



# A world of reliable rotation

Annual Report 2017




# Contents

<b>SKF overview</b>	
2017 in brief	3
The SKF Group	4
President's letter	6
<b>Value creation and strategic priorities</b>	
• How SKF creates value	10
• Create and capture customer value	12
• Application-driven innovation	14
• World-class manufacturing	22
• Cost competitiveness	26
• Maximizing cash flow over time	28
Objectives and results	32
Investment case	34
• The share	36
We are SKF	38
<b>SKF Care</b>	42
Safe workplaces	44
Health and well-being	44
Ethics and compliance	45
Environment and energy	46
Product compliance and performance	48
Equality and development	49
Responsible sourcing	50
Collaboration and sponsorship	51
<b>Operations</b>	
• Introduction Administration Report	55
• Industrial	56
• Automotive	58
• Risk management	60
• AB SKF's Board's proposal, remuneration	64
• Nomination of Board members and notice of Annual General Meeting	66
• Financial position and dividend policy	66
<b>Financial statements</b>	
Consolidated income statements	68
Consolidated statements of comprehensive income	68
Consolidated balance sheets	70
Consolidated statements of cash flow	72
Consolidated statements of changes in equity	74
Notes to the consolidated financial statements	75
<b>Financial statements, Parent Company</b>	
• Parent Company, AB SKF	108
Parent Company income statements	108
Parent Company statements of comprehensive income	108
Parent Company balance sheets	109
Parent Company statements of cash flow	110
Parent Company statements of changes in equity	111
Notes to the financial statements of the Parent Company	112
• Proposed distribution of surplus	119
<b>Sustainability statements</b>	
GRI Standards	120
Auditor's report on the statutory Sustainability Report	121
General disclosures	122
SKF's material topics	129
Independent auditor's limited assurance report on the Sustainability Report	143
Auditor's report	144
<b>Corporate Governance Report</b>	148
Board of Directors	150
Auditor's report on the Corporate Governance Report	155
Group Management	156
Seven-year review, SKF Group	158
Three-year review	159
Per-share data	159
Distribution of shareholding	159
Definitions	160
General information	161

## • Administration Report

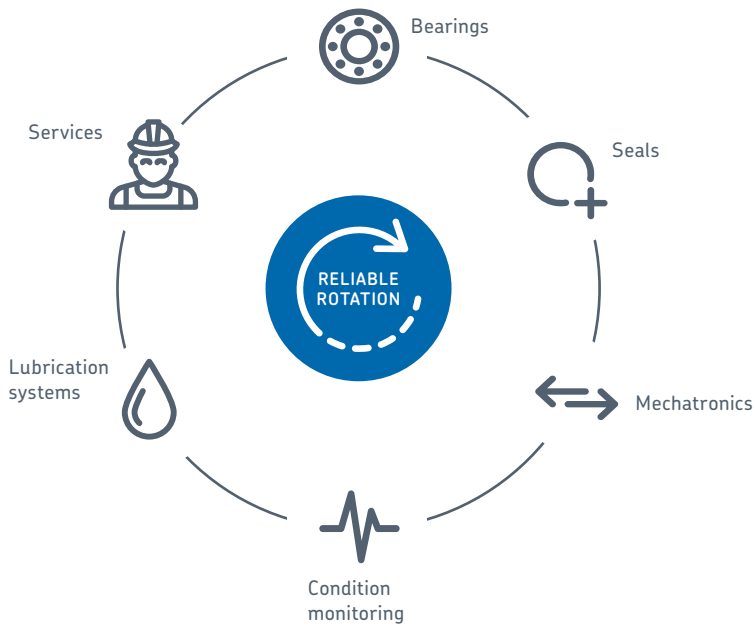
The Administration Report has undergone reasonable assurance engagement by SKF's auditors. See the Auditor's Report on pages 144–147. Sustainability disclosures in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the Independent auditor's limited assurance report on the Sustainability Report on page 143. For the Auditor's report on the statutory Sustainability Report see page 121. The Corporate Governance Report examined by the auditors can be found on pages 148–154. The Auditor's report on the Corporate Governance Report can be found on page 155.

A person wearing a helmet and riding gear is seen from behind, riding a motorcycle on a paved road that curves through a lush, green mountainous landscape. The road is bordered by a white line and small white posts. In the background, there are rolling green hills, a valley with scattered trees, and a large, imposing mountain peak partially shrouded in mist or low clouds. The sky is filled with dramatic, grey clouds, suggesting an overcast day. The overall scene conveys a sense of adventure and travel in a scenic, natural setting.

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

# What

SKF offers bearings, seals, mechatronics, condition monitoring, lubrication systems and services, to provide reliable rotation to customers. The strength lies in the ability to keep developing new technologies that are used to create value-adding solutions offering competitive advantages to customers.



# To whom



**Industrial distribution**  
Sales through industrial distributors.



**Industry, general**  
Manufacturers and providers within automation, machine tools, industrial drives, medical and health care.



