



# Half-year report 2016

Press release 21 July

Net sales in the second quarter was SEK 18.4 billion. Organic sales development was in-line with our expectations, 4% higher than the previous quarter and 4% lower year-over-year.

Although markets remain challenging, our cost reduction initiatives, including the profit improvement programme within Automotive, are materializing according to plan. This contributed to an 11% operating margin excluding one-time items. Cash flow generation was a solid SEK 1.2 billion (excluding divestments and acquisitions), around SEK 500 million higher than last year. This continued resilient performance is a sign that we are on the right track in our effort to shape SKF into being leaner, more customer-focused and competitive.

The consolidation of three factories in North America was announced on 9 June, including an investment of SEK 150 million in manufacturing upgrades. This is the latest activity in our ongoing programme of investments in making our manufacturing more flexible, competitive and better suited to serve our customers.

The divestments of our Kaydon velocity control and fly-by-wire businesses were completed on 30 June. As a result, we received SEK 3 125 million, which contributed positively to cash flow in the quarter. The effect on net profit was SEK -380 million, mainly related to taxes that we expect to pay in the coming quarters. In total, over SEK 4 billion has now been raised through the divestments of non-core businesses during the last 12 months.

As we look ahead, we see signs of the market stabilizing. Entering the third quarter of 2016, demand for SKF's products and services is expected to be relatively unchanged compared to the same period last year. Sequentially, demand is expected to be weaker, in-line with normal seasonality.

Alrik Danielson  
President and CEO

# Key figures

Key figures	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Net sales, SEKm	<b>18 370</b>	19 961	<b>36 090</b>	39 415
Operating profit excl. one-time items, SEKm	<b>2 020</b>	2 577	<b>3 992</b>	4 953
Operating margin excl. one-time items, %	<b>11.0</b>	12.9	<b>11.1</b>	12.6
One-time items in operating profit, SEKm	<b>-145</b>	-194	<b>-242</b>	-849
Operating profit, SEKm	<b>1 875</b>	2 383	<b>3 750</b>	4 104
Operating margin, %	<b>10.2</b>	11.9	<b>10.4</b>	10.4
Profit before taxes excl. operating and financial one-time items, SEKm	<b>1 801</b>	2 435	<b>3 556</b>	4 602
Profit before taxes, SEKm	<b>1 656</b>	2 241	<b>3 314</b>	3 833
Net cash flow after investments before financing, SEKm	<b>4 225</b>	1 654	<b>4 735</b>	2 642

Net sales change y-o-y, %:	Organic	Structure	Currency	Total
Q2 2016	-4.4	-0.6	-3.0	-8.0
YTD	-5.3	-0.7	-2.4	-8.4

Organic sales change in local currencies, per region y-o-y, %:	Europe	North America	Latin America	Asia	Middle East & Africa
Q2 2016	1.8	-13.1	-2.1	-5.9	1.8
YTD	-0.1	-12.1	-2.8	-7.5	1.4

## Outlook for the third quarter 2016

### Demand compared to the third quarter 2015

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

### Demand compared to the second quarter 2016

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

## Previous outlook statement

### Demand compared to the second quarter 2015

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

### Demand compared to the first quarter 2016

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

# Sales

Segment information	Q2				YTD			
	Organic	Structure	Currency	Total	Organic	Structure	Currency	Total
Net sales, change y-o-y, %:								
Industrial	-5.5	-0.8	-3.0	-9.3	-6.8	-1.0	-2.4	-10.2
Automotive	-1.8	0.0	-3.0	-4.8	-1.4	0.0	-2.7	-4.1

Segment information	Q2					YTD				
	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					YTD				
	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 service market	++	---	++	---	--	++	---	+	--	-
Trucks	++	---		+++		++	---		+++	
Two-wheelers and electrical	++	---		---		+/-	---		---	
Other industry	++	---		+++		+/-	---		++	

## Comments on organic sales in local currencies in Q2 2016, compared to Q2 2015

### Europe

Industrial: Overall, sales were relatively unchanged in the quarter. By industry, sales to the aerospace industry were higher, sales to industrial distribution and the railway industry were relatively unchanged while sales to industrial general and energy industries were slightly lower. Sales to the heavy and special industries were lower.

