

Half-year report 2017

Press release 21 July

“The second quarter saw strong organic growth and an improved operating margin. Sales development was positive in all regions, as underlying industrial activity and investments increased.

Net sales, at SEK 20.2 billion, increased organically by 7.5% compared to the second quarter last year, with North America and Asia growing by double-digits, 10% and 12% respectively.

Improved sales volumes and factory utilization rates contributed to an adjusted operating profit of SEK 2,436 million, 416 million higher than last year and an adjusted operating margin of 12%.

The automotive business developed in a solid manner, with a good operational improvement, delivering an adjusted operating margin of 8.1%. The industrial business delivered an adjusted operating margin of 13.8%.

Our underlying cash flow generation ability is robust, at SEK 2.3 billion in the quarter. We continued to focus on our core bearing business, with the divestment of Reelcraft completed in June, which impacted cash flow positively by SEK 892 million. In total, we have now raised approximately SEK 5 billion from divestments in the last two years.

A few weeks ago we inaugurated the Sven Wingquist Test Center for large-size bearings in Schweinfurt, Germany.

The center is the first in the world that can test large-size bearings – with a diameter of up to six metres – under dynamic loading conditions, simulating actual operating conditions, making customer development processes faster and more reliable. This is just one example of how we are investing in the development of software and hardware that support product and rotating equipment performance, our two value propositions in key industries.

As we move into the second half of the year, we expect to see continued broad-based industrial activity and growth.

For the third quarter of 2017, demand for our products and services is expected to be higher compared to the same period last year.”

Atrik Danielson
President and CEO

Key figures

SEKm unless otherwise stated

Key figures	Q2 2017	Q2 2016	Half year 2017	Half year 2016
Net sales ¹⁾	20,229	18,319	39,830	35,995
Adjusted operating profit ²⁾	2,436	2,020	4,793	3,992
Adjusted operating margin ²⁾ , %	12.0	11.0	12.0	11.1
Items affecting comparability ²⁾	-121	-145	-183	-242
Operating profit	2,315	1,875	4,610	3,750
Operating margin, %	11.4	10.2	11.6	10.4
Adjusted profit before taxes ²⁾	2,178	1,801	4,365	3,556
Profit before taxes	2,057	1,656	4,182	3,314
Net cash flow after investments before financing	2,304	4,225	2,368	4,735

1) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

2) Please refer to page 17 for definitions.

Net sales change y-o-y, %:	Organic	Structure	Currency	Total
Q2 2017	7.5	-2.0	4.9	10.4
Half year	7.7	-2.0	5.0	10.7

Organic sales change in local currencies, per region y-o-y, %:	Europe	North America	Latin America	Asia	Middle East & Africa
Q2 2017	3.1	10.0	9.9	11.7	13.3
Half year	4.1	8.9	10.6	12.2	11.5

Outlook for the third quarter 2017

Demand compared to the third quarter 2016

The demand for SKF's products and services is expected to be higher for the Group, including Industrial and Automotive. Demand is expected to be higher in Europe, North America and in Asia and significantly higher in Latin America.

Demand compared to the second quarter 2017

The demand for SKF's products and services is expected to be lower for the Group and Industrial and slightly lower for Automotive. Demand is expected to be significantly lower in Europe and relatively unchanged in North America, Asia and in Latin America.

Previous outlook statement

Demand compared to the second quarter 2016

The demand for SKF's products and services is expected to be higher for the Group and for Industrial. Demand for Automotive is expected to be significantly higher. Demand is expected to be slightly higher in Europe, significantly higher in North America and in Asia and higher in Latin America.

Demand compared to the first quarter 2017

The demand for SKF's products and services is expected to be slightly higher for the Group including Industrial and Automotive. Demand is expected to be relatively unchanged in Europe and in Latin America, slightly higher in North America and higher in Asia.

Sales

Segment information	Q2				Half year			
	Organic	Structure	Currency	Total	Organic	Structure	Currency	Total
Net sales, change y-o-y, %:								
Industrial	7.7	-2.8	4.2	9.1	7.0	-2.9	5.1	9.2
Automotive	7.1	0.0	6.5	13.6	9.5	0.0	4.6	14.1

Segment information	Q2					Half year				
	Europe	North America	Latin America	Asia	Middle East & Africa	Europe	North America	Latin America	Asia	Middle East & Africa
Organic sales in local currencies, change y-o-y:										
Industrial	++	++	++	+++	++	++	+++	++	+++	++
Automotive	+/-	+++	+++	+++	+++	+	++	+++	+++	+++