**Energy**  
Energy providers, renewable and traditional.

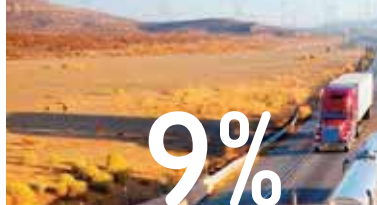
# Where





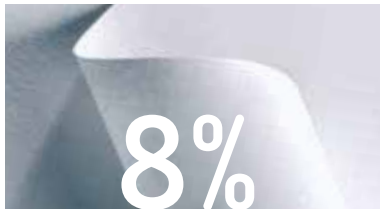
## Cars and light trucks

Cars and light truck manufacturers and their sub-suppliers.



## Vehicle aftermarket

Spare-part products for cars, trucks and two-wheelers.



## Industry, heavy and special

Heavy industrial machinery: metals, mining and cement, pulp and paper. Special machinery: marine, food and beverage.



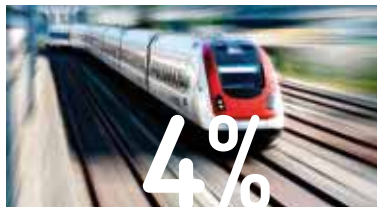
## Aerospace

Aircraft and helicopter builders, aero-engine, gearbox and other aircraft systems manufacturers.



## Trucks

Truck, trailer and bus manufacturers and their sub-suppliers.



## Railway

Passenger, locomotive and freight car manufacturers.



## Off-highway

Customers within construction, agriculture and forestry and fork lift trucks.

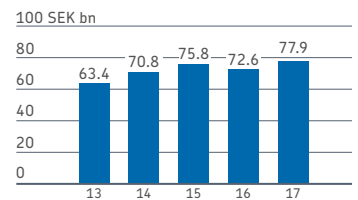


## Two-wheelers and electrical

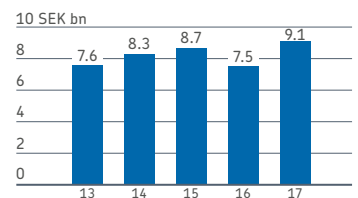
Manufacturers of motorcycles, scooters and skates; home appliances, portable power tools and electric motors.

- A fully automated and digital production channel for manufacturing of spherical roller bearings was inaugurated in Gothenburg.
- New production facilities in St-Cyr-sur-Loire, France to streamline automotive aftermarket activities in Europe, Middle East and Africa.
- Reelcraft was divested.
- Sven Wingquist Test Center was opened in Schweinfurt, Germany.
- SKF's new climate objectives for 2025 were launched. The ambition is to reduce the CO<sub>2</sub> emissions per tonne of bearings sold and per tonne of products shipped to customers by 40%, respectively.

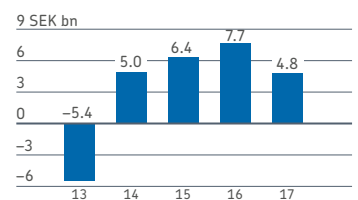
### Net sales



### Adjusted operating profit



### Cash flow<sup>1)</sup>



<sup>1)</sup> Net cash flow after investments before financing. 2014 is adjusted for the EU payment.

# The SKF Group



## Industrial



69% of SKF's  
net sales



\* Total value of accessible bearings market

**Bearings market  
development 2017**  
**+6 to 8%**



### Offering

SKF supplies almost 40 global industries with products and services, both directly and indirectly, through a network of over 7,000 distributors. The broad product range includes development and manufacture of bearings, seals and lubrication systems, as well as rotating shaft services and solutions for machine health assessment, reliability engineering and remanufacturing.



### SKF's position

SKF has a leading position in certain industries, such as railway and energy. In other industries, SKF shares the leadership position with other companies. SKF also has a clear leading position in the industrial distribution market, which primarily serves the aftermarket.



### Drivers

The need for reliable rotation is a driver common to many industries; other drivers vary from application to application. Examples include low friction, low energy use, maintenance-free solutions and total cost of ownership. Digitalization is a growth driver, enabling monitoring and predictive maintenance throughout the product life cycle.



### Market characteristics

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

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



## Automotive



### Offering

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



### SKF's position

SKF is a market leader in wheel-end solutions and has a strong position in application-driven powertrain solutions, requiring specific performance in terms of friction, weight and sealing solutions. In the aftermarket, SKF has built up a strong global position with its extensive distribution network.



### Drivers

The car and light trucks market is driven by energy efficiency, reduction of emissions and electrification. The truck market is driven by total cost of ownership, connectivity and integrated systems. The aftermarket is influenced by changing buying patterns, new channels, product performance and cost optimization.



### Market characteristics

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

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

31% of SKF's net sales



MARKET VALUE\*, SEK  
145–155  
BILLION

\* Total value of accessible bearings market

Bearings market development 2017  
+2 to 4%





**CEO Alrik Danielson**

“Innovation is the only insurance against irrelevance. It’s the only strategy that can give us long term success.”

