreements. SKF sets staff salaries based on performance and position evaluation using IPE (International Position Evaluation) to ensure internal equity and to pay people fairly. Salary setting also follows legislation and/or union agreements as locally applicable. Equal pay audits are carried out locally adhering to country regulations. Differences in salary as shown by the gender pay ratios have been identified being due to a higher proportion of men in higher level positions, as well as a higher proportion of women in part-time work. SKF is striving for increased gender diversity on all levels and closing the gender pay gap.

Human rights and non-discrimination

Direct impact on UN Sustainable Development Goals

8 DECENT WORK AND ECONOMIC GROWTH

Management approach – GRI 3: Material topics 2021 Material topics: Non-discrimination 2016, Freedom of association and collective bargaining 2016, Child labour 2016, Forced or compulsory labour 2016, Human rights assessments 2016

This part of the report is prepared according to UN Guiding Principles on Business and Human Rights Reporting Framework as well as GRI Standards.

Management approach

SKF owns and operates 77 manufacturing sites across the world, with around 26,000 employees in different types of production. These facilities have local and global supply of components and raw material. Salient risks to human rights relate to SKF employees 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 about how the Group's activities can have an impact on the people in proximity to SKF's operations, its distribution, sales and end-use of products and services.

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, Parts 1, 5 and 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.

The SKF Code of Conduct is based on a number of international external principles and charters, such as ILO conventions, UN Guiding Principles for Business and 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 human rights are considered in screening and audit activities including but not limited to internal ethics and compliance reviews and audits, quality audits and Code of Conduct audits at suppliers. 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 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.

Salient human rights 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 equality are weaker. During 2022, SKF conducted an assessment with regards to human rights due diligence in relation to the EU Due Diligence directive expected during 2023. The assessment included polices, processes and resources related to due diligence of third parties such as suppliers, service providers and distributors. SKF uses published third party data to access human rights risks from a number of perspectives including regional and industry specific risks.

Stakeholder collaboration

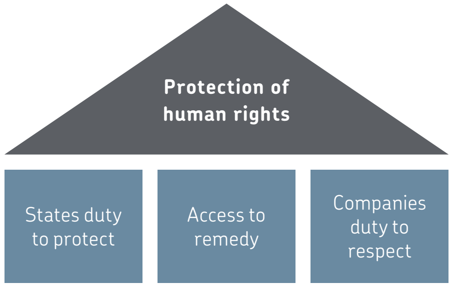
SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to manage such risks. The primary stakeholder group with whom SKF has a direct relationship is the employees, and so a social dialogue is held between local management and worker representatives. In addition to this ongoing dialogue on a local level, SKF Group Management meets annually with SKF World Union Council (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 as a supplier of bearings and solutions into that industry.

Steel and steel components represent by far the most significant material input to SKF in terms of value and weight. The steel supply chain is complex and highly globalized and may involve human rights risks particularly at the top end of the supply chain. Typically, SKF has no direct business relationship with actors beyond tier 1 or 2 and so driving change unilaterally is not feasible. Therefore, in 2021, SKF joined many other actors in the steel value chain as well as representatives from civil society in the Responsible Steel Initiative (RSI). The RSI is a multistakeholder initiative which works to identify and address salient human rights (along with environmental) risks in the full steel value chain – from scrap or raw material to finished steel.

Trends and patterns 2022

At the annual conference, SKF WUC and the Group focused on health, safety, decent working conditions, and the deployment of training for local health and safety committees.

Human rights and non-discrimination, cont.



Duty of companies
- Policy commitment
- Human rights due diligence
  – Assessing impact
  – Act on findings
  – Tracking effectiveness
  – Communicate
- Stakeholder engagement
- Remediation

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 the 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 95.

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. This starts with ensuring compliance with laws and regulations and the avoidance of materials and substances hazardous to people and the natural environment.

With regards to SKF's business, the purpose of SKF's products and solutions 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 2022.

406-1 Incidents of discrimination and corrective actions taken

During 2022, 92 reports related to discrimination and harassment have been received through the SKF Ethics & Compliance Reporting Line.

These cases are normally assigned to local investigators (mainly People Experience country leads) and actions are taken on a local level.

SKF has a process in place since 2021 so that concerns about harassment and discrimination that are reported locally (e.g. via email or in-person to People Experience) are also reported and documented centrally.

In addition, SKF works to establish a corporate harmonization, adhering local labor laws, in regards of setting appropriate actions as result of the findings of local investigations.

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 page 95 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/locations.

408-1 Operations and suppliers at significant risk for incidents of child labour

The risk for child labour in SKF's operations is very low but the issue is nonetheless included in SKF's internal audits.

The risk for child labour at SKF suppliers is higher and therefore the supplier audits have a high focus on this. However, due to the nature of suppliers and the long standing relationship with them, the cases are extremely rare. During 2022, SKF found no cases of child labour at its own operations and no cases at SKF's suppliers.

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 SKF's Code of Conduct and internal and supplier audits. In 2022, no cases of forced or bonded labour have been identified. SKF applies regional risk characterization from tools such as Maplecroft to help identify countries with these potential risks (407-1, 408-1, 409-1).

412-1 Operations that have been subject to human rights reviews or impact assessments

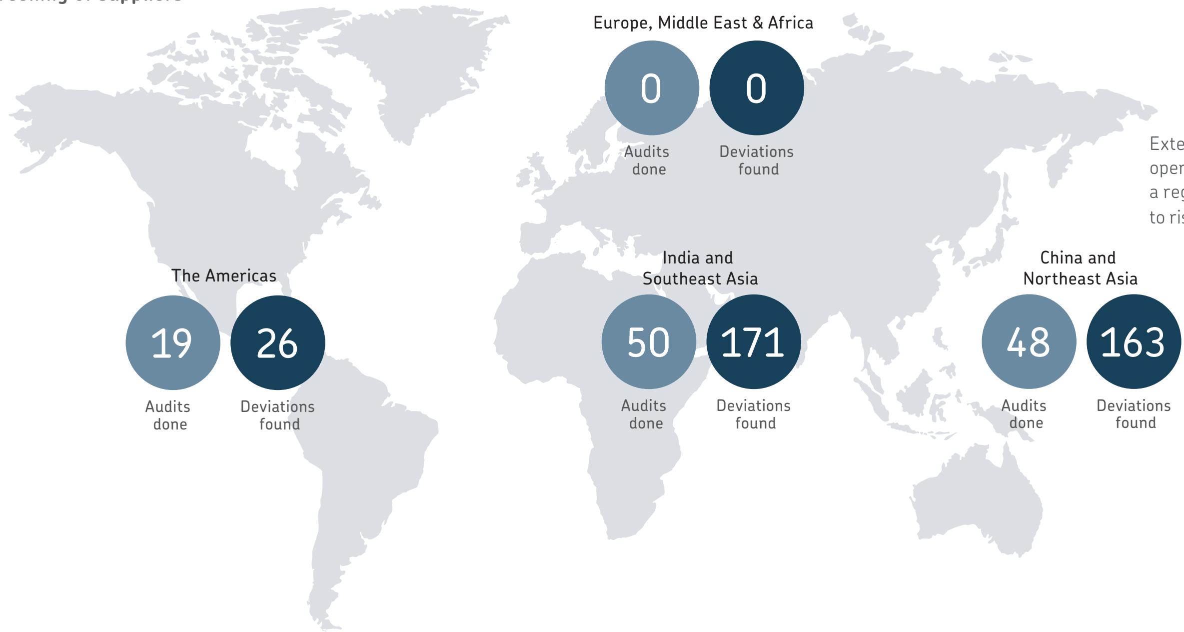
SKF's manufacturing units are subject to an ethics review including relevant aspects on the Code of Conduct with a risk-based periodicity. In 2022, 14 such reviews were carried out. In addition, sites undergo audits on specific topics and most audits related to human rights focus on health and safety. SKF also carries out site audits at suppliers. Read more on the next page.