Automotive: Sales in the quarter were higher compared to last year with significantly higher sales to the cars and light trucks industry and higher sales to the vehicle service market and to customers in the trucks industry.

### North America

Industrial: Sales were significantly lower in the quarter compared to Q2 2015. By industry, sales to the aerospace and energy industries were relatively unchanged while sales to all other industries were significantly lower compared to Q2 last year.

Automotive: Sales in the quarter were significantly lower, including significantly lower sales to the truck industry and the cars and light trucks industry as well as to the vehicle service market.

### Asia

Industrial: Sales were significantly lower in the quarter. By industry, sales to the aerospace industry were relatively unchanged, sales to industrial general and industrial distribution were lower, while sales to all other industries were significantly lower compared to Q2 2015.

Automotive: Sales were higher compared to Q2 2015. Sales were significantly higher to the truck industry, slightly higher to the cars and light trucks industries, and significantly lower to the vehicle service market.

### Latin America

Industrial: Overall, sales were lower in the quarter. By industry, sales to the heavy and special industries were relatively unchanged while sales to industrial distribution were slightly lower.

Automotive: Sales were relatively unchanged in the quarter. Sales for the vehicle service market were higher while sales to the car and light trucks industry were significantly lower compared to Q2 2015.

# Financial performance

Operating profit in the second quarter included one-time items of -145 million (-194) whereof -88 million referred to activities in the US, primarily related to the consolidation of the manufacturing facilities in North America, including the closure of the sites in San Diego, California, and Baltimore, Maryland. The remainder related to other cost reduction activities primarily in China and in Europe.

The divestments of the fly-by-wire and Kaydon velocity control businesses as of June 30 generated net proceeds of 3 125 million in the second quarter. The effect on net profit was negative by -380 million where -386 million referred to taxes. These taxes will impact the net cash flow after investments before financing in coming quarters.

Operating profit bridge, SEKm	Q2
<b>2015</b>	<b>2 383</b>
One-time items at 2015 exchange rates	57
Organic sales in local currency	-310
Currency impact	-250
Savings from the cost reduction programme	180
Other impacts	-173
Divested/ acquired companies i.e. net divestment	-12
<b>2016</b>	<b>1 875</b>

Other impacts in the second quarter included negative effects from general inflation and lower manufacturing volumes compared to the second quarter 2015.

- The benefits from the cost reduction initiatives implemented during 2015 are contributing by around 180 million in the second quarter.
- Financial income and expense, net, in the second quarter was -219 million (-142). 2015 was positively impacted by exchange rate effects.
- Taxes in the second quarter was -950 million (-535) giving an effective tax rate of 57.4% (23.9%) and was negatively impacted by -386 million related to the divestment activities during the quarter. Excluding this, the effective tax rate was 34.2%. Taxes in the second quarter 2015 were positively impacted by non-taxable currency translation gains.
- Net cash flow after investments before financing for the second quarter was 4 225 million (1 654). Excluding cash flows related to divestments and acquisitions during the second quarter, it was 1 160 million (672).
- Net working capital in per cent of annual sales was 30.0% in the second quarter compared to 30.9% in the second quarter 2015. The ratio was positively impacted by the divestment activities in the second quarter by around -0.5%.
- Provisions for post-employment benefits increased by 1 905 million (decrease 3 016) in the second quarter 2016 and increased by 3 277 (decrease 1 246) since December 2015, mainly as a result of changes in the discount rates in Germany, in the US and in the UK.