**2017 was a good year for SKF with strong demand in all main markets. During the year, we improved our profitability, delivered as always a solid cash flow and reduced our net debt. We launched many new innovations and increased our investments in automation and in research and development. We are well positioned for the future.**

**How would you summarize the year?**

“SKF had a good 2017. It was a year characterized by strong demand in most markets. Our sales grew by more than 8 percent organically to 78 billion SEK with strong growth in both our Industrial and Automotive businesses. Europe and Asia saw strong organic sales growth with 6 and 12 percent respectively and in North America, sales grew by 8 percent. This was achieved through a lot of hard work combined with high general levels of industrial activity and a strong automotive market.

The good sales development combined with good efforts to control costs resulted in a considerably improved performance. Our adjusted operating profit was 9.1 billion, an increase of SEK 1.6 billion compared to last year. Our adjusted operating margin also improved, to 11.7 percent (10.4). We delivered an improved performance in both our industrial business, with an adjusted operating margin of 13.7 percent (12.1), and in the automotive business delivering an adjusted operating profit margin of 7.2 percent (6.5).

To strengthen the balance sheet remained a priority in 2017. Cash flow generation was strong at 4.8 billion and we reduced our net debt by more than 2 billion, bringing the net debt to equity ratio down to 71 percent. During the last three-year-period, we have reduced our net debt by 10 billion. The improvement has come from the strong cash flow and through divestments that have given a contribution of 4 billion.”



**We want to be the undisputed leader in the bearing business.**



## It is obvious, all our customers need reliable rotation.

### How would you explain SKF's strategy?

"Four priorities drive our strategy. Everything starts with understanding the customer and delivering products and services that truly make a difference to them. It includes how we interact with customers in today's digital transformation. It is about how we create delivery through new modern logistics and production systems. It is about how we constantly drive cost competitiveness. It is about innovation – the only insurance against irrelevance. Based on these four priorities we will maximize the long-term cash flow."

### What are the main change drivers in the bearing industry?

"There are many interesting trends that are impacting our industry at this moment. Digitalization and connectivity enables new ways of interacting with customers and throughout the value chain, new manufacturing technologies and automation will drive changes in the value chain going forward. The increasing demand from our customers' applications also makes reliability of the bearing arrangements more demanding. Here new digital simulation tools open up new opportunities for product and application development. Electric and connected vehicles are also opening up for new opportunities as the bearings play an important role here."

### How is your customer offering changing to meet this new environment?

"The bearing as a product has been around for many years but it has constantly developed through innovation and many of these inventions come from SKF. With the possibilities that come with modern technology, I would argue that the bearing today is a less mature product than ten years ago. There are so many interesting things that we can do today! One clear development trend is the focus on application specific products where we, together with the customer, find a tailored solution to a specific use. A good example is our offering to Hanbell as described on page 13.

Another interesting development is when we help our customers to run their business as efficient as possible – providing them with reliable rotation. We can increase our customers' productivity by providing a complete offering so that unplanned down-time can be avoided and maintenance costs lowered. Thereby enabling trouble free operations with low energy use and low total cost of ownership."



### In 2017 you launched new climate objectives, how do you see SKF's sustainability work progressing?

"Saving energy and resources is very much part of what we do, after all we are obsessed to deliver reliable rotation to our customers with as low friction and energy losses as possible. We now step up our efforts to contribute to the UN Global Compact and the Sustainable Development Goals. As we hoped, when setting our new climate objectives, we continued to reduce our CO<sub>2</sub> emissions relative to the size of the business. Going forward, we will continue our efforts on increasing energy efficiency in our own operations and thereby save emissions and cost. We also continue our focus on competition law, anti-corruption and other compliance areas. During 2017 SKF joined Transparency International Corporate Supporter's Forum to strengthen our network in this area and to increase the impact of our anti-corruption work."

### How do you attract and keep talent?

"A company is only as successful as the people that builds it. Being able to attract and keep talent is key, I'm convinced that we can offer a truly interesting work environment helping customers to solve real problems in a global setting. You can read about some of our employees on pages 38–39."

### How do you see demand developing in 2018?

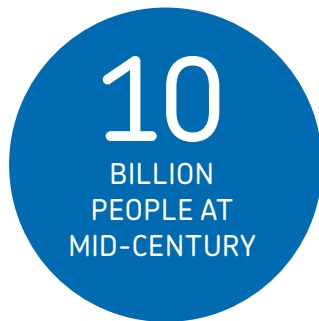
"It is as always a difficult question but I feel that we are seeing a broad-based recovery in demand that started during the summer of 2016 and continued in 2017. Entering the first quarter of 2018, I expect to see continued growth in all regions, with particular strength in Asia and Europe."