Customer industries	Q2					Half year				
	Europe	North America	Latin America	Asia	Middle East & Africa	Europe	North America	Latin America	Asia	Middle East & Africa
Organic sales in local currencies, change y-o-y:										
Industrial distribution	+++	+++	+/-	++	++	+++	+++	+	+++	+++
Industrial, general	+/-	+++	+++	+++	+++	+/-	+/-	+++	+++	+++
Industrial, heavy, special and off-highway	+	+++	+++	++	+++	+	+++	+++	+	++
Energy	+	++	-	---	---	+++	+++	--	---	---
Aerospace	+/-	-	-	---	---	++	-	-	---	---
Railway	++	++	-	+++	---	+/-	++	-	+++	---
Cars and light trucks	+/-	+/-	+++	+++	---	+/-	+	+++	+++	---
Vehicle aftermarket	+	+++	++	-	+++	++	+++	+++	-	+++
Trucks	++	+++	+++	+++	---	++	+	+++	+++	---
Two-wheelers and electrical	++	+/-	-	+++	---	+	+/-	-	++	---
Other industry	++	+++	+++	+++	---	++	++	+++	+++	---

Comments on organic sales in local currencies in Q2 2017, compared to Q2 2016

Europe

Industrial: Overall, sales were higher in the quarter. By industry, sales to industrial distribution were significantly higher, sales to the rail industry was higher while sales to the energy industry as well as the heavy, special and off-highway industries were slightly higher. Sales to industrial general industries as well as sales to the aerospace industry were relatively unchanged.

Automotive: Sales in the quarter were relatively unchanged compared to last year with higher sales to the truck industry, slightly higher sales to the vehicle aftermarket and relatively unchanged sales to the cars and light trucks industry.

North America

Industrial: Sales were higher in the quarter compared to Q2 2016. By industry, sales to industrial distribution, industrial general and to the industrial, heavy, special and off-highway industries were all significantly higher. Sales to the railway and energy industries were higher while sales to the aerospace industries was slightly lower.

Automotive: Sales in the quarter were significantly higher, including significantly higher sales to the truck industry and to the vehicle aftermarket and relatively unchanged sales to the cars and light trucks industry.

Asia

Industrial: Sales were significantly higher in the quarter. By industry, sales to industrial general as well as to the railway industries were all significantly higher. Sales to industrial distribution and to the industrial, heavy, special and off-highway industries was higher and sales to the energy and aerospace industries were significantly lower compared to Q2 2016.

Automotive: Sales were significantly higher compared to Q2 2016. Sales were significantly higher to the truck industry and to the cars and light trucks industries, and slightly lower to the vehicle aftermarket.

Latin America

Industrial: Overall, sales were higher in the quarter. By industry, sales to the heavy, special and off-highway industries were significantly higher. Sales to industrial distribution was relatively unchanged.

Automotive: Sales were significantly higher in the quarter. Sales to the car and light trucks industry as well as the truck industry were significantly higher, sales to the vehicle aftermarket was higher compared to Q2 2016.

Financial performance

Second quarter 2017

Operating profit for the second quarter was SEK 2,315 million (1,875). Operating profit was positively impacted by increased sales and manufacturing volumes, favourable currency effects and lower items affecting comparability compared to the second quarter 2016. Operating profit was also negatively impacted by sales price development, customer mix, higher cost for the ERP implementation, general inflation and divested companies. Operating profit included items affecting comparability between the years of SEK -121 million (-145) whereof -62 million related to ongoing restructuring and cost reduction activities mainly in Americas and Europe.

The divestment of Reelcraft business as of 30 June generated net proceeds of SEK 892 million in the second quarter. The effect on net profit was SEK -256 million whereof SEK -279 million referred to taxes. These taxes will impact the net cash flow after investment before financing in coming quarters.

Operating profit bridge, SEKm	Q2
2016	1,875
Items affecting comparability at 2016 exchange rates	32
Operational performance ¹⁾	285
Currency impact	156
Divested/acquired companies, ie net divestment	-33
2017	2,315

1) Operational performance includes the effects on operating profit related to changes in: organic sales, manufacturing volumes, manufacturing cost and changes in selling and administrative expenses.