## Key figures

	30 June 2016	31 Mars 2016	30 June 2015
Net working capital, % of annual sales	30.0	28.2	30.9
ROCE for the 12-month period, %	10.6	11.2	12.6
Net debt/equity, %	117.7	105.7	113.4
Net debt/EBITDA	3.0	2.8	2.8

# Segment information\*

SEKm unless otherwise stated

<b>Industrial</b>	<b>Q2/2016</b>	<b>Q2/2015</b>	<b>YTD 2016</b>	<b>YTD 2015</b>
Net sales	<b>12 922</b>	14 240	<b>25 297</b>	28 159
Operating profit	<b>1 514</b>	2 096	<b>3 048</b>	3 749
Operating margin, %	<b>11.7</b>	14.7	<b>12.1</b>	13.3
One-time items	<b>-122</b>	-109	<b>-176</b>	-610
Operating profit excl. one-time items	<b>1 636</b>	2 205	<b>3 224</b>	4 359
Operating margin excl. one-time items, %	<b>12.7</b>	15.5	<b>12.7</b>	15.5

<b>Automotive</b>	<b>Q2/2016</b>	<b>Q2/2015</b>	<b>YTD 2016</b>	<b>YTD 2015</b>
Net sales	<b>5 444</b>	5 717	<b>10 781</b>	11 246
Operating profit	<b>361</b>	287	<b>702</b>	355
Operating margin, %	<b>6.6</b>	5.0	<b>6.5</b>	3.2
One-time items	<b>-23</b>	-85	<b>-66</b>	-239
Operating profit excl. one-time items	<b>384</b>	372	<b>768</b>	594
Operating margin excl. one-time items, %	<b>7.1</b>	6.5	<b>7.1</b>	5.3

\* Previously published figures have been restated. See page 8.

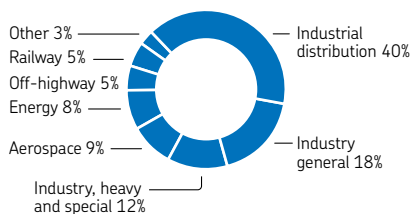
## Guidance Q3 2016

- Financial net: -250 million
- Currency impact on the operating profit is expected to be around -100 million compared to Q3 2015 based on current exchange rates.

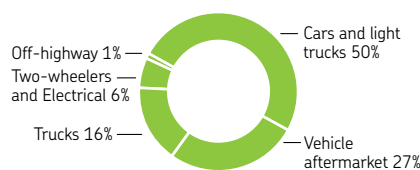
## Guidance 2016

- Tax level excluding effect related to divested businesses: around 30%
- Additions to property, plant and equipment: around 2 000 million

## YTD net sales for Industrial



## YTD net sales for Automotive



# Highlights

## Completed divestments

SKF completed the previously announced divestments of its fly-by-wire business to LORD Corporation and its Kaydon velocity control business to Stabilus.

## Technology step-up in logistics

SKF inaugurated a miniload system, which is a goods-to-man picking technology, in its warehouse in Tongeren, Belgium. It is a technology step-up to faster serve aftermarket customers with lightweight products and low value items. This is part of a major initiative to improve efficiency and reduce employee workload.

## Investment in manufacturing in Katrineholm, Sweden

SKF invested in the production plant in Katrineholm and is running new production equipment that more than halves the throughput time of the production flow. The investment is part of a long-term strategy to increase competitiveness and to win new businesses.

## LEED certification at gold level

SKF's new office building for the sales and service functions in Gothenburg was LEED certified at the gold level. The new workplace for 350 employees has halved energy consumption compared to the Swedish building code.

## Groundbreaking tidal energy project

SKF's technology and design engineering support is forming part of a groundbreaking floating tidal energy project that has been awarded a €10 million European Commission grant. The project, led by Scotrenewables Tidal Power, has been recognised by the EC's Horizon 2020 programme for its ability to illustrate how floating tidal systems can provide low-cost, high-value energy to the European grid mix.

## Consolidation of manufacturing facilities in North America

- The sites in San Diego, California, and Baltimore, Maryland, will be closed.
- Production will be transferred from the site in Hanover, Pennsylvania, to Flowery Branch, Georgia. Taking customer commitments into account, the move will consolidate production of spherical roller bearings and large size roller bearings into our existing bearing manufacturing operations in Flowery Branch.
- Production of rings and seals for the aerospace industry will be relocated to Hanover from the existing factory in Baltimore.
- Investments totalling SEK 150 million will be made in upgrading machinery and manufacturing processes in Hanover and Flowery Branch, part of the Group's strategy to implement world-class manufacturing technologies.
- Manufacturing and development of condition monitoring solutions will be moved from the existing site in San Diego, to other sites in Europe.
- The Y-bearing and Units production channels in Puebla, Mexico, which serve North American customers within the agriculture segment, will be closed, with production transferred to other SKF sites.