Supplier assessments

Direct impact on UN Sustainable Development Goals

Management approach – GRI 3: Material topics 2021 Material topics – GRI 414: Supplier social assessment 2016 and GRI 308: Supplier environmental assessment 2016

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.

Management approach

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.

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. These must be met in order to be considered as an SKF supplier.

The SKF Code of Conduct for suppliers and sub-contractors has been revised during 2022. The new version, which will be officially published in the first part of 2023, covers more areas and more details with the addition of new chapters like Ethics and Compliance, GHG reduction, certification to international standards and other.

SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% 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 during 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 labor 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 that fail to address critical issues over time risk having their contracts with SKF terminated.

During 2022, unacceptable deviations were found at seven suppliers in India and China; these 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, most of the main problems have been solved and five of the seven suppliers were confirmed as business approved. Contracts were (or will be soon) terminated with the other two suppliers in China; sourcing with them has already been stopped, or will finish within 2023. For another supplier in India with critical deviations discovered previously and confirmed at the end of 2021, exit has been finalized during 2022.

During 2022, SKF worked to closer align quality and Code of Conduct audits, 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, health and safety, pollution and waste handling, fire license and environmental permits. The data reported in these statements are consolidating SKF's findings into GRI's designations.

Supplier assessments, cont.

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.

For China, the beginning of 2022 was still heavily impacted by the COVID-19 pandemic, with major travel restrictions. When the restrictions were lifted during the last two months of 2022, a sudden increase of the COVID-19 infections in SKF and at SKF suppliers limited the possibilities of Code of Conduct Audits. These reasons led to a certain reduction in the planned number of Code of Conduct Audits for China at year-end.

In spite of this, 117 suppliers have been physically audited. 19 out of 117 have been audited without negative impact identified (no critical deviations). With the 98 other suppliers, all have confirmed improvements, although with two of them business exit decision has been taken by SKF. 30 new suppliers were audited on site using environmental and social criteria, and one of these was not approved to supply SKF.

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

In 2022, 301 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 contract procedures. Seven suppliers with major deviations have been escalated to the Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency. In two cases SKF has decided to stop the business.

308-2 Negative environmental impacts in the supply chain and actions taken

During 2022, 59 environmental deviations related to pollution control and waste handling have been identified and actions are ongoing at the suppliers to resolve them. SKF's management systems, skills and experience in environmental management provides support and competitive advantages in the local supplier development. Specific training programmes about Code of Conduct, as well as social and environmental matters, have been conducted in India and China with particular focus on suppliers having social and environmental issues, including direct and indirect material suppliers as well as sub-contractors and service providers. Around 79 suppliers attended the training in India and China. To strengthen these supplier follow-ups, local purchasing staff also have to be trained.

To increase focus and coverage of Code of Conduct Audits at suppliers, six new Auditors have been trained in India.

Other trainings are planned in the different Regions during 2023.

Socioeconomic compliance

Direct impact on UN Sustainable Development Goals

11 SUSTAINABLE CITIES AND COMMUNITIES

Management approach – GRI 3: Material topics 2021
Material topic – GRI 419: Socioeconomic compliance 2016

Management approach

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance program, including the activites and controls to mitigate and prevent negative impacts and increase positive impacts. Processes, controls, guidelines, training and tools are integrated parts of the program and are available for employees on the Group's internal websites. SKF's compliance program activities to prevent or mitigate the risks, are focused on the main risks identified in the Group's yearly compliance risk assessment. Compliance with international declarations, conventions, treaties and local regulation is one of the most important tasks for a multinational enterprise to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

SKF has a Group-wide program of online training courses related with the objective to create awareness of the importance and impact of compliance to rules and requirements. These trainings are mandatory for all employees with a company e-mail address.

Data privacy is an important area of compliance for SKF, and the policy and compliance program activities have a direct positive impact on employees, customer and supplier representatives with regards to protecting privacy and integrity.

In line with the OECD 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 8–9. 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-compliance related to these topics have been identified.

GRI content index

Statement of use AB SKF has reported in accordance with the GRI Standards for the period 2022-01-01–2022-12-31
GRI 1 used GRI 1: Foundation 2021
Applicable GRI Sector Standard(s) No applicable GRI sector standards exists

GRI standard/Other source	Disclosure	Location	Omission Requirement(s) omitted	Reason	Explanation
GENERAL DISCLOSURES					
GRI 2: General Disclosures 2021	**2-1** Organizational details	7–9 and 93			
	2-2 Entities included in the organization's sustainability reporting	85–87			
	2-3 Reporting period, frequency and contact point	98			
	2-4 Restatements of information	98			
	2-5 External assurance	98 and 130			
	2-6 Activities, value chain and other business relationships	14–24			
	2-7 Employees	110–116			
	2-8 Workers who are not employees	95			
	2-9 Governance structure and composition	131–135			
	2-10 Nomination and selection of the highest governance body	131–135			
	2-11 Chair of the highest governance body	131–135			
	2-12 Role of the highest governance body in overseeing the management of impacts	93			
	2-13 Delegation of responsibility for managing impacts	93			
	2-14 Role of the highest governance body in sustainability reporting	93			
	2-15 Conflicts of interest	72			
	2-16 Communication of critical concerns	95			
	2-17 Collective knowledge of the highest governance body	93			
	2-18 Evaluation of the performance of the highest governance body	131–135			
	2-19 Remuneration policies	72–75			
	2-20 Process to determine remuneration	72–75			
	2-21 Annual total compensation ratio	—		Information unavailable /incomplete	The median annual total compensation for all employees and the median percentage increase in total compensation for all employees has not been collected yet. Base salary for blue collar workers, local short-term variable pay, long-term variable pay and other remuneration and benefits cannot be obtained to calculate total compensation, as this data is not stored in the global HR system. This applies to all locations and legal entities. The remuneration and change of remuneration for the President compared to the remuneration and change of the average remuneration of employees in AB SKF is reported in the Remuneration Report.