- Financial income and expense, net in the second quarter was SEK -258 million (-219). Exchange rate fluctuations had a positive impact in the second quarter 2017 while it had a negative impact in 2016. Financial net was also impacted by the debt repurchase of EUR 300 million which had a net financial result of SEK -99 million including the effects from derivatives.
- Taxes in the second quarter was SEK -836 million (-950) resulting in an effective tax rate of 40.7% (57.4%) and was negatively impacted by SEK -279 million (-386) related to the divestment activities during the quarter. Excluding this, the effective tax rate was 27.2% (34.2%).
- Net cash flow after investments before financing in the second quarter was SEK 2,304 million (4,225). Excluding cash flows related to divestments and acquisitions during the second quarter it was SEK 1,412 million (1,160). The second quarter's higher operating profit was offset by higher working capital and additional buy-out of pension obligations for retirees from the defined benefit obligation plan in Germany.
- Net working capital in percent of annual sales was 29.8% in the second quarter compared to 30.2% in the second quarter 2016. The ratio was positively impacted by the divestment activities in the second quarter by around -0.1% (-0.5%).
- Provisions for post-employment benefits net decreased by SEK -134 million (increase 1,905) in the second quarter and decreased by SEK -941 million since December 2016 (increase 3,277), mainly due to the buy-out of retirees from the defined benefit obligation plan in Germany and higher discount rates in Germany.

Key figures

	30 June 2017	31 March 2017	30 June 2016
Net working capital, % of 12 months rolling sales ¹⁾	29.8	30.9	30.2
ROCE for the 12-month period, %	13.3	12.5	10.6
Net debt/equity, %	85.7	76.0	117.7
Net debt/EBITDA	2.2	2.2	3.0

1) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

Segment information¹⁾

SEKm unless otherwise stated

Industrial	Q2/2017	Q2/2016	Half year 2017	Half year 2016
Net sales ²⁾	14,040	12,873	27,525	25,208
Operating profit	1,911	1,514	3,785	3,055
Operating margin, %	13.6	11.8	13.8	12.1
Items affecting comparability	-23	-122	-64	-176
Adjusted operating profit	1,934	1,636	3,849	3,231
Adjusted operating margin, %	13.8	12.7	14.0	12.8

Automotive	Q2/2017	Q2/2016	Half year 2017	Half year 2016
Net sales ²⁾	6,189	5,446	12,305	10,787
Operating profit	404	361	825	695
Operating margin, %	6.5	6.6	6.7	6.4
Items affecting comparability	-98	-23	-119	-66
Adjusted operating profit	502	384	944	761
Adjusted operating margin, %	8.1	7.1	7.7	7.1

1) Previously published figures have been restated. See page 8.

2) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

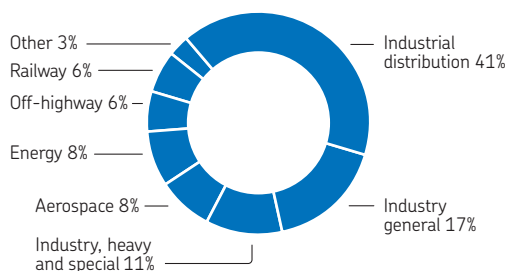
Guidance Q3 2017

- Financial net: -200 million
- Currency impact on the operating profit is expected to be neutral compared with 2016, based on exchange rates per 30 June 2017.

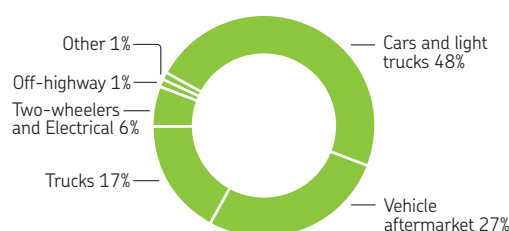
Guidance 2017

- Tax level excluding effect related to divested businesses: around 30%
- Additions to property, plant and equipment: around 2,200 million.

Half year net sales for Industrial



Half year net sales for Automotive



Highlights

Collaboration with Honeywell

Honeywell Process Solutions and SKF have launched a digitalization pilot project. The project, at a copper mine in Latin America, aims to create a digital standard for improved machine efficiency, reliability and competitiveness for industrial customers.

European centre for automobile spare parts

SKF is investing in new production facilities at the St-Cyr-sur-Loire site in France in order to streamline its EMEA automotive aftermarket activities. This is in response to changing market dynamics, seeing growing demand for flexible production capabilities that can cope with ever shorter lead times.

Advanced technologies from SKF

Bearing design and integration expertise from SKF has helped Siemens and Bombardier to create a new generation of reliable, highly efficient passenger trains for Deutsche Bahn – Germany's national rail operator.

Wireless monitoring

SKF has developed a wireless condition monitoring system, SKF Insight, to enable condition based maintenance practices that will help rail operators spend their maintenance budgets more effectively. It gathers bearing data and transmits it to a remote diagnostics centre, for fast analysis of mechanical problems.