## Global trends

### Digitalization

Digital transformation affects all parts of the value chain, from design and manufacturing to purchasing, maintenance and how companies go to market. This means shorter lead-times, smaller inventories and reduced costs, but also an increased need for employee skill development.



### Population growth and increased wealth

The global population is growing, especially in rapidly developing economies. As the world prepares for 9–10 billion people at mid-century, the pressure on scarce or finite resources such as materials, minerals, food, land, energy and water generates strong demand for efficiency and productivity in all aspects.

### Globalization

Global trade of goods and services is under pressure while connectivity and information flow are increasing rapidly. Economic power continues to shift, particularly towards Asia. This calls for a region-by-region approach with manufacturing sales and technical knowledge close to customers.

### Environmental impact

Increasing global concern about the negative impacts of climate change and environmental degradation calls for action to reduce or avoid these impacts, through legal or other stakeholder means. Closely connected to digitalization and resource use, this pushes industry into new efficient business models less dependent on physical resources.

### Urbanization

An increasing proportion of the global population live in cities. As this trend is expected to continue it creates demand for new and upgraded urban infrastructure and utilities, such as energy, water and transport.

## Industrial change drivers



### Digitalization and connectivity

The 'connectivity' of data runs in all directions, and can be used in many ways. At its simplest, it connects a sensor to a remote diagnostics centre. However, the data – on the health of a bearing, for instance – can be fed right back to the design stage, and be used to help redesign a better product.



### New manufacturing technology


Digital technologies are contributing to revolutionize the speed and flexibility of manufacturing. Industry 4.0, or the 4th industrial revolution, is about reliability, safety and bottom-line productivity. It enables the elimination of process silos and the possibility to connect the entire value chain.



### Electric and connected vehicles

The automotive industry is going through rapid transformation driven by electrification, autonomous drive, connectivity and shared mobility. SKF is developing solutions to support next-generation powertrain platforms in partnership with customers.

# How SKF creates value



## Resources

### Business relations

- 40 industries
- 17,000 distributors worldwide

### Manufacturing resources

- 103 manufacturing units
- New investments SEK 2.2 billion

### Intellectual resources

- 800 application engineers
- 15 technology centres
- R&D investments SEK 2.4 billion

### Human resources

- 45,678 employees

### Financial resources

- Assets SEK 81 billion

### Natural resources

- 1,817 GWh energy
- 600,000 tonnes metal



## Global trends and drivers

Read more on page 9



## Values

- Empowerment • Openness
- High Ethics • Teamwork



## Strategic priorities



- 1** **Create and capture customer value**  
Read more on page 12
- 2** **Application-driven innovation**  
Read more on page 14
- 3** **World-class manufacturing**  
Read more on page 22
- 4** **Cost competitiveness**  
Read more on page 26
- 5** **Maximize cash flow over time**  
Read more on page 28

**SKF Care** **Sustainable business and operations**  
Read more on page 42



## Vision

A world of reliable rotation

---

## Mission

The undisputed leader in the bearing business



## Strong customer offering



### Right product, right cost, right time

The product proposition meets performance requirements of specific parameters such as speed, load, noise or physical environment. Read about our customer Hanbell on page 13.



### Total cost of ownership

The rotating equipment performance proposition meets the needs of customers who operate critical machinery, by maximizing the performance. Read about our customer Fibria on page 13.



## Objectives and results

More on page 32



## Value created

### Customer value

- Estimated customer savings SEK 2.7 billion

### Innovations

- 196 invention disclosures
- 192 first filings of patents
- 18 new products and solutions

### Financial value

- Adjusted operating profit SEK 9.1 billion
- Cash flow after investments before financing SEK 4.8 billion
- Value reinvested in SKF SEK 3.3 billion<sup>1)</sup>

1) Net profit less proposed dividends.

### Shareholder value

- Dividends SEK 2.6 billion
- Yield 3%

### Employee value

- Benefits including social charges SEK 23.5 billion
- Safe workplaces focused on health and wellbeing

### Societal value

- Corporate income taxes SEK 1.9 billion
- Enable sustainable development through customer solutions