GRI standard/Other source	Disclosure	Location	Omission Requirement(s) omitted	Reason	Explanation
GENERAL DISCLOSURES CONT.					
	2-22 Statement on sustainable development strategy	14–24			
	2-23 Policy commitments	93			
	2-24 Embedding policy commitments	93			
	2-25 Processes to remediate negative impacts	94–120			
	2-26 Mechanisms for seeking advice and raising concerns	95			
	2-27 Compliance with laws and regulations	94			
	2-28 Membership associations	94			
	2-29 Approach to stakeholder engagement	96			
	2-30 Collective bargaining agreements	95			
MATERIAL TOPICS					
GRI 3: Material Topics 2021	**3-1** Process to determine material topics	97			
	3-2 List of material topics	97			
Economic performance					
GRI 3: Material Topics 2021	**3-3** Management approach	99			
GRI 201: Economic Performance 2016	**201-1** Direct economic value generated and distributed	99			
	201-2 Financial implications and other risks and opportunities due to climate change	99			This is not yet included in the Sustainability Statements in detail, but is addressed in the TCFD report available at skf.com/ar2022
Anti-corruption and competition law					
GRI 3: Material Topics 2021	**3-3** Management approach	95 and 100			
GRI 205: Anti-corruption 2016	**205-1** Operations assessed for risks related to corruption	100			Percentage of operations assessed for risks related to corruption cannot be provided, data is not available
	205-3 Confirmed incidents of corruption and actions taken	100			
GRI 206: Anti-competitive Behavior 2016	**206-1** Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	100			
Enabling cleantech growth					
GRI 3: Material Topics 2021	**3-3** Management approach	101			
SKF Specific topic	Revenue from sales to cleantech areas	101			

GRI standard/Other source	Disclosure	Location	Omission Requirement(s) omitted	Reason	Explanation
MATERIAL TOPICS CONT.					
Energy use and efficiency, climate change and greenhouse gas emissions					
GRI 3: Material Topics 2021	**3-3** Management approach	102			
GRI 302: Energy 2016	**302-1** Energy consumption within the organization	105			
	302-3 Energy intensity	105			
	302-4 Reduction of energy consumption	105			
GRI 305: Emissions 2016	**305-1** Direct (Scope 1) GHG emissions	105			
	305-2 Energy indirect (Scope 2) GHG emissions	105			
	305-3 Other indirect (Scope 3) GHG emissions	106			SKF has substantially increased the scope of scope 3 reporting in 2022 to include a significant amount to the emissions related to its direct material suppliers (steel and forging suppliers), however this does not cover the entire potentially applicable Scope 3 emissions. SKF intends to continue to increase the scope of reported Scope 3 emissions in the coming years.
	305-4 GHG emissions intensity	106			
Material, Water, Effluents and waste, Environmental compliance					
GRI 3: Material Topics 2021	**3-3** Management approach	107			
GRI 301: Materials 2016	**301-1** Materials used by weight or volume	108			
GRI 303: Water and Effluents 2018	**303-1** Interactions with water as a shared resource	108			
	303-2 Management of water discharge-related impacts	108			
	303-3 Water withdrawal	109			
	303-4 Water discharge	109			Water discharge follows regional regulations. The flow is going to local sewage systems or to surface water flow in compliance to mentioned regulations for the quality of discharged water (suspension, temperature, etc.). Metered discharge flows are thus not reported.
GRI 306: Waste 2020	**306-2** Management of significant waste-related impacts	109			
	306-3 Waste generated	109			
	306-4 Waste diverted from disposal	109			
	306-5 Waste directed to disposal	109			SKF reports only grinding swarf separately as its main hazardous waste.
GRI 307: Environmental Compliance 2016	**307-1** Non-compliance with environmental laws and regulations	109			

			Omission		
GRI standard/Other source	Disclosure	Location	Requirement(s) omitted	Reason	Explanation
MATERIAL TOPICS CONT.					
Employment					
GRI 3: Material Topics 2021	**3-3** Management approach	110			
GRI 401: Employment 2016	**401-1** New employee hires and employee turnover	111			
Labor/management relations					
GRI 3: Material Topics 2021	**3-3** Management approach	111			
GRI 402: Labor/Management Relations 2016	**402-1** Minimum notice periods regarding operational changes	112			
Occupational health and safety					
GRI 3: Material Topics 2021	**3-3** Management approach	112			
GRI 403: Occupational Health and Safety 2018	**403-1** Occupational health and safety management system	112			
	403-2 Hazard identification, risk assessment, and incident investigation	112			
	403-3 Occupational health services	113			
	403-4 Worker participation, consultation, and communication on occupational health and safety	113			
	403-5 Worker training on occupational health and safety	113			
	403-6 Promotion of worker health	113			
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	113			
	403-8 Workers covered by an occupational health and safety management system	113			
	403-9 Work-related injuries	114			
Training and education					
GRI 3: Material Topics 2021	**3-3** Management approach	114			
GRI 404: Training and Education 2016	**404-2** Programs for upgrading employee skills and transition assistance programs	115			
	404-3 Percentage of employees receiving regular performance and career development reviews	115			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	**3-3** Management approach	115			
GRI 405: Diversity and Equal Opportunity 2016	**405-1** Diversity of governance bodies and employees	116			
	405-2 Ratio of basic salary and remuneration of women to men	116			

GRI standard/Other source	Disclosure	Location	Omission Requirement(s) omitted	Reason	Explanation
MATERIAL TOPICS CONT.					
Human rights and non-discrimination					
GRI 3: Material Topics 2021	**3-3** Management approach	117			
GRI 406: Non-discrimination 2016	**406-1** Incidents of discrimination and corrective actions taken	118			
GRI 407: Freedom of Association and Collective Bargaining 2016	**407-1** Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	118			
GRI 408: Child Labor 2016	**408-1** Operations and suppliers at significant risk for incidents of child labor	118			
GRI 409: Forced or Compulsory Labor 2016	**409-1** Operations and suppliers at significant risk for incidents of forced or compulsory labor	118			
	412-1 Operations that have been subject to human rights reviews or impact assessments	118			
Supplier assessments					
GRI 3: Material Topics 2021	**3-3** Management approach	119			
GRI 308: Supplier Environmental Assessment 2016	**308-1** New suppliers that were screened using environmental criteria	120			Percentage cannot be disclosed. The total number of new suppliers is not known.
	308-2 Negative environmental impacts in the supply chain and actions taken	120			117 suppliers have been audited, total number of suppliers assessed in other ways cannot be disclosed.
GRI 414: Supplier Social Assessment 2016	**414-1** New suppliers that were screened using social criteria	120			
	414-2 Negative social impacts in the supply chain and actions taken	120			
Socioeconomic compliance					
GRI 3: Material Topics 2021	**3-3** Management approach	120			
GRI 419: Socioeconomic compliance 2016	**419-1** Non-compliance with laws and regulations in the social and economic area	120			

The EU Taxonomy

Contextual Information

The EU Taxonomy is a classification system to help define environmentally sustainable economic activities to support the transition to an economy consistent with EU´s environmental objectives. A cross-functional team with members from sustainability, finance and investor relations has investigated the EU Taxonomy requirements and its relevance to SKF based on the EU Taxonomy Regulation 2020/852 and the related delegated regulations and annexes.

The conclusion from the analysis is that since the manufacturing of components is currently not included in the economic activities covered by the EU Taxonomy, there is no eligible turnover, CAPEX or OPEX for SKF´s own operation. SKF can only account for purchases of output from taxonomy-eligible activities.

Assessment of compliance

In the assessment of purchases of output from taxonomy-eligible activities SKF has identified acquired and leased buildings, building renovations, energy efficient equipment and renewable energy installations.

This is an increased scope compared to 2021, which is based on an updated interpretation in January 2023 of point 1.1.2.2 c of Annex I to the Disclosure Requirements.

SKF can report the identified purchases as taxonomy aligned if the supplier activities in question are taxonomy aligned, but this information is not yet fully available. Consequently, SKF can only report on eligibility in 2022.

Accounting policies

Total turnover corresponds to Net sales in the consolidated financial statement.

Total capital expenditures cover investments in tangible assets, intangible assets and right-of-use assets considered before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments and excluding fair value changes. Capital expenditures also covers investments in tangible assets, intangible assets and right-of-use assets resulting from business combinations. Additions to property, plant and equipment, intangible assets and right-of-use assets is included in the segment information in Note 2 to the consolidated financial statement. Capital expenditures for businesses acquired is part of the reported amount for businesses acquired/sold in Note 10 and Note 11.