Sven Wingquist Test Center

SKF has inaugurated its newly-built large-size bearing test center in Schweinfurt, Germany. It is the first in the world that is able to test large-size bearings under actual operating conditions.

Divestment of Reelcraft

To continue the efforts with focusing on the core business, SKF has divested Reelcraft to Madison Industries. Reelcraft manufactures hoses, cords and cable reels for industrial applications.

New products and solutions

New innovative maintenance service packages

SKF has launched SKF Premium and SKF Rotation For Life that will help manufacturers and users of rotating equipment excel in their sectors and integrate technologies to enable business success. The SKF Premium programme helps SKF bearing customers identify their maintenance and operational needs leading to a possible expenditure reduction. The SKF Rotation For Life programme guarantees the reliability and availability of selected critical rotating machinery assets, reducing the Total Cost of Ownership for the customer over an agreed contract period.

Smartphone based machine health monitoring

SKF has released QuickCollect, a new handheld sensor, which, when used in combination with one of two smartphone apps, QuickCollect or DataCollect, simplifies the collection and interpretation of critical machine condition data.

Black Design composite innovations

SKF's Black Design concept is a unique technology that enables lightweight, high performance composite structural parts to be designed and manufactured for a much wider variety of aerospace applications. It is a disruptive metal-replacement technology, developing lighter weight structures that do not corrode and which are not susceptible to fatigue cracking.

SKF Explorer

SKF's Explorer high performance, long-life bearings range now includes an improved single row angular contact ball bearing that offers faster speeds, improved robustness, improved reliability and energy efficiency.

INSOCOAT bearings range

With its latest generation of electrically insulated bearings, SKF has raised the performance standard to provide constant electrical performance, even in high humidity.

Next-generation hydraulic bolts

Designed for high-torque rotating flanges, the new SKF Quickgrip Bolts, as well as existing SKF Supergrip Bolts, can be used to connect two flanged shafts quickly, safely and reliably.

New business

Alfa Romeo Stelvio

The powerful new Alfa Romeo Stelvio SUV is equipped with SKF's third generation, premium quality HBU3 hub units.

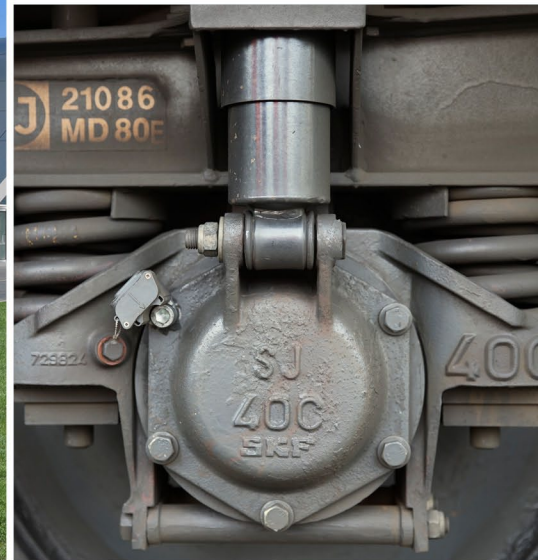


INSOCOAT bearings range

Sven Wingquist Test Center in Schweinfurt, Germany.



SKF Explorer single row angular contact ball bearing



QuickCollect handheld sensor



Accounting principles

The consolidated financial statements of the SKF Group were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The SKF Group applied the same accounting principles and methods of computation in the interim financial statements as compared with the latest annual report with the exception of classifying cash discounts as a reduction of net sales rather than as cost of good sold. Previously published figures have been restated accordingly.

IASB issued and endorsed several amended accounting standards effective starting 1 January 2017. None of these had a material impact on the SKF Group's financial statements.

The financial statements of the Parent company were prepared in accordance with the "Annual Accounts Act" and the RFR 2 "Accounting for legal entities".

Segment information

The Group's segment information is specified per industrial and automotive customer and not based on the operational organisation.

Industrial and Automotive include sales and operating profit to all significant industrial and automotive customers

respectively as well as assets/liabilities, net, related to these sales. Previously published figures for 2016 have been restated to reflect a change of classification of smaller customers. Net sales moved between segments for 2016 amounted to SEK 44 million.

Risks and uncertainties in the business

The SKF Group operates in many different industrial, automotive and geographical areas that are at different stages of the economic cycle. A general economic downturn at global level, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets and natural disasters, could have a negative effect on the demand for the Group's products and services. There are also political and Regulatory risks associated with the wide geographical presence.

Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group's operations. The SKF Group is subject to both transaction and translation of currency exposure. For commercial flows the SKF Group is primarily exposed to the EUR, USD and to USD-related currencies. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies. 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 profits and lower dividend income for the parent company, as well as a need for writing down values of the shares in the subsidiaries.

SKF and other companies in the bearing industry are part of investigations by the US Department of Justice and the Korea Fair Trade Commission regarding a possible violation of anti-trust rules. SKF is subject to two investigations in Brazil by the General Superintendence of the Administrative Council for Economic Defense, one investigation regarding an alleged violation of antitrust rules concerning bearing manufacturers, and another investigation regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. An enquiry has been initiated by the Competition Commission of India against several different companies, including SKF, regarding an alleged violation of antitrust rules in India. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers. Each of Peugeot S.A. and BMW AG, and several of their respective group companies, have separately initiated lawsuits, with claims for damages, against bearing manufacturers, including SKF, that were part of the settlement decision by the European Commission for violation of European competition rules. Daimler AG has initiated a lawsuit against SKF GmbH with a claim for damages as a consequence of said settlement decision.

The Board of Directors and the CEO declare that the half-year report gives a fair view of the 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, 21 July 2017
Aktiebolaget SKF
(publ)

Alrik Danielson
*President and CEO,
Board member*

Leif Östling
Chairman

Peter Grafoner
Board member

Lars Wedenborn
Board member

Baba Kalyani
Board member

Hock Goh
Board member

Marie Bredberg
Board member

Nancy Gougarty
Board member

Ronnie Leten
Board member

Barb Samardzich
Board member

Jonny Hilbert
Board member

Zarko Djurovic
Board member

Report of review of interim financial information

Introduction

We have reviewed the condensed interim financial information (interim report) of AB SKF (publ) as of 30 June 2017 and the six-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying

analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Gothenburg, 21 July 2017
PricewaterhouseCoopers AB

Peter Clemedtson
*Authorized public accountant
Auditor in charge*

Bo Karlsson
Authorized public accountant

Condensed consolidated income statements

SEKm	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Net sales ¹⁾	20,229	18,319	39,830	35,995
Cost of goods sold ¹⁾	-15,129	-13,840	-29,756	-27,122
Gross profit	5,100	4,479	10,074	8,873
Selling and administrative expenses	-2,776	-2,583	-5,467	-5,078
Other operating income/expenses, net	-9	-21	3	-45
Operating profit	2,315	1,875	4,610	3,750
Operating margin, %	11.4	10.2	11.6	10.4
Financial income and expense, net	-258	-219	-428	-436
Profit before taxes	2,057	1,656	4,182	3,314
Taxes	-837	-950	-1,491	-1,464
Net profit	1,220	706	2,691	1,850
Net profit attributable to:				
Shareholders of the parent	1,145	654	2,553	1,745
Non-controlling interests	75	52	138	105

1) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

Condensed consolidated statements of comprehensive income

SEKm	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Net profit	1,220	706	2,691	1,850
Items that will not be reclassified to the income statement:				
Remeasurements	25	-1,603	560	-3,031
Income taxes	2	499	-159	916
	27	-1,104	401	-2,115
Items that may be reclassified to the income statement:				
Exchange differences arising on translation of foreign operations	-918	707	-882	415
Available-for-sale assets	-51	-99	-38	-227
Cash-flow hedges	2	7	-1	7
Income taxes	13	20	12	35
	-954	635	-909	230
Other comprehensive income, net of tax	-927	-469	-508	-1,885
Total comprehensive income	293	237	2,183	-35
Shareholders of AB SKF	306	153	2,100	-142
Non-controlling interests	-13	84	83	107

Condensed consolidated balance sheets

SEKm	June 2017	December 2016
Goodwill	10,120	11,137
Other intangible assets	7,599	8,431
Property, plant and equipment	15,486	15,746
Deferred tax assets	3,791	3,806
Other non-current assets	1,662	1,688
Non-current assets	38,658	40,808
Inventories	16,419	15,418
Trade receivables	14,153	13,462
Other current assets	3,545	3,133
Other current financial assets	7,024	11,086
Current assets	41,141	43,099
Total assets	79,799	83,907
Equity attributable to shareholders of AB SKF	25,754	26,034
Equity attributable to non-controlling interests	1,619	1,649
Long-term financial liabilities	18,133	22,031
Provisions for post-employment benefits	13,003	13,945
Provisions for deferred taxes	1,196	1,380
Other long-term liabilities and provisions	1,900	1,490
Non-current liabilities	34,232	38,846
Trade payables	7,827	7,100
Short-term financial liabilities	667	1,619
Other short-term liabilities and provisions	9,700	8,659
Current liabilities	18,194	17,378
Total equity and liabilities	79,799	83,907