Restructuring costs are expected to amount to around SEK 300 million, of which around SEK 100 million were accounted for during Q2 2016 and the remainder as they occur. The consolidation is expected to generate full year cost savings of around SEK 220 million from 2019, whereof around SEK 70 million is expected to be achieved in 2018. Consolidation of the sites in Hanover, Flowery Branch, Baltimore, and San Diego, is expected to take approximately 18-24 months. The closure of the production channels in Puebla, Mexico, is expected to be completed during the summer of 2016.

## Restructuring activities in Pinghu, China

Production of bearings moved from the Group's Pinghu factory to other manufacturing facilities within the respective product lines. A leaner actuation manufacturing organisation will remain in Pinghu.

## New business

### One billion SEK contracts with Rolls-Royce

SKF signed contracts worth over SEK 1 billion with Rolls-Royce to supply main shaft bearings for their new gas turbine engine programmes.

### Contract extension with Russian rail freight company

SKF secured a one-year contract extension, worth approximately SEK 100 million, with JSC Tikhvin Freight Car Building Plant, a subsidiary of Research and Production Company United Wagon Company (RPC UWC), a Russian railway holding company.

### Three-year contract with copper mine in Peru

SKF secured a three-year contract with Compañía Minera Antamina S.A. (Antamina), to provide Proactive Reliability Maintenance services at the company's open-pit copper mine in Peru. Antamina is jointly owned by BHP Billiton, Glencore, Teck and Mitsubishi Corporation, who have jointly invested over USD 3.5 billion in the site, making it one of the largest mining investments in Peru's history.

### Multi-year agreement with automotive supplier

SKF entered into a multi-year agreement with an automotive tier one supplier to manufacture and supply bonded pistons for its dual clutch transmission system. SKF already makes bonded pistons in North America and in Asia, but this is its first manufacturing programme for bonded pistons in Europe. SKF will make the components on new fully automated lines at the manufacturing site in Leverkusen, Germany. The deal is worth about SEK 350 million.

## New products

### Condition monitoring system

SKF launched a sophisticated condition monitoring system for fleets, the Marine CM Route Kit, with cloud connectivity.

It allows for:

- centralised predictive maintenance programme across entire fleets. Through the detection of the machine conditions that lead to failure, proactive remedial work can be carried out to extend maintenance intervals, eliminate potential breakdowns and ensure consistently high operational safety, while also enhancing service life and reducing repair costs considerably.
- coordination of the service and spare part supply to generate further cost savings.

### Suspension bearing

SKF launched a new spring insulating suspension bearing that improves robustness, reduces noise and vibration, and contributes to improved driving comfort. The integration of the spring insulator into the bearing also reduces the number of components, providing easier assembly and reduced cost.

### Low friction truck hub unit

The SKF Low friction truck hub unit is a wheel end solution that offers 30% lower friction and significant fuel reduction compared to standard wheel bearing sets. A European truck manufacturer has already placed an order for this low friction wheel end solution.



SKF secured a three-year contract with Compañía Minera Antamina S.A. (Antamina), to provide Proactive Reliability Maintenance services at the company's open-pit copper mine in Peru.



# Accounting principles

The consolidated financial statements of the SKF Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The SKF Group applies the same accounting principles and methods of computation

in the interim financial statements as compared with the latest annual report. No amended IFRS effective 2016 are expected to have a material impact on the SKF Group's financial statements.