Total operational expenditures correspond to research and development costs, short-term leases, maintenance and repair costs, including building renovation and day to day servicing of assets and property.

All activities are reported as eligible for the climate mitigation target, and the allocation of CAPEX is based on business unit reporting and facility and real-estate information.

THE EU TAXONOMY, CONT.

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)										
	Code(s)	**Absolute turnover**	**Proportion of turnover**	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned proportion of turnover, year N	Taxonomy aligned proportion of turnover, year N-1	Category (enabling activity or)	Category (transitional activity)
Economic activites (1)		MSEK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmental sustainable activities (Taxonomy-aligned)																				
Turnover of environmental sustainable activities (Taxonomy-aligned (A.1)																				
A.2 Taxonomy-Eligible but not environmental sustainable activities (not Taxonomy-aligned activities)																				
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																				
Total (A.1 + A.2)																				

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES			
Turnover of Taxonomy-non-eligible activities (B)		96,933	100
Total (A + B)		**96,933**	**100**

THE EU TAXONOMY, CONT.

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)										
	Code(s)	Absolute CapEx	Proportion of CapEx	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned proportion of CapEx, year N	Taxonomy aligned proportion of Capex, year N-1	Category (enabling activity or)	Category (transitional activity)
Economic activites (1)		MSEK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmental sustainable activities (Taxonomy-aligned)																				
CapEx of environmental sustainable activities (Taxonomy-aligned (A.1)																				
A.2 Taxonomy-Eligible but not environmental sustainable activities (not Taxonomy-aligned activities)																				
Acquired and leased buildings	7.7	928	16																	
Building renovations	7.2	4	0																	
Purchase of energy efficient equipment	7.3	4	0																	
Purchase of renewable energy installations	7.6	24	0																	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		959	16																	
Total (A.1 + A.2)		**959**	**16**																	

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES		
CapEx of Taxonomy-non-eligible activities (B)	4,925	84
Total (A + B)	**5,884**	**100**

THE EU TAXONOMY, CONT.

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm)										
	Code(s)	Absolute OpEx	Proportion of OpEx	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaption	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy aligned proportion of OpEx, year N	Taxonomy aligned proportion of OpEx, year N-1	Category (enabling activity or)	Category (transitional activity)
Economic activites (1)		MSEK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1 Environmental sustainable activities (Taxonomy-aligned)																				
OpEx of environmental sustainable activities (Taxonomy-aligned (A.1)																				
A.2 Taxonomy-Eligible but not environmental sustainable activities (not Taxonomy-aligned activities)																				
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)																				
Total (A.1 + A.2)																				
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy-non-eligible activities (B)		5,045	100																	
Total (A + B)		**5,045**	**100**																	

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

To AB SKF (publ), corporate identity number 556007-3495

Introduction

We have been engaged by the Board of Directors of AB SKF to undertake a limited assurance engagement of the AB SKF Sustainability Report for the year 2022. The Company has defined the scope of the Sustainability Report on page 3 in connection to the table of content in Annual Report and the Statutory Sustainability Report on page 98.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 98 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, 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 express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented and does therefore not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 (revised) 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. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 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.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of AB SKF in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

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

A Statutory Sustainability Report has been prepared.

Gothenburg, March 1, 2023
Deloitte AB

Hans Warén
Authorised Public Accountant

Lennart Nordqvist
Expert Member of FAR

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 pages 40-41 of the Administration Report for the Group in the Annual Report 2022.

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 2022 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.

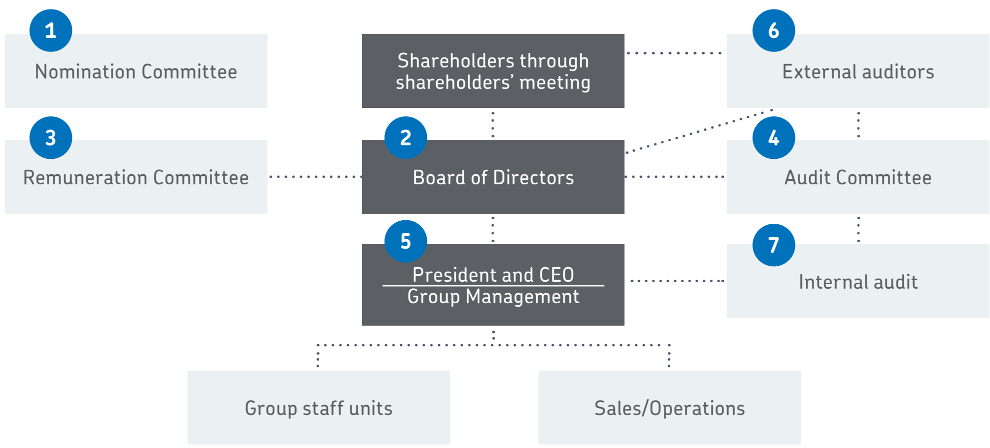
General information about how the company is managed

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 Chair 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 four industrial regions: Americas; Europe, Middle East & Africa (EMEA); India & Southeast Asia (ISEA) and China & Northeast Asia (CNEA). There is one global Automotive business unit and additionally seven independent business units collectively referred to as Independent and Emerging Businesses. All of the above mentioned business areas are respectively accountable for their own operational and financial performance. Further, there is a lean central function consisting of five Group staff functions: Operations & Digital Transformation, Technology Development, Group Finance, Group Legal & Compliance and Group People Experience & Communication, see pages 140–141 in the Annual Report 2022. The management of SKF's operations is based on a decentralised operating model for the business areas achieving decision making close to the customer and the goal of serving customers with increased speed and responsiveness, however within a set of frameworks ensuring compliance, risk management and synergies across the SKF Group by a lean corporate center. Group staff functions govern these defined frameworks being fundamental requirements for the management of the SKF Group. Within these frameworks, defined processes, policies and instructions are in place to manage risk, strategically important matters, and ensure compliance. Furthermore, certain transactions/arrangements of high value or strategic importance are referred to the relevant decision-making bodies and ultimately the President and/or the Board of Directors.



1 Nomination Committee

At the Annual General Meeting of AB SKF 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 Chair of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August each year 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 next Annual General Meeting. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 12 September 2022, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chair of the Board, had been appointed in preparation of the Annual General Meeting 2023:

- Marcus Wallenberg, FAM
- Christer Gardell, Cevian Capital
- 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 2023:

- proposal for Chair of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chair of the Board of Directors
- proposal for fee to the Board of Directors
- to the extent deemed necessary, proposal for new instructions for the Nomination Committee.

The proposals of the Nomination Committee were published in a press release dated 10 February 2023 and in connection with the notice to the Annual General Meeting 2023.

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 2022, 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 2022 resolved to appoint Board members in accordance with the Nomination Committee's proposal.

Seven Board members, including the Chair, were elected at AB SKF's Annual General Meeting held in the spring of 2022. Barb Samardzich resigned from the Board. 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 2022 can be found in the Annual Report 2022, Consolidated Financial Statements, Note 23.