Condensed consolidated statements of changes in shareholders' equity

SEKm	Jan-June 2017	Jan-June 2016
Opening balance 1 January	27,683	26,282
Total comprehensive income	2,183	-35
Cost for performance share programmes, net	23	19
Other, including transactions with non-controlling interests	1	-
Total cash dividends	-2,517	-2,550
Closing balance	27,373	23,716

Condensed consolidated statements of cash flow

SEKm	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Operating activities:				
Operating profit	2,315	1,875	4,610	3,750
Depreciation, amortization and impairment	575	583	1,157	1,161
Net loss/gain (-) on sales of PPE and businesses	-36	5	-42	8
Taxes	-592	-557	-1,115	-877
Other including non-cash items	-23	18	-502	-309
Changes in working capital	-331	-210	-1,565	-1,090
Net cash flow from operations	1,908	1,714	2,543	2,643
Investing activities:				
Payments for intangible assets, PPE, businesses and equity securities	-504	-623	-1,127	-1,044
Sales of PPE, businesses and equity securities	900	3,134	952	3,136
Net cash flow used in investing activities	396	2,511	-175	2,092
Net cash flow after investments before financing	2,304	4,225	2,368	4,735
Financing activities:				
Change in short- and long-term loans	-2,847	-907	-3,025	-1,047
Other financial items	-775	-	-777	19
Cash dividends	-2,504	-2,526	-2,517	-2,550
Investments in short-term financial assets	-637	-115	-766	-247
Sales of short-term financial assets	443	88	684	237
Net cash flow used in financing activities	-6,320	-3,460	-6,401	-3,588
Net cash flow	-4,016	765	-4,033	1,147
Change in cash and cash equivalents:				
Cash and cash equivalents at 1 april/ 1 January	9,921	7,578	9,939	7,218
Cash effect excl. acquired/sold businesses	-4,006	842	-4,023	1,224
Cash effect of acquired/sold businesses	-10	-77	-10	-77
Exchange rate effect	-126	152	-127	130
Cash and cash equivalents at 30 June	5,779	8,495	5,779	8,495

Change in net debt	Closing balance 30 June 2017	Other non cash changes	Businesses sold	Cash changes	Translation effect	Opening balance 1 January 2017
Loans, long- and short-term	17,305	7	-	-3,025	-76	20,399
Post-employment benefits, net	12,950	-134	-	-654	-154	13,892
Financial assets, others	-1,010	-1	-	-28	14	-995
Cash and cash equivalents	-5,779	-	10	4,023	127	-9,939
Net debt	23,466	-128	10	316	-89	23,357

Financing activities to hedge short and long term loans using derivatives are reported as Other financial items. The opening balances amounted to SEK -2,107 million as of 1 April 2017 and the closing balance as of 30 June 2017 amounted to SEK -862 million. The opening balance in the quarter has been adjusted for the cross currency interest swap related to a hedge of the EUR 750 million loan. Of the change in the quarter of in total SEK 1,245 million, SEK 545 million effected cash and SEK 701 million was a non cash change.

Number of shares

	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Total number of shares:	455,351,068	455,351,068	455,351,068	455,351,068
- whereof A shares	35,643,181	36,298,533	35,643,181	36,298,533
- whereof B shares	419,707,887	419,052,535	419,707,887	419,052,535
Weighted average number of shares in:				
- basic earnings per share	455,351,068	455,351,068	455,351,068	455,351,068
- diluted earnings per share	455,487,193	455,492,735	455,489,522	455,449,102