# Restatement of segment information

As previously announced, SKF's segment information has changed as of the second quarter 2016. 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 have been restated accordingly. See [investors.skf.com](http://investors.skf.com)

# 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 and other bearing manufacturers are subject to an investigation in Brazil by the General Superintendence of the Administrative Council for Economic Defense regarding an alleged violation of antitrust rules. 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. Peugeot S.A., and several of its group companies, have initiated a lawsuit, with a claim for damages, against bearing manufacturers, including SKF, that were part of the settlement decision by the European Commission for violation of European competition rules.



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 2016  
Aktiebolaget SKF  
(publ)

Alrik Danielson  
*President and CEO,  
Board member*

Leif Östling  
*Chairman*

Lena Treschow Torell  
*Board member*

Peter Grafoner  
*Board member*

Lars Wedenborn  
*Board member*

Joe Loughrey  
*Board member*

Baba Kalyani  
*Board member*

Hock Goh  
*Board member*

Marie Bredberg  
*Board member*

Nancy Gougarty  
*Board member*

Jonny Hilbert  
*Board member*

Zarko Djurovic  
*Board member*

# Report of Review of Interim Financial Information

## Introduction

We have reviewed the condensed interim report of AB SKF (publ) reg no 556007-3495 as for the period 1 January – 30 June 2016. 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 2016  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Authorized public accountant*  
*Auditor in charge*

Bo Karlsson  
*Authorized public accountant*

# Condensed consolidated income statements

SEKm	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Net sales	18 370	19 961	36 090	39 415
Cost of goods sold	-13 880	-14 768	-27 185	-29 420
Gross profit	4 490	5 193	8 905	9 995
Selling and administrative expenses	-2 594	-2 910	-5 110	-6 031
Other operating income/expenses, net	-21	100	-45	140
Operating profit	1 875	2 383	3 750	4 104
Operating margin, %	10.2	11.9	10.4	10.4
Financial income and expense, net	-219	-142	-436	-271
Profit before taxes	1 656	2 241	3 314	3 833
Taxes	-950	-535	-1 464	-962
Net profit	706	1 706	1 850	2 871
Net profit attributable to:				
Shareholders of the parent	654	1 662	1 745	2 782
Non-controlling interests	52	44	105	89

# Condensed consolidated statements of comprehensive income

SEKm	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Net profit	706	1 706	1 851	2 871
Items that will not be reclassified to the income statement:				
Remeasurements	-1 603	2 873	-3 031	1 470
Income taxes	499	-889	916	-489
	-1 104	1 984	-2 115	981
Items that may be reclassified to the income statement:				
Exchange differences arising on translation of foreign operations	707	-935	415	335
Available-for-sale assets	-99	261	-227	254
Cash-flow hedges	7	24	7	48
Income taxes	20	-450	34	-351
	635	-1 100	229	286
Other comprehensive income, net of tax	-469	884	-1 886	1 267
Total comprehensive income	237	2 590	-35	4 138
Shareholders of AB SKF	153	2 641	-142	3 996
Non-controlling interests	84	-51	107	142

# Condensed consolidated balance sheets

SEKm	June 2016	December 2015
Goodwill	10 561	12 078
Other intangible assets	8 125	9 407
Property, plant and equipment	15 262	15 303
Deferred tax assets	3 916	3 185
Other non-current assets	1 451	1 607
Non-current assets	39 315	41 580
Inventories	15 146	14 519
Trade receivables	13 193	11 777
Other current assets	3 174	3 357
Other current financial assets	9 511	8 500
Current assets	41 024	38 153
<b>Total assets</b>	<b>80 339</b>	<b>79 733</b>
Equity attributable to shareholders of AB SKF	22 182	24 815
Equity attributable to non-controlling interests	1 534	1 467
Long-term financial liabilities	22 816	22 383
Provisions for post-employment benefits	16 341	13 062
Provisions for deferred taxes	812	1 373
Other long-term liabilities and provisions	1 323	1 302
Non-current liabilities	41 292	38 120
Trade payables	6 507	5 671
Short-term financial liabilities	307	1 442
Other short-term liabilities and provisions	8 517	8 218
Current liabilities	15 331	15 331
<b>Total equity and liabilities</b>	<b>80 339</b>	<b>79 733</b>