Independence requirements

The Nomination Committee has a responsibility to take independence into consideration in its proposal for Board of Directors. 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	•	•
Hock Goh	•	•
Barb Samardzich (resigned in March 2022)	•	•
Colleen Repplier	•	•
Geert Follens	•	•
Håkan Buskhe	•	
Susanna Schneeberger	•	•
Rickard Gustafson		•

Activities of the Board of Directors

The Board held ten meetings in 2022. The Board members were present at the Board meetings as described in the table below. 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 2022 include i.a. market outlook and the impacts of the COVID-19 pandemic, issues related to the war in Ukraine, cash flow and investment analysis, financial reporting, capital structure, acquisitions and divestments of companies, the new strategic direction and new operating model, including material organizational changes 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, subject to COVID-19-related restrictions and recommendations.

Name of the board member	Presence/Total number of meetings
Hans Stråberg (chair)	10/10
Hock Goh	8/10
Barb Samardzich (resigned in March 2022)	3/10
Colleen Repplier	9/10
Geert Follens	10/10
Håkan Buskhe	10/10
Susanna Schneeberger	10/10
Rickard Gustafson	10/10
Jonny Hilbert	10/10
Zarko Djurovic	9/10
Thomas Eliasson	10/10
Steve Norrman	10/10

3 Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chair of the Board, Hans Stråberg as chair, and the board members Håkan Buskhe and Colleen Repplier.

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 at least every fourth year. 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 Swedish Companies Act and the principles in the Code, a remuneration report.

The Remuneration Committee held three meetings in 2022. The members of the committee were present at the meetings as follows:

Name of the board member	Presence/Total number of meetings
Hans Stråberg (chair)	3/3
Håkan Buskhe	3/3
Colleen Repplier	3/3

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 the board member Håkan Buskhe, as chair, the Chair of the Board, Hans Stråberg and the board member Geert Follens.

The Audit Committee oversees and ensures the quality and reliability of the accounting and financial reporting processes and reports, monitors the effectiveness of the Group's internal control over financial reporting, audit and risk management processes and the adequacy of the Group's controls for compliance with laws and regulations. The Audit Committee also reviews and monitors the work of external auditors as well as make preparations in relation to the nomination of external auditors.

The Audit Committee held six meetings in 2022. The members of the committee were present at the meetings as follows:

Name of the board member	Presence/Total number of meetings
Hans Stråberg	6/6
Håkan Buskhe (chair)	6/6
Geert Follens	6/6

Assessment

The board members assess the quality of the work of the Board through the completion of a questionnaire and interviews, which reflect the Group's values and drivers including sustainability. 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

Rickard Gustafson

Rickard Gustafson, President and CEO of AB SKF since 2021. Board member of AB SKF's Board since 2021. Born 1964.

Education and job experience

Master of science from the Institute of Technology at Linköping University. His previous senior positions include president and CEO of the SAS Group, CEO of the insurance company Codan/Trygg-Hansa and several positions within General Electric.

Other assignments

Board member of Telia Company and Confederation of Swedish Enterprise.

Shareholding (own and/or held by related parties) as of 31 December 2022

9,600 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 2021, Deloitte AB (Deloitte) was elected as auditor for the time up to the closing of the Annual General Meeting in 2025. Hans Warén is the auditor in charge.

Hans Warén has many years of experience as auditor in a number of other listed companies, and is currently the lead auditor for Axfood, Industrivärden and Trelleborg.

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. Deloitte applies a similar procedure and issues annually, in addition thereto, a written statement to the Audit Committee stating that the audit firm is independent in relation to SKF.

Deloitte has during 2022 been involved in matters besides the audit assignment. These matters have primarily concerned tax services. The total fees for Deloitte's services besides auditing in 2022 amount to MSEK 4.

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 auditors in 2022 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 2022

Hans Stråberg
Chair, 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
Chair of Atlas Copco AB, Roxtec AB, CTEK AB and Anocca AB. Board member of Investor AB and Mellby Gård AB. Member of the Royal Swedish Academy of Engineering Sciences.

Shareholding
(own and/or held by related parties)
37,000 SKF B

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.

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

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 SKF B

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

Håkan Buskhe
Board member since 2020
Born 1963

Education and job experience
Master of Science, Licentiate of Engineering, Chalmers University of Technology. CEO of FAM AB, owned by Wallenberg Investments AB. His previous senior postitions include CEO of Saab AB, 2010–2019 and CEO of E.ON Nordic AB, 2008–2010.

Other assignments
Chair of IPCO AB, Vice Chair of Stora Enso Oyj, board member of FAM AB, Munters Group AB, Kopparfors Skogar AB, The Grand Group and Navigare Ventures.

Shareholding
(own and/or held by related parties)
5,000 SKF B

THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2022, CONT.

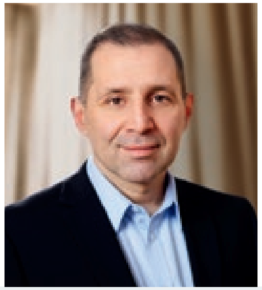
Susanna Schneeberger
Board member since 2020
Born 1973

Education and job experience
Master of European Affairs (MBA) and Master of Science in International Business, Lund University. Senior advisor and several leading positions including Chief Digital Officer and executive board member of the KION Group, 2018–2020, CEO of Demag Cranes & Components, 2015–2018, and various positions in the Trelleborg Group 2007–2014.

Other assignments
Chair of Yunex GmbH. Board member of Concentric AB and Hempel A/S.

Shareholding
(own and/or held by related parties)
1,000 SKF B

Rickard Gustafson
President and Chief Executive Officer of AB SKF. For more details, see page 135.



EMPLOYEE REPRESENTATIVES

Jonny Hilbert
Board member since 2015. Born 1981

Education and job experience
Employed in the SKF Group since 2005.

Other assignments
Chair Unionen, SKF, Gothenburg.

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

Zarko Djurovic
Board member since 2015. Born 1977

Education and job experience
Employed in the SKF Group since 2006.

Other assignments
Chair Metalworker's Union, SKF, Gothenburg.

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

Thomas Eliasson
Deputy Board member since 2021. Born 1965

Education and job experience
Employed in the SKF Group since 1984.

Other assignments
Chief Safety Representative and Board member of Unionen at SKF in Gothenburg.

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

Steve Norrman
Deputy Board member since 2021. Born 1965

Education and job experience
Employed in the SKF Group since 1994.

Other assignments
Vice Chair and Safety Officer Metalworker's Union, SKF, Gothenburg.

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

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 2013 COSO launched an updated version of the framework. SKF's internal control framework is aligned with the 17 fundamental principles of COSO 2013. The COSO framework consists of five interrelated components.

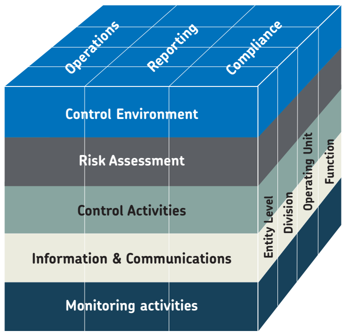
The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed 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. In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and subsidiary companies. SKF has 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, action plans are created to remediate control gaps. A selection of defined control activities are tested annually. SKF has a risk approach to controls, control testing and actions to remediate control gaps. During 2022 the control test activities have been limited due to the COVID-19 pandemic and been performed primarily through testing of controls in the newly established Finance Operations Centers and through self assessments.

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. These instructions are available to all relevant employees together with training material. Changes to accounting and reporting instructions are communicated regularly. Detailed financial process and control documentation are stored centrally and/or locally. This enables access to individual control documentation and analysis of results from the testing of SKF's financial internal control system.