Condensed consolidated financial information

SEKm unless otherwise stated

	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17	Q2/17
Net sales ¹⁾	17,676	18,319	17,862	18,732	19,601	20,229
Cost of goods sold ¹⁾	-13,282	-13,840	-13,373	-14,337	-14,627	-15,129
Gross profit	4,394	4,479	4,489	4,395	4,974	5,100
Gross margin, %	24.9	24.5	25.1	23.5	25.4	25.2
Selling and administrative expenses	-2,495	-2,583	-2,310	-2,834	-2,691	-2,776
- as % of sales	14.1	14.1	12.9	15.1	13.7	13.7
Other, net	-24	-21	12	25	12	-9
Operating profit	1,875	1,875	2,191	1,586	2,295	2,315
Operating margin, %	10.6	10.2	12.2	8.5	11.7	11.4
Items affecting comparability	-97	-145	380	-155	-62	-121
Adjusted operating profit	1,972	2,020	1,811	1,741	2,357	2,436
Adjusted operating margin, %	11.2	11.0	10.1	9.3	12.0	12.0
Financial net	-217	-219	-142	-210	-170	-258
Profit before taxes	1,658	1,656	2,049	1,376	2,125	2,057
Profit margin before taxes, %	9.4	9.0	11.5	7.3	10.8	10.2
Adjusted profit before taxes	1,755	1,801	1,669	1,531	2,187	2,178
Adjusted profit margin, %	9.9	9.8	9.3	8.2	11.2	10.8
Taxes	-514	-950	-660	-406	-654	-837
Net profit	1,144	706	1,389	970	1,471	1,220
Net profit attributable to						
Shareholders of the parent company	1,091	654	1,351	889	1,408	1,145
Non-controlling interests	53	52	38	81	63	75

1) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

Reconciliation to profit before tax for the Group

SEKm	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17	Q2/17
Operating profit:						
Industrial ²⁾	1,541	1,514	1,730	1,323	1,874	1,911
Automotive ²⁾	334	361	461	263	421	404
Financial net	-217	-219	-142	-210	-170	-258
Profit before taxes for the Group	1,658	1,656	2,049	1,376	2,125	2,057

2) Previously published figures have been restated. See page 8.

Key figures

(Definitions, see page 17)

	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17	Q2/17
EBITA, SEKm	2,008	2,007	2,299	1,702	2,419	2,437
EBITDA, SEKm	2,453	2,459	2,774	2,209	2,877	2,890
Basic earnings per share, SEK	2.40	1.44	2.97	1.95	3.09	2.51
Diluted earnings per share, SEK	2.40	1.44	2.96	1.95	3.09	2.51
Dividend per share, SEK	–	5.50	–	–	–	5.50
Net worth per share, SEK	54	49	52	57	61	57
Share price at the end of the period, SEK	146.6	134.1	148.1	167.6	177.3	170.7
NWC, % of 12 months rolling sales ²⁾	28.3	30.2	30.5	30.0	30.9	29.8
ROCE for the 12-month period, %	11.2	10.6	11.1	11.9	12.5	13.3
ROE for the 12-month period, %	15.5	11.8	14.4	16.5	17.4	18.7
Gearing, %	58.0	61.1	58.6	55.3	52.9	52.5
Equity/assets ratio, %	32.2	29.5	31.1	33.0	34.5	34.3
Additions to property, plant and equipment, SEKm	376	410	452	632	616	464
Net debt/equity, %	105.7	117.7	104.7	84.4	76.0	85.7
Net debt, SEKm	27,471	27,915	26,500	23,357	22,465	23,466
Registered number of employees	45,926	45,043	45,128	44,868	45,115	44,966

SKF applies 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 provide complementary information to investors and other stakeholders on the company's

performance. The definition of each APM is presented at the end of the interim report. For the reconciliation of each APM against the most reconcilable line item in the financial statements, see skf.com/group/investors/.

Segment information – quarterly figures¹⁾

SEKm unless otherwise stated

Industrial	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17	Q2/17
Net sales ²⁾	12,335	12,873	12,311	13,069	13,485	14,040
Operating profit	1,541	1,514	1,730	1,323	1,874	1,911
Operating margin, %	12.5	11.8	14.1	10.1	13.9	13.6
Items affecting comparability	-54	-122	288	-121	-41	-23
Adjusted operating profit	1,595	1,636	1,442	1,444	1,915	1,934
Adjusted operating margin, %	12.9	12.7	11.7	11.0	14.2	13.8
Assets and liabilities, net	40,778	38,152	38,027	39,356	39,972	37,725
Registered number of employees	36,932	36,410	36,511	36,334	36,487	36,235

Automotive	Q1/16	Q2/16	Q3/16	Q4/16	Q1/17	Q2/17
Net sales ²⁾	5,341	5,446	5,551	5,663	6,116	6,189
Operating profit	334	361	461	263	421	404
Operating margin, %	6.3	6.6	8.3	4.6	6.9	6.5
Items affecting comparability	-43	-23	92	-34	-21	-98
Adjusted operating profit	377	384	369	297	442	502
Adjusted operating margin, %	7.1	7.1	6.6	5.2	7.2	8.1
Assets and liabilities, net	9,256	9,653	9,698	9,341	10,097	9,735
Registered number of employees	7,385	7,163	7,150	7,060	7,139	7,264

1) Previously published figures have been restated. See page 8.