# Condensed consolidated statements of changes in shareholders' equity

SEKm	Jan-June 2016	Jan-June 2015
Opening balance 1 January	26 282	24 404
Total comprehensive income	-35	4 138
Cost for performance share programmes, net	19	22
Other, including transactions with non-controlling interests	-	40
Total cash dividends	-2 550	-2 567
Closing balance	23 716	26 037

# Condensed consolidated statements of cash flow

SEKm	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Operating activities:				
Operating profit	1 875	2 383	3 750	4 104
Depreciation, amortization and impairment	583	721	1 161	1 323
Net loss/gain (-) on sales of PPE and businesses	5	-179	8	-181
Taxes	-557	-808	-877	-1 129
Other including non-cash items	18	-588	-309	-395
Changes in working capital	-210	-295	-1 090	-1 084
Net cash flow from operations	1 714	1 234	2 643	2 638
Investing activities:				
Payments for intangible assets, PPE, businesses and equity securities	-623	-620	-1 044	-1 187
Sales of PPE, businesses and equity securities	3 134	1 040	3 136	1 191
Net cash flow used in investing activities	2 511	420	2 092	4
Net cash flow after investments before financing	4 225	1 654	4 735	2 642
Financing activities:				
Change in short- and long-term loans	-907	-934	-1 047	-930
Other financial items	-	-109	19	-931
Cash dividends	-2 526	-2 567	-2 550	-2 567
Investments in short-term financial assets	-115	-190	-247	-321
Sales of short-term financial assets	88	56	237	132
Net cash flow used in financing activities	-3 460	-3 744	-3 588	-4 617
Net cash flow	765	-2 090	1 147	-1 975
Change in cash and cash equivalents:				
Cash and cash equivalents at 1 April/ 1 January	7 578	6 248	7 218	5 920
Cash effect excl. acquired/sold businesses	842	-2 090	1 224	-1 993
Cash effect of acquired/sold businesses	-77	-	-77	18
Exchange rate effect	152	-64	130	149
Cash and cash equivalents at 30 June	8 495	4 094	8 495	4 094

Change in net debt	Closing balance 30 June 2016	Other non cash changes	Businesses acquired/sold	Cash changes	Translation effect	Opening balance 1 January 2016
Loans, long- and short-term	20 999	10	-	-1 047	687	21 349
Post-employment benefits, net	16 287	3 489	-25	-444	257	13 010
Financial assets, others	-875	-1	-	-5	3	-872
Cash and cash equivalents	-8 495	-	77	-1 224	-130	-7 218
Net debt	27 916	3 498	52	-2 720	817	26 269

## Number of shares

	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Total number of shares:	455 351 068	455 351 068	455 351 068	455 351 068
- whereof A shares	36 298 533	36 698 533	36 298 533	36 698 533
- whereof B shares	419 052 535	418 652 535	419 052 535	418 652 535
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	455 492 735	455 351 068	455 449 102	455 351 068

# Condensed consolidated financial information

Amounts in SEKm unless otherwise stated

	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16
Net sales	19 454	19 961	18 367	18 215	17 720	18 370
Cost of goods sold	-14 652	-14 768	-13 849	-14 214	-13 305	-13 880
<b>Gross profit</b>	<b>4 802</b>	<b>5 193</b>	<b>4 518</b>	<b>4 001</b>	<b>4 415</b>	<b>4 490</b>
Gross margin, %	24.7	26.0	24.6	22.0	24.9	24.4
Selling and administrative expenses	-3 121	-2 910	-2 698	-2 874	-2 516	-2 594
- as % of sales	16.0	14.6	14.7	15.8	14.2	14.1
Other, net	40	100	5	-88	-24	-21
<b>Operating profit</b>	<b>1 721</b>	<b>2 383</b>	<b>1 825</b>	<b>1 039</b>	<b>1 875</b>	<b>1 875</b>
Operating margin, %	8.8	11.9	9.9	5.7	10.6	10.2
One-time items in operating profit	-655	-194	-151	-687	-97	-145
Operating profit excl. one-times	2 376	2 577	1 976	1 726	1 972	2 020
Operating margin excl. one-times, %	12.2	12.9	10.8	9.5	11.1	11.0
Financial net	-129	-142	-477	-386	-217	-219
Financial one-times	80	-	-130	-286	-	-
<b>Profit before taxes</b>	<b>1 592</b>	<b>2 241</b>	<b>1 348</b>	<b>653</b>	<b>1 658</b>	<b>1 656</b>
Profit margin before taxes, %	8.2	11.2	7.3	3.6	9.4	9.0
Profit before taxes excl. total one-times	2 167	2 435	1 629	1 626	1 755	1 801
Profit margin before taxes excl. total one-times, %	11.1	12.2	8.9	8.9	9.9	9.8
Taxes	-427	-535	-573	-225	-514	-950
<b>Net profit</b>	<b>1 165</b>	<b>1 706</b>	<b>775</b>	<b>428</b>	<b>1 144</b>	<b>706</b>
Net profit attributable to						
Shareholders of the parent company	1 120	1 662	724	374	1 091	654
Non-controlling interests	45	44	51	54	53	52