SKF has an internal control function, within SKF Group Assurance, with the main responsibility to support the business to implement and maintain good internal control as well as to perform control testing to evaluate adherence with the framework and identify control weaknesses. The internal audit department Group Assurance conducts high level risk-based process audits within prioritized areas. The Director, Group Assurance reports 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, 1 March 2023
The Board of Directors



Auditor's report on the Corporate Governance Statement

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 financial year 2022-01-01–2022-12-31 on pages 131–138 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's 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.

Göteborg, March 1, 2023
Deloitte AB

Signature on Swedish original

Hans Warén
Authorised Public Accountant

Group Management as of 31 December 2022

Rickard Gustafson
President and CEO
Born 1964

MSc from the Institute of Technology at Linköping University, Sweden.
Employed since 2021

Previous positions
President and CEO of SAS Group, CEO of the insurance company Codan/Trygg Hansa and he has held several positions within General Electric.

Board member
Telia Company and The Confederation of Swedish Enterprise

Shareholding
9,600 SKF B

John Schmidt
President, Industrial Region Americas
Born 1969

Bachelor of Science, Mechanical Engineering from the Pennsylvania State University.
Employed since 2001 and 1993–1998

Previous positions
President, Industrial Sales Americas, President and CEO SKF USA Inc, Vice President Industrial Market NAM and several other positions within SKF.

Shareholding
25,883 SKF B

Aldo Cedrone
Acting President, Industrial Region Europe Middle East and Africa
Born 1958

Master in Mechanical Engineering from Università di Roma, "La Sapienza". Employed since 1989 and 1985–1987

Previous positions
Director Ball Bearing Cluster & Managing Director SKF Italy, Director Manufacturing within Industrial Market and Automotive Market and Business unit Director for Powertrain & TW.

Shareholding
869 SKF B

Manish Bhatnagar
President, Industrial Region India and Southeast Asia
Born 1969

Master of Business Administration from Indian Institute of Management, Calcutta, and B.E. in Electronics Engineering from Birla Institute of Technology & Science, Pilani, India.
Employed since 2018

Previous positions
Senior roles at General Electric and Danaher.

Board member
SKF India Ltd.

Shareholding
930 SKF B

Henry Wang
President Industrial Region China and Norteast Asia
Born 1968

Master of Business Administration from the University of Calgary and a Bachelor of Engineering from Shanghai Jiaotong University.
Employed since October 2022 and 1997–2019

Previous positions
President of Alstom's operations in China, CEO of KUKA in China, Head of SKF Industrial Sales in China as well as several other positions within SKF.

Shareholding
0 SKF B

David Johansson
President, Automotive
Born 1980

Master in Science; Industrial Marketing, Electrical Engineering at Chalmers University of Technology, Gothenburg.
Employed since 2005

Previous positions
Director, Global Railway and China Mobility business, Director, China Automotive, Aerospace and Railway business, Director, Global Marine Business Unit and several other positions within SKF.

Board member
SKF India Ltd.

Shareholding
1,500 SKF B

GROUP MANAGEMENT AS OF 31 DECEMBER 2022, CONT.

Thomas Fröst
President, Independent and Emerging Business
Born 1962

Degree in Industrial Economics from Chalmers University of Technology.
Employed since 1988

Previous positions
President, Industrial Technologies, Director Industrial Units, Head of Industrial Marketing, and several other positions within SKF.

Shareholding
1,904 SKF B

Joakim Landholm
Senior Vice President, Group Operations
Born 1969

Master of Science from Stockholm School of Economics.
Employed since February 2022

Previous positions
CEO Hector Rail, Chief Commercial Officer SAS and senior positions at Codan/Trygg Hansa and GE Capital.

Board member
SKF India Ltd.

Shareholding
4,090 SKF B

Annika Ölme
Chief Technology Officer and Senior Vice President, Technology Development
Born 1973

Master of Science in Electrical Engineering from Chalmers University of Technology and a Master of Business Administration from Waikato University.
Employed since October 2022 and 2002–2017

Previous positions
CTO and Head of Engineering at SAAB Radar Solutions, Managing Director of Arcam, a subsidiary of General Electric and several various positions within SKF.

Board member
Image Systems AB and Jacob Wallenberg Foundation

Shareholding
45 SKF B

Niclas Rosenlew
Chief Financial Officer and Senior Vice President, Group Finance
Born 1972

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

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

Shareholding
8,640 SKF B

Mathias Lyon
General Counsel and Senior Vice President, Group Legal & Compliance
Born 1975

Master of Laws, Faculty of Law at Lund University.
Employed since 2012

Previous positions
SKF Deputy General Counsel and several other positions at Volvo, AstraZeneca, Mannheimer Swartling and Rosengrens.

Shareholding
2,062 SKF B

Ann-Sofie Zaks
Senior Vice President, Group People Experience and Communication
Born 1976

Bachelor's degree, Innovation Program with special focus on Behavioural Science from University college of Mälardalen.
Employed since 2001

Previous positions
People Experience Director Bearing Operations, Program manager, Group People Transformation initiative and several other positions within SKF.

Shareholding
5,584 SKF B

Seven-year review

MSEK unless otherwise stated	2022	2021	2020	2019	2018	2017	2016
Income statements							
Net sales	96,993	81,732	74,852	86,013	85,713	77,938	72,589
Operating expenses incl. associated comp.	–88,401	–70,974	–67,783	–76,618	–74,664	–69,346	–65,062
Operating profit	8,532	10,758	7,069	9,395	11,049	8,592	7,527
Financial income and expense, net	1,239	–695	–769	–926	–861	–934	–788
Profit before taxes	7,293	10,063	6,300	8,469	10,188	7,658	6,739
Taxes	2,438	–2,484	–1,826	–2,677	–2,603	–1,898	–2,530
Net profit	4,855	7,579	4,474	5,792	7,585	5,760	4,209
Balance sheets							
Intangible assets	18,193	16,942	16,242	18,397	17,722	17,360	19,568
Deferred tax assets	3,173	3,839	4,800	4,437	3,563	3,633	3,806
Property, plant and equipment	24,897	20,723	18,161	18,420	16,688	15,762	15,746
Right of use assets	3,084	2,661	2,517	2,991	—	—	—
Non-current financial and other assets	1,781	1,674	1,939	2,019	1,964	1,627	1,688
Inventories	26,052	20,997	15,733	18,051	17,826	17,122	15,418
Trade receivables	16,905	13,972	12,286	14,006	13,842	13,416	13,462
Other current assets	16,838	18,820	18,879	15,787	15,568	12,283	14,219
Total assets	**110,923**	**99,628**	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**
Equity	54,043	45,365	35,712	37,366	35,452	29,823	27,683
Provisions for post-employment benefits	8,748	11,781	15,170	15,366	12,894	12,309	13,945
Deferred tax provisions	1,365	1,040	792	960	1,118	1,100	1,380
Other provisions	2,305	2,517	3,482	2,474	2,541	2,275	2,224
Financial liabilities	22,135	19,336	18,349	19,017	17,157	18,508	23,650
Trade payables	11,594	9,881	8,459	8,266	7,831	7,899	7,100
Other liabilities	10,733	9,709	8,593	10,659	10,180	9,289	7,925
Total equity and liabilities	**110,923**	**99,628**	**90,557**	**94,108**	**87,173**	**81,203**	**83,907**