## Strategic priority

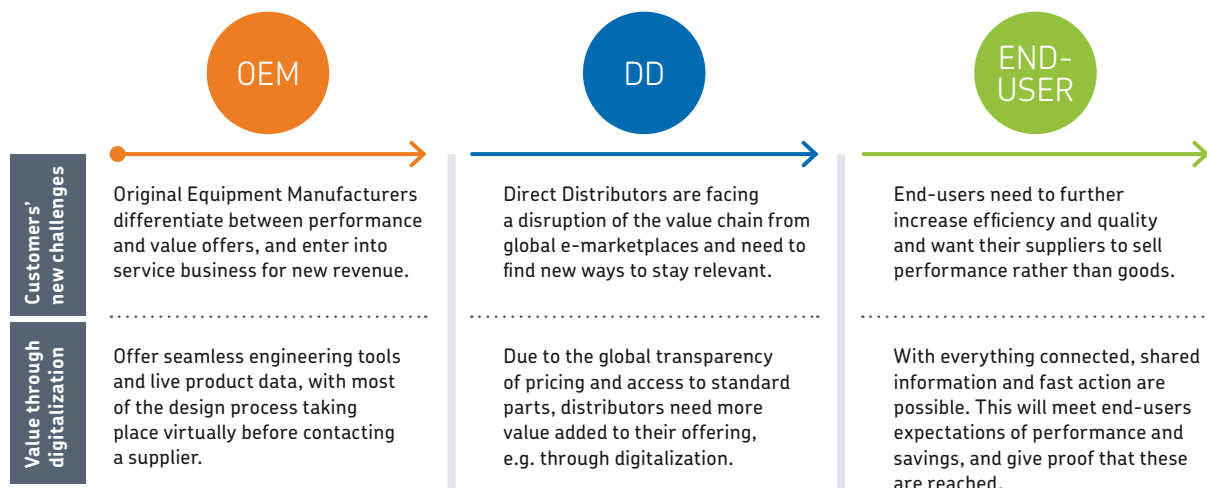
# Create and capture customer value

**SKF always prioritizes customer needs and sees a trend whereby the traditional transactional model of hardware sales is gradually being replaced by performance-based contracts with regard to functionality and value creation.**

**Increased globalization**, concerns about climate change and the accelerating digitalization of society are putting pressure on industrial companies to achieve greater productivity and efficiency along the entire value chain. Within SKF's industry, there is increased competition from product offerings that focus on cost, while demand is growing for solutions that maximize machine functionality and uptime. These developments fit with SKF's existing engineering skills and asset management approach. With a focus on new technology that provides best value for money, and activities aimed at digitalizing the entire

value chain, SKF has accelerated its innovation efforts. This has resulted in two strategic value propositions: Products and Rotating Equipment Performance. On the one hand, SKF provides products that meet the customer's specific performance requirements, delivered at the requested time, at a competitive cost. On the other hand, SKF provides additional solutions to help customers improve their rotating equipment performance. Here, customers seek to reduce operating costs and to run their machines on a trouble-free basis, with low energy use and low total cost of ownership.

## Accelerating customer value through digitalization



## The Product proposition



The main component in the compressor is the twin rotors, whose quality influence compressor performance.

### Customer Hanbell Full-range solution

Hanbell is one of the leading players within the air compressor and chiller industry in China. Since 2011, due to the demand for more efficient and economic products, Hanbell has extended its product range from high-end (AA model) to include medium- and low-end (AB/AC models). SKF has a strong position supplying the premium range of bearings at Hanbell, but with their adjusted strategy, SKF was losing market share due to lack of fit-for-purpose products for AB/AC models. The SKF sales team managed to turn the situation by gaining full understanding of this market trend and the exact customer needs. To meet Hanbell's specific performance requirements for their various products, the sales team leveraged the entire SKF value chain and capabilities, making SKF a full-range partner to Hanbell, offering not only bearings for compressors, but also condition-monitoring services and seals.

## The Rotating Equipment Performance proposition



### Customer Fibria Focus on performance

The cooperation with the Brazilian pulp company Fibria goes back 15 years. SKF has helped the customer to virtually eliminate unplanned downtime caused by bearing problems. Now, through the advantages of digitalization, SKF is maximizing performance in other areas like environment, health and safety, productivity and enhanced data driven decision making.



## Strategic priority

# Application-driven innovation

**By developing innovative new solutions with the customer's needs in focus, SKF helps customers to be more competitive. A more flexible, efficient and customer-focused approach gives SKF a strong competitive advantage.**

**Most customers want** products that perform according to what is expected of them, no more, and no less. To deliver such products, innovation and development must start from the application and a deep understanding of what, exactly, is needed of the product and what can be taken away. This is "application-driven innovation". Since 1907, SKF's organization has been continuously adjusted to serve customers in the best way, with strong focus on the two main markets – the industrial and automotive markets. In the industrial market, the focus is on application-driven innovation. In some cases, SKF can meet these needs with catalogue products, while in other cases, solutions specifically targeted at the application need to be developed. This requires excellent application engineering and access to substantial amounts of field data, as well as cutting-edge engineering design tools. These are typical areas where SKF is ahead of the competition. Having an industrial customer base which spans the globe requires different solutions, to meet the needs of each industry and geographical area. To this end, SKF has created an application competence centre with highly specialized and digitalized know-how, assisting front-line engineering all over the world. This means that customers in every country can tap in to SKF's engineering knowledge and receive insights from all over the world.

### **Simulation and testing increase confidence**

SKF's new test centre for large-size bearings in Schweinfurt, Germany – an investment worth EUR 40 million – was opened in 2017. The centre is key to accelerated application-driven innovation and is the first in the world to test large-size bearings under actual operating conditions. For customers, this gives a more efficient development process, improved bearing performance and longer service life. Real, full-scale application tests in these large test-rigs are conducted for customers in

the wind- and heavy process industries like paper and metals. In addition to verifying product performance, the centre is also used to validate SKF's engineering simulation software, besides testing sensors and algorithms for data analysis.