## Reconciliation to profit before tax for the Group

SEKm	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16
Operating profit:						
Industrial*	1 653	2 096	1 580	900	1 534	<b>1 514</b>
Automotive*	68	287	245	139	341	<b>361</b>
Financial net	-129	-142	-477	-386	-217	<b>-219</b>
Profit before taxes for the Group	1 592	2 241	1 348	653	1 658	<b>1 656</b>

\* Previously published figures have been restated. See page 8.

# Key figures

(Definitions, see page 17)

	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16
EBITA, SEKm	1 860	2 522	1 963	1 177	2 008	<b>2 007</b>
EBITDA, SEKm	2 323	3 104	2 400	1 999	2 453	<b>2 459</b>
Basic earnings per share, SEK	2.46	3.65	1.59	0.82	2.40	<b>1.44</b>
Diluted earnings per share, SEK	2.46	3.65	1.59	0.82	2.40	<b>1.44</b>
Dividend per share, SEK	-	5.50	-	-	-	<b>5.50</b>
Net worth per share, SEK	54	54	53	54	54	<b>49</b>
Share price at the end of the period, SEK	222.8	189.1	153.7	137.2	146.6	<b>134.1</b>
NWC, % of annual sales	32.1	30.9	29.7	27.1	28.2	<b>30.0</b>
ROCE for the 12-month period, %	12.6	12.6	11.9	10.9	11.2	<b>10.6</b>
ROE for the 12-month period, %	19.9	21.2	17.9	15.7	15.5	<b>11.8</b>
Gearing, %	59.7	56.8	58.3	56.7	58.0	<b>61.1</b>
Equity/assets ratio, %	29.9	32.2	31.8	33.0	32.2	<b>29.5</b>
Additions to property, plant and equipment, SEKm	433	576	557	497	376	<b>410</b>
Net debt/equity, %	122.2	113.4	114.2	99.9	105.7	<b>117.7</b>
Net debt, SEKm	31 739	29 514	29 390	26 269	27 471	<b>27 915</b>
Registered number of employees	48 356	47 579	47 051	46 635	45 926	<b>45 043</b>

## Segment information – quarterly and yearly figures\*

Amounts in SEKm unless otherwise stated

<b>Industrial</b>	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16
Net sales	13 919	14 240	13 064	12 909	12 375	<b>12 922</b>
Operating profit	1 653	2 096	1 580	900	1 534	<b>1 514</b>
Operating margin, %	11.9	14.7	12.1	7.0	12.4	<b>11.7</b>
One-time items	-501	-109	-90	-542	-54	<b>-122</b>
Operating profit excl. one-time items	2 154	2 205	1 670	1 442	1 588	<b>1 636</b>
Operating margin excl. one-time items, %	15.5	15.5	12.8	11.2	12.8	<b>12.7</b>
Assets and liabilities, net	45 822	43 471	42 624	40 987	40 782	<b>38 160</b>
Registered number of employees	38 930	38 286	37 989	37 659	36 904	<b>36 382</b>