MSEK unless otherwise stated	2022	2021	2020	2019	2018	2017	2016
Key figures[1]							
Operating margin, %	8.8	13.2	9.4	10.9	12.9	11.0	10.4
EBITA	9,173	11,340	7,681	10,008	11,541	9,064	8,016
EBITDA	12,316	14,064	10,470	12,892	13,522	10,916	9,895
Return on capital employed, %	10.6	14.8	9.8	13.2	17.6	14.2	11.9
Return on equity, %	9.5	18.8	12.1	15.7	22.8	20.4	16.5
Net working capital, % of sales	32.4	30.7	26.1	27.7	27.8	29.0	30.0
Net debt/equity, %	35.2	38.3	51.7	59.3	49.1	71.3	84.4
Net debt/EBITDA, %	1.5	1.2	1.8	1.7	1.3	1.9	2.4
Turnover of total assets, times	0.90	0.85	0.79	0.90	1.00	0.96	0.89
Gearing, %	35.6	40.5	48.0	47.1	45.0	49.9	55.3
Equity/assets, %	48.7	45.5	39.4	39.7	40.7	36.7	33.0
Net cash flow after investments before financing	295	2,100	5,259	4,953	8,326	4,753	7,717
Investments and employees							
Additions to property, plant and equipment	5,030	3,822	3,332	3,461	2,647	2,243	1,869
Research and development expenses	3,177	2,751	2,515	2,691	2,591	2,395	2,246
Patents – number of first filings	240	241	200	201	202	192	191
Average number of employees	40,773	40,861	38,385	41,559	42,565	43,814	43,508
Number of employees registered at 31 December	42,641	42,602	40,963	43,360	44,428	45,678	44,868

1) See page 144 for definitions.

Three-year review

MSEK unless otherwise stated	2022	2021[1]	2020[1]
Industrial			
Net sales	69,516	58,559	53,912
Operating profit	7,875	9,289	6,778
Operating margin, %	11.3	15.9	12.6
Assets and liabilities, net	51,108	44,127	38,681
Registered number of employees	36,744	36,136	34,590
Automotive			
Net sales	27,417	23,173	20,940
Operating profit	657	1,469	291
Operating margin, %	2.4	6.3	1.4
Assets and liabilities, net	14,504	10,885	8,776
Registered number of employees	3,270	3,392	3,399

1) Previously published figures 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	2022	2021	2020	2019	2018	2017	2016
Earnings per share	9.81	16.10	9.44	12.20	16.0	12.02	8.75
Dividend per A and B share	7.00[2]	7.00	6.50	3.00	6.00	5.50	5.50
Total dividends, MSEK	3,188[2]	3,188	2,960	1,366	2,732	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	159.15	214.5	213.4	189.4	134.5	182.2	167.6
Equity per share	114	96	75	78	74	62	57
Yield (B), %	4.4[1]	3.3[2]	3.0	1.6	4.5	3.0	3.3
P/E ratio, B (share price/earnings per share)	16.2	13.3	22.6	15.5	8.4	15.2	19.2
Cash flow from operations, per share	12.4	11.5	18.2	20.7	18.3	14.1	15.7
Cash flow, after investments and before financing, per share	0.7	4.6	11.6	10.9	18.3	10.4	17.0

1) See page 144 for definitions.
2) According to the Board's proposal for the year 2022.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1–1,000	70,511	88.4	15,308,201	3.4
1,001–10,000	8,453	10.6	22,667,305	5.0
10,001–100,000	621	0.8	17,523,511	3.9
100,001–	180	0.2	339,350,584	74.5
Anonymous ownership	—	—	60,501,467	13.3
	79,765	**100**	**455,351,068**	**100**

Source: Monitor, Modular Finance as of 31 December 2022.

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. These measures are used internally by management, as a complement to IFRS measures, as basis for business decisions. The alternative performance measures, defined by SKF Group, may not be comparable to similar measures presented by other groups.

Adjusted operating profit
Operating profit excluding items affecting comparability.

Adjusted operating margin
Operating profit margin excluding items affecting comparability.

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 in SEK (as defined by IFRS)
Net profit less non-controlling interests divided by the ordinary number of shares.

Capital employed
Twelve months rolling average of total assets less the average of non-interest bearing liabilities.

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.

Dividends pay-out ratio
Dividends paid in relation to net income for the year the dividend relates to.

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.

Gross margin
Gross income as a percentage of net sales.

Items affecting comparability
Significant income/expenses that affects comparability between accounting periods. This includes, but is not limited to, restructuring costs, impairments and write-offs, currency exchange rate effects caused by devaluations and gains and losses on divestments of businesses.

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.

Operating margin
Operating profit, as a percentage of net sales.

Organic growth
Sales excluding effects of currency and acquired and divested businesses.

Revenue growth
Sales excluding effects of currency and divested businesses.

P/E ratio
Share price at year end dividend by basic arnings 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/loss 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)
Profit/loss after taxes 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.

Alternative performance measures

MSEK unless otherwise stated	2022	2021
EBITA & EBITDA		
Net profit	4,855	7,579
Taxes	2,438	2,484
Financial income and expense, net	1,239	695
Operating profit	8,532	10,758
Amortizations of intangible assets	641	582
EBITA	**9,173**	**11,340**
Depreciation and impairments of intangible and tangible assets	3,143	2,724
EBITDA	**12,317**	**14,064**
Adjusted operating profit		
Operating profit	8,532	10,758
Items affecting comparability[1)]	1,672	81
Adjusted operating profit	**10,204**	**10,839**
Net work capital (NWC), % of 12 months rolling sales		
Total net sales (rolling 12-months)	96,933	81,732
Inventory	26,052	20,997
Trade receivables	16,905	13,972
Trade payables	–11,594	–9,881
Net Working Capital	31,363	25,088
NWC, % of 12 months rolling sales	**32.4**	**30.7**
Return on Equity (ROE) for the 12-month period, %		
Net profit (rolling-12 months)	4,855	7,579
Equity (rolling 12-month average)	50,943	40,336
ROE for the 12-month period, %	**9.5**	**18.8**
Capital employed (rolling 12-months average)		
Total assets	108,014	95,633
Provisions	3,567	3,806
Other non-current liabilities	28	30
Trade payables	11,415	8,993
Other current liabilities	11,062	9,910
Non-interest bearing liabilities	26,073	22,739
Capital employed (rolling 12-months average)	**81,942**	**72,895**
Return on capital employed (ROCE) for the 12-month period, %		
Operating profit (rolling 12-months)	8,532	10,758
Interest income – external (rolling 12-months)	135	35
Operating profit plus interest income	8,667	10,793
Capital employed (rolling 12-months average)	81,942	72,895
ROCE for the 12-month period, %	**10.6**	**14.8**

1) For more information, see page 45.