2) Cash discounts are from 1 January 2017 classified as a reduction of Net sales. Previously published figures have been restated accordingly.

Parent company condensed income statements

SEKm	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Revenue	2,139	1,213	3,512	2,430
Cost of revenue	-1,176	-1,372	-2,114	-2,408
General management and administrative expenses	-430	-131	-995	-490
Other operating income/expenses, net	-	-1	5	-
Operating result	533	-291	408	-468
Financial income and expense, net	428	1,383	662	2,554
Profit before taxes	961	1,092	1,070	2,086
Taxes	-88	74	-53	127
Net profit	873	1,166	1,017	2,213

Parent company condensed statements of comprehensive income

SEKm	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016
Net profit	873	1,166	1,017	2,213
Items that may be reclassified to the income statement:				
Available-for-sale-assets	-51	-99	-38	-227
Other comprehensive income, net of tax	-51	-99	-38	-227
Total comprehensive income	822	1,067	979	1,986

Parent company condensed balance sheets

SEKm	June 2017	December 2016
Intangible assets	1,906	1,939
Investments in subsidiaries	22,398	22,403
Receivables from subsidiaries	16,724	18,567
Other non-current assets	708	755
Non-current assets	41,736	43,664
Receivables from subsidiaries	3,030	4,683
Other receivables	257	131
Current assets	3,287	4,814
Total assets	45,023	48,478
Shareholders' equity	16,930	18,432
Untaxed reserves	69	69
Provisions	553	544
Non-current liabilities	16,722	19,166
Current liabilities	10,749	10,267
Total shareholders' equity, provisions and liabilities	45,023	48,478

Definitions

Average number of employees

Total number of working hours of registered employees, divided by the normal total working time for the period.

Adjusted operating profit

Operating profit excluding items affecting comparability.

Adjusted operating margin

Operating profit/loss excluding items affecting comparability, as a percentage of net sales.

Adjusted profit before taxes

Profit before taxes excluding items affecting comparability.

Basic earnings/loss per share in SEK

Profit/loss after taxes less non-controlling interests divided by the ordinary number of shares.

Currency impact on operating profit

The effects of both translation and transaction flows based on current assumptions and exchange rates and compared to the corresponding period last year.

Debt

Loans and net provisions for post-employment benefits.

Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares.

EBITA (Earnings before interest, taxes and amortization)

Operating profit before amortizations.

EBITDA (Earnings before interest, taxes, depreciation and amortization)

Operating profit before depreciations, amortizations, and impairments.

Equity/assets ratio

Equity as a percentage of total assets.

Gearing

Debt as a percentage of the sum of debt and equity.

Items affecting comparability

Significant income/expense 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 and assets.

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 worth per share (Equity per share)

Equity excluding non-controlling interests divided by the ordinary number of shares.

Net working capital as % of 12 month rolling sales (NWC)

Trade receivables plus inventory minus trade payables as a percentage of twelve months rolling net sales.

Operating margin

Operating profit/loss, as a percentage of net sales.

Operational performance

Operational performance includes the effects on operating profit related to changes in organic sales, changes in manufacturing volumes and manufacturing cost and changes in selling and administrative expenses.

Organic sales

Sales excluding effects of currency and structure, i.e. acquired and divested businesses.

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.

SKF demand outlook

The demand outlook for SKF's products and services represents management's best estimate based on current information about the future demand from our customers. The demand outlook is the expected volume development in the markets where our customers operate.

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 SKF's latest annual report (available on investors.skf.com) under the Administration Report; "Risk management at SKF" and "Sensitivity analysis", and in this report under "Risks and uncertainties in the business."



SKF is a global supplier of bearings, seals, mechatronics, lubrication systems and services which include technical support, maintenance and reliability services, engineering consulting and training. SKF is represented in more than 130 countries and has around 17,000 distributor locations worldwide. Annual sales in 2016 were SEK 72,589 million and the number of employees was 44,868.

Further information can be obtained from

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Conference call

21 July at 09.00 (CEST), 08.00 (UK),

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When asking questions, please don't use a loudspeaker as this has a negative effect on the sound.

You will find all information regarding SKF's half-year results 2017 on: investors.skf.com/quarterlyreporting

Calendar

31 October, Nine-month report 2017

1 February 2018, Year-end report 2017

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