SKF has fifteen Technology Centres around the world, close to customers. The centres are home to product, software and service development teams that work together and serve global and local customers.

### **Reliable deliveries of products across the globe**

SKF has the largest distributor network in its industry, reaching over 50,000 customer facilities with short lead times. Customers are provided with timely and reliable deliveries, easy access to a wide range of products and advanced technical expertise and services, 24/7. SKF's distributors and large OEMs can purchase SKF's products through Electronic Data Interchange or web shops, which increases the speed and accuracy of business communication and improves overall efficiency on both sides.

### **Condition monitoring of the future**

The market for products and services related to condition monitoring is experiencing rapid growth. SKF has been a leader in this area since the 90s and conducts research in partnership with Luleå University of Technology. In Gothenburg, SKF runs software development projects for data collection and analysis for today's and tomorrow's users. To make condition monitoring more efficient and accessible to more users, SKF has launched a number of new digital platforms and products that enable the processing of large amounts of data. This facilitates the development of new business models, whereby SKF assumes responsibility for operational efficiency and receives ongoing compensation in return.

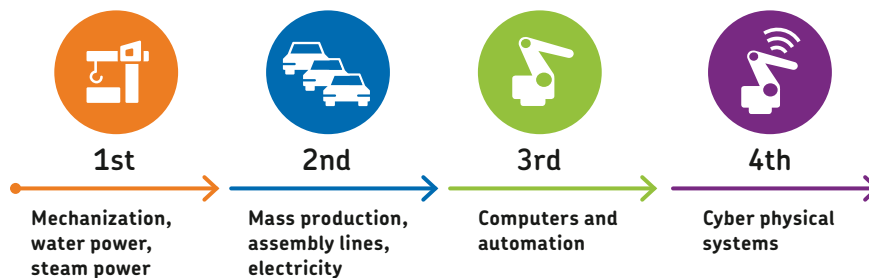




## SKF and Industry 4.0

Industry 4.0, or the 4th industrial revolution, is a collective term embracing a number of contemporary automation, data exchange and manufacturing technologies. It essentially focuses on the connectivity between people and “things”, collecting and using digitalized information for better decision making and machine-to-machine interaction. SKF is at the forefront of this area.

By using SKF technologies to connect, collect and analyze critical data from customers’ machines, events can be predicted and performance optimized. By integrating and collaborating with the customers’ enterprise systems, these information flows can also automatically drive SKF’s processes, such as production planning, purchasing and production development.



## The SKF digital ecosystem

SKF's mission is to grow its core business by delivering a simple digital ecosystem that enables SKF to connect all of the relevant data needed to provide right knowledge at the right time, for the right users. By doing this SKF helps its customers improve their efficiency, output, and performance in the most efficient way.

### Bearing environments

Many end-user customers operate very expensive machines and they need them to be more productive. SKF's condition monitoring IT platform is tailored to user needs and can be integrated with the customer's planning and maintenance processes.



### Tools for monitoring

To make condition monitoring more efficient and accessible to more users, SKF has launched a number of new digital platforms and products that enable the processing of large amounts of data.