MSEK unless otherwise stated	2022	2021
Adjusted return on capital employed (ROCE) for the 12-month period, %		
Adjusted operating profit (rolling 12-months)	10,204	10,839
Interest income – external (rolling 12-months)	135	35
Adjusted operating profit plus interest income	10,339	10,874
Capital employed (rolling 12-months average)	81,942	72,895
Adjusted ROCE for the 12-month period, %	**12.6**	**14.9**
Debt & net debt		
Long term loans – total	18,175	13,275
Current financial liabilities	916	3,864
Short term derivative liabilities	–111	–106
Post-employment benefits – other	760	977
Post-employment benefits – pension	7,988	10,804
Defined benefit assets	–127	–71
Long term lease liabilities	2,286	2,179
Debt	**29,888**	**30,923**
Current financial assets	–11,224	–13,657
Short term derivative assets	370	94
Net debt	**19,034**	**17,360**
Gearing, %		
Shareholder's equity	54,043	45,365
Debt	29,888	30,923
Gearing, %	**35.6**	**40.5**
Equity/assets ratio, %		
Shareholder's equity	54,043	45,365
Total assets	110,923	99,628
Equity/assets ratio, %	**48.7**	**45.5**
Net debt/equity, %		
Shareholder's equity	54,043	45,365
Net debt	19,034	17,360
Net debt/equity, %	**35.2**	**38.3**
Net debt/equity, excl post-employment benefits, %		
Shareholder's equity	54,043	45,365
Net debt, excluding post-employment benefits	10,413	5,650
Net debt/equity, excl post-employment benefits, %	**19.3**	**12.5**
Net debt/EBITDA, %		
Net debt	19,034	17,360
EBITDA (rolling 12 months)	12,317	14,064
Net debt/EBITDA, %	**1.5**	**1.2**

General information

Annual General Meeting

The Annual General Meeting will be held at Radisson Blu Scandinavia Hotel, Södra Hamngatan 59, Gothenburg, Sweden, at 14.00 on Thursday, 23 March 2023.

The Board of Directors has decided that the shareholders shall be able to exercise their voting rights by postal voting in accordance with the company's articles of association.

For more information about the Annual General Meeting including preconditions for participation and instructions for postal voting can be found in the notice and is available at www.skf.com.

Payment of dividend

The Board of Directors proposes a dividend of SEK 7.00 per share for 2022. Monday, 27 March 2023 is proposed as the record date. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 30 March 2023.

Financial information and reporting

Publishing dates for financial reports in 2023:

Annual Report 2022	1 March
Q1 report	27 April
Q2 report	19 July
Q3 report	27 October
Q4 report	9 February 2024

The reports are available in Swedish and English on investors.skf.com. A subscription service for press releases and interim reports, sent via e-mail or SMS, is available on the website.

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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.

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Remuneration Report

Introduction

This remuneration report provides an outline of how AB SKF's principles for remuneration for Group Management (the "remuneration principles"), adopted by the Annual General Meeting 2020 and revised in 2022, have been implemented in 2022. The report also provides details on the remuneration of AB SKF's CEO. In addition, the report contains a summary of AB SKF's outstanding share and share-price related incentive programs. The report has been prepared in compliance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551) and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Information required by Chapter 5, Sections 40–44 of the Annual Accounts Act (1995:1554) is available in note 23 on p. 72–75 in the company's annual report for 2022 (the "annual report 2022"). Information on the work of the Remuneration Committee in 2022 is set out in the corporate governance report, which is available on p. 132–138 in the annual report 2022.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in note 23 on p. 72–75 in the annual report 2022.

Key developments 2022

The CEO summarizes the company's overall performance in his statement on page 11–13 in the annual report 2022.

Overview of the application of the remuneration principles in 2022

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

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

The principles are found at www.skf.com. The remuneration principles, adopted by the Annual General Meeting 2020 and revised in 2022, have been fully implemented.

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

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

Application of performance criteria

The performance measures for the CEO's variable remuneration have been selected to deliver the company's strategy and to encourage behavior which is in the long-term interest of the company. In the selection of performance measures, the strategic objectives, sustainability, short-term and long-term business priorities for 2022 have been taken into account.

The performance measures for the CEO's variable cash remuneration have been divided equally between adjusted operating margin,

Table 1 – Total CEO remuneration in 2022 (kSEK)

Table 1 below sets out total remuneration earned by AB SKF's CEO during 2022[1].

	Fixed remuneration		Variable remuneration					
Total remuneration[2]	Base salary	Other benefits	One-year variable	Multi-year variable[3]	Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration
Rickard Gustafson, CEO	14,460	175	4,352	—	—	5,780	24,767	82% / 18%

1) Disbursements may or may not have been made during the year.
2) Allotment of shares under the SKF Performance Share Programme is not covered by the remuneration principles and is reported separately under share based remuneration below.

net working capital and organic growth. There is also one criterion linked to reduction of greenhouse gas emissions. To determine the range for the parameters, both the business plan and the final result of the year before is the baseline. The reduction of CO_2e emissions criterion is related to the SKF Group net zero 2030 objective. During 2022, the financial performance measures were partly met and the net zero 2030 measure was fully met. The outcome was therefore that 43% of the maximum variable cash remuneration was earned by the CEO during the year; 0% relating to adjusted operating margin, 0% relating to net working capital, 33% relating to organic growth and 10% related to the reduction of CO_2e emissions.

Comparative information on the change of remuneration and company performance

2020 was the first reference year and therefore no year over year changes for the previously reported financial years (RFY) will be presented. Coming years will be added so that the annual change over the last five years will be visible.

Table 2 – Change of remuneration and company performance over the last reported financial years (kSEK)

	2022	2022 vs. 2021	2021 vs. 2020
President remuneration	24,767	+868 (+3.6%)	+2,506 (+11.7%)[1)]
Adjusted operating profit[2)]	10,204,000	–635,000 (–5.9%)	+1,645,000 (+17.9%)
Cash flow[3)]	5,641,000	+393,000 (+7.5%)	–3,017,000 (–36.5%)
Average remuneration on a full-time equivalent basis of employees in AB SKF	1,051	+3 (+0.3%)	+18 (+1.7%)

1) Alrik Danielson (Jan–April), Niclas Rosenlew (May), Rickard Gustafson (June–Dec).
2) Operating profit excluding items affecting comparability.
3) Net cash flow from operating activities.

Share-based remuneration

Outstanding share-related incentive plans

Since 2008 the Annual General Meeting has resolved each year upon the SKF Performance Share Programme for senior managers and key employees. The SKF Performance Share Programmes for 2020–2022 have been ongoing during 2022.

The number of shares that may be allotted must be related to the degree of achievement of the Total Value Added (TVA) target level, as defined by the Board, for the TVA development during a three-year calculation period. From the SKF Performance Share Programme 2022 a performance criterion related to the reduction of CO_2e emissions has been included. The performance criteria used to assess the outcome of the proposed SKF Performance Share Programme is distinctively linked to the business strategy and thereby to the SKF Group's long-term value creation, including its sustainability. These performance criteria include a clear link to the SKF Group's yearly growth, long-term financial targets and capital efficiency. For further information on said SKF Performance Share Programme, including the criteria which the outcome depends on, please refer to the Board of Directors' proposal on SKF's Performance Share Programme 2022 which can be found on www.skf.com.

At the end of 2022, the SKF Performance Share Programme 2020 expired. Allotment of shares was subject to the satisfaction of performance conditions during the three-year period 2020–2022, compared to the financial year 2019. Since the threshold level of the TVA was met and the TVA target was partly met, as decided by the Board, the participants of the programme were awarded 43% allotment of shares under the programme. In total, around 226,000 SKF B shares were allotted under the programme, corresponding to approximately 0.05% of the total number of outstanding shares. Allotment of shares requires that the persons covered by the programme are employed in the SKF Group during the entire calculation period. The CEO Rickard Gustafson, that joined in 2021, did not participate in the Performance Share Programme 2020 and was therefore not awarded any allotment of shares under the programme. No CEO allotment of shares was therefore awarded.

The CEO Rickard Gustafson participates in the Performance Share Programme 2021 and the Performance Share Programme 2022. Allotment of shares may be made following the expiry of the three-year calculation period, i.e. during 2024 and 2025 respectively, if all the conditions of the programme are met and the allotment is approved by the Board.

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