<b>Automotive</b>	Q1/15	Q2/15	Q3/15	Q4/15	Q1/16	Q2/16
Net sales	5 529	5 717	5 297	5 299	5 337	<b>5 444</b>
Operating profit	68	287	245	139	341	<b>361</b>
Operating margin, %	1.2	5.0	4.6	2.6	6.4	<b>6.6</b>
One-time items	-154	-85	-61	-145	-43	<b>-23</b>
Operating profit excl. one-time items	222	372	306	284	384	<b>384</b>
Operating margin excl. one-time items, %	4.0	6.5	5.8	5.4	7.2	<b>7.1</b>
Assets and liabilities, net	9 909	9 927	9 486	8 977	9 253	<b>9 644</b>
Registered number of employees	7 751	7 669	7 567	7 506	7 385	<b>7 163</b>

\* Previously published figures have been restated. See page 8.

# Parent company condensed income statements

SEKm	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Revenue	1 213	1 651	2 430	3 303
Cost of revenue	-1 372	-1 314	-2 408	-2 705
General management and administrative expenses	-131	-404	-490	-779
Other operating income/expenses, net	-1	2	-	-4
Operating loss	-291	-65	-468	-185
Financial income and expense, net	1 383	2 127	2 554	2 269
Profit before taxes	1 092	2 062	2 086	2 084
Taxes	74	46	127	100
Net profit	1 166	2 108	2 213	2 184

# Parent company condensed statements of comprehensive income

SEKm	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
Net profit	1 166	2 108	2 213	2 184
Items that may be reclassified to the income statement:				
Available-for-sale-assets	-99	261	-227	254
Other comprehensive income, net of tax	-99	261	-227	254
Total comprehensive income	1 067	2 369	1 986	2 438

# Parent company condensed balance sheets

SEKm	June 2016	December 2015
Intangible assets	1 857	1 757
Investments in subsidiaries	22 213	21 317
Receivables from subsidiaries	20 217	19 637
Other non-current assets	1 231	1 457
Non-current assets	45 518	44 168
Receivables from subsidiaries	1 662	3 589
Other receivables	104	119
Current assets	1 766	3 708
Total assets	47 284	47 876
Shareholders' equity	16 328	16 827
Untaxed reserves	179	179
Provisions	384	379
Non-current liabilities	20 341	19 761
Current liabilities	10 052	10 730
Total shareholders' equity, provisions and liabilities	47 284	47 876



# Definitions

## **Average number of employees**

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

## **Basic earnings/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.

## **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**

Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity.

## **Net debt**

Loans and net provisions for post-employment benefits 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.

## **NWC (Net working capital)**

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

## **One-time items**

Significant income/expense of a non recurring and non business related nature. 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.

## **Operating margin**

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

## **Operating margin excl. one-time items**

Operating profit/loss excluding one-time items, as a percentage of net sales.

## **Organic sales**

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

## **Portion of risk-bearing capital**

Equity and provisions for deferred taxes, as a percentage of total assets.

## **Registered number of employees**

Total number of employees included in SKF's payroll at the end of the period.

## **Return on total assets**

Operating profit/loss plus interest income, as a percentage of twelve months rolling average of total assets.

## **ROCE (Return on capital employed)**

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.

## **ROE (Return on equity)**

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](http://investors.skf.com)) under the Administration Report; "Important factors influencing the financial results", "Financial risks" and "Sensitivity analysis", and in this full-year 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 2015 were SEK 75 997 million and the number of employees was 46 635.

#### Further information can be obtained from

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The information in this press release is information which AB SKF is required to disclose under the EU Market Abuse Regulation (EU) No 596/2014 and pursuant to the Securities Markets Act. The information was provided by the above contact persons for publication on 21 July 2016 kl. 8.00 CEST.

#### Conference call

21 July at 9.00 (CEST), 8.00 (UK),  
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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 2016 on: [investors.skf.com/quarterlyreporting](http://investors.skf.com/quarterlyreporting)

#### Calendar

26 October, Nine-month report  
2 February, Year-end report