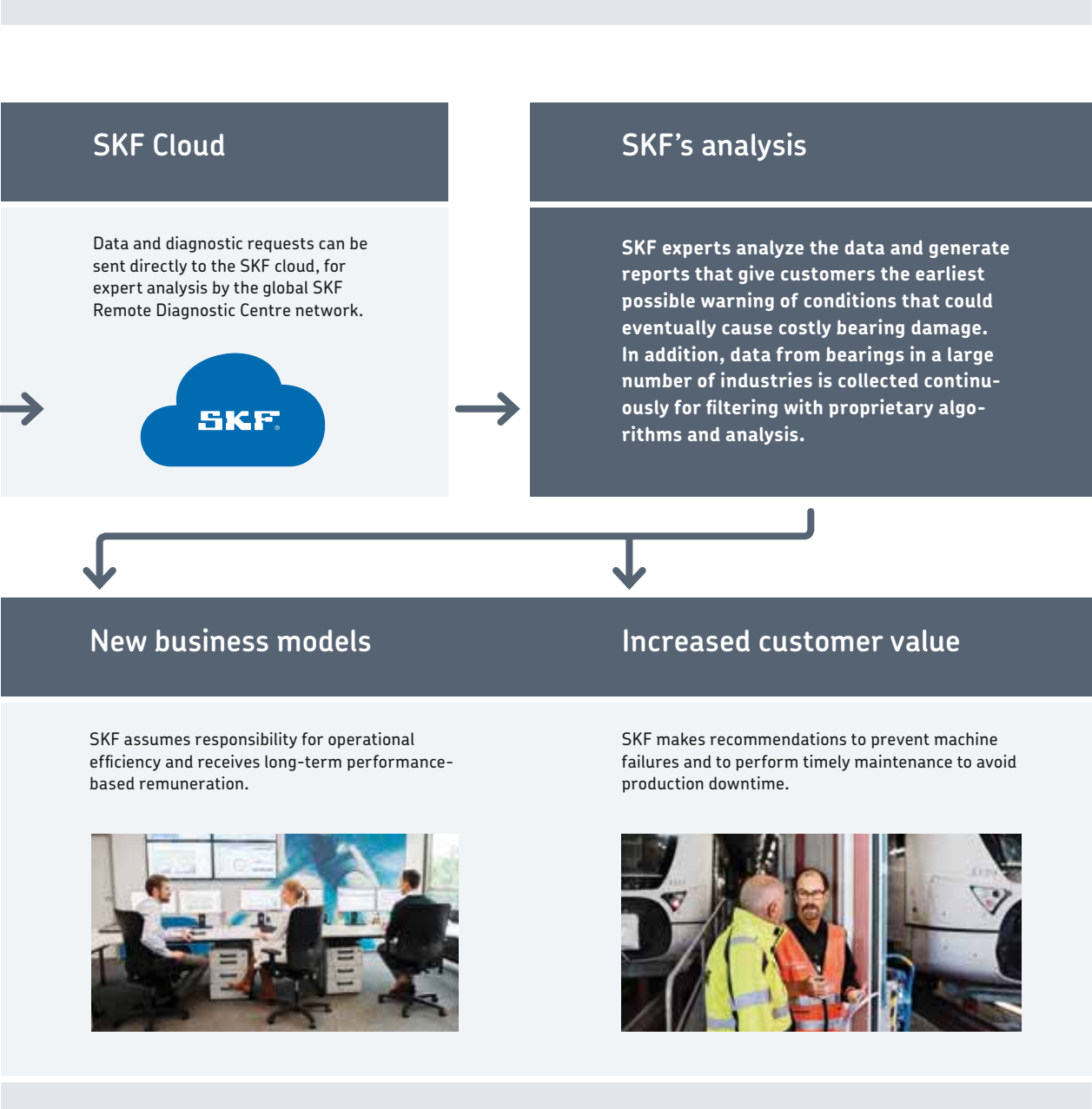


#### One million bearings monitored daily

Over a million bearings in a large number of industries are currently monitored using cloud solutions. This takes place from ten Remote Diagnostic Centres deployed across all time zones. Data is collected continuously for filtering with proprietary algorithms and analysis by SKF's experts. The analysis leads to recommendations to prevent machine failures and timely maintenance to avoid production downtime. SKF has monitored customers' equipment for over 15 years, increasing its knowledge of critical product and system needs, which allows for faster and more accurate development of new products and solutions.

#### Partnership for wider use

The facility to analyze a broader and more varied data volume allows for further performance improvements in customer processes. In collaboration with the US company Honeywell Process Solutions, SKF is participating in a pilot project aimed at developing solutions within the Industrial Internet of Things (IIoT). At a copper mine in Latin America, routine data from SKF's condition monitoring is combined with Honeywell's process data on machine speed and different control parameters. The combination of data streams helps the customer to make even more reliable decisions about maintenance and asset



performance. The goal of the partnership with Honeywell is to develop a user-friendly digital ecosystem that consolidates and analyzes large amounts of data from a plant's machines. Based on the analysis, operators can decide on methods to reduce or even eliminate unscheduled downtime and improve efficiency.

**Partnership with Siemens and Bombardier**  
 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. SKF has

been involved in the EUR 6 billion project since 2012, working directly with Siemens, the manufacturer of the new train, and Bombardier, the supplier of trailer bogies and coaches. Each component used on the train must meet the strictest safety requirements and Deutsche Bahn requires full control of its operating costs. SKF has developed a special tapered roller bearing unit for the trailer bogies with integrated sensors to monitor the speed and direction of rotation of each wheelset. The signals from the sensors are used to control the train's braking system and have been tailored to suit the customer's needs.

**Service packages provide new revenue models**

SKF has launched new innovative maintenance service packages that will help manufacturers and users of rotating equipment to excel in their sectors and integrate technologies to enhance their business success. SKF Premium Programme makes it easier for SKF's bearing customers to identify their maintenance and operating needs. The subscription-based model allows the customer to maximize the reliability of SKF's bearings and their assets without the need to make capital investments.

SKF Rotation For Life (RFL) guarantees the reliability and availability of selected critical rotating machinery assets, reducing the total cost of ownership for the customer over an agreed contractual period. Service packages function as gateways to new business models where SKF is remunerated for

the value its solutions create, and where customers pay for productivity, rather than products. In 2017, SKF signed a five-year Rotation For Life contract with Zinkgruvan Mining of Sweden. SKF is responsible for condition monitoring of four units at one of Zinkgruvan's dressing facilities. The company pays SKF a variable annual fee based on whether the business reaches its productivity targets. Both packages are designed to help SKF bearing customers develop their digital and IIoT strategies without any demand for capital investment programmes.

**Measurable benefits for customers**

SKF has collected around 76,700 approved cases that show estimated value in over 25 industries. Between 2003 and 2017, SKF contributed with SEK 42 billion in savings approved by customers. For 2017, the savings amounted to SEK 2.7 billion.

## 70 years with SKF bearings in Scuderia Ferrari



SKF has a close cooperation with Scuderia Ferrari since 70 years, providing the bearings expertise and all customized products that fit into the chassis. Ranging from low friction and compactness to higher toughness and extended life.

SKF's competence in materials like ceramics, special steels, lubricants and coatings as well as in testing and condition monitoring are essential in providing the top end bearing performance needed in Formula 1 components.

## New digital platforms and products for condition monitoring

### SKF Insight

SKF Insight sensor technology has been customized for applications in wind power, rail and heavy industry, and means that data can be transmitted wirelessly from machines, even in tough environments. The system collects bearings data, which it transfers to the SKF Enlight Centre for remote diagnostics and rapid analysis of mechanical problems. Even in a noisy environment, the wireless sensor detects vibration anomalies and sends precise data for further remote sensing when needed.



### SKF QuickCollect sensor

SKF QuickCollect is a sensor that measures machine vibrations and temperatures. The data is transmitted wirelessly to a mobile device, on which the QuickCollect app can perform machine diagnostics for storage and analysis. With the SKF DataCollect app, it is possible to conduct a more comprehensive analysis, and to manage and monitor maintenance control and inspection data. The information can also be stored in SKF's cloud for access to SKF's expert remote monitoring services. No special knowledge is needed to use QuickCollect. It gives quick, accurate measurements, providing the user with an analysis of multiple machines in real time.

### SKF IMx8

The new 8-channel version is designed to be versatile and to suit all types of industries. It also meets the stringent wind power and marine industry requirements. The unit is small, easy to install and can be mounted near the equipment to be monitored, such as small steering propellers on vessels or directly powered wind turbines. The IMx8 fills a gap in the market and offers new properties and features, as well as providing high flexibility for a wider user group in the industry.

### SKF Enlight Centre

SKF Enlight Centre is a first-of-its-kind, asset based machine health monitoring system, featuring a radically simplified user interface, designed for use by engineers and decision makers throughout the marine sector. The goal is to roll out this comprehensive, standardized machine condition monitoring offering across all sectors of industry and transport, where remote monitoring and operation are required.





## Digitalization in the railway industry

Many railway operators use digitalization as an enabler for efficient and cost-effective maintenance. All vehicles are equipped with bearings and many of them could now also be equipped with SKF Insight Rail, a fully wireless condition monitoring system that features a small sensor, easily retrofitted onto each wheel set bearing. The sensor measures bearing vibration and temperature. It identifies which bearing has an issue and how severe it is, and then recommends what action to take. This helps operators to plan maintenance activities based on real conditions instead of assumptions, thereby avoiding unpleasant surprises and utilizing the full potential of their bearings.





## Strategic priority

# World-class manufacturing

**SKF continues to accelerate investments in world-class manufacturing as one of the Group's top priorities. The focus is on the end-to-end value chain from suppliers to customers and on digitally connecting this chain in order to increase transparency for better, faster and more effective decisions.**

**For SKF, world-class manufacturing means** having the leanest, safest, most flexible and most cost-efficient manufacturing and logistics processes. The aim is to achieve zero-defect delivery, at the right time, at the lowest possible cost and in a completely safe environment.

With the formation of the Bearing Operations organization, SKF is working to leverage synergies with a focused end-to-end set-up whereby the purchasing and logistics operations work with a worldwide network of manufacturing units clustered by global product lines, while a global manufacturing and process development team focuses on technology development, digital transformation and footprint.

SKF is moving towards an integrated system, capable of performing real-time analyses and assessments of future needs. This means that products are manufactured and delivered at the right time to ensure uninterrupted production, both inside SKF factories and at the customers' premises.

Technology is rapidly opening up new opportunities and SKF's manufacturing operations will gain a much higher degree of automation and intelligence, enabling it to increase both flexibility and reliability at a reduced cost.

### First milestone

With the opening and ramping-up of its fully automated digital production channel for spherical roller bearings in Gothenburg, SKF has reached a new milestone in its quest for world-class manufacturing during 2017. This is the first unit of its kind in SKF's long-term programme to introduce next-generation manufacturing technology at all major production units in the Group. The new technology among other things enables full traceability of the manufacturing process steps, a reduced resetting time from several hours to minutes, and the elimination of manned forklift traffic, giving a significant productivity improvement.

In 2017, SKF accelerated its world-class manufacturing investments, with the future aim of running five to six parallel projects.

The strategy for achieving world-class manufacturing covers four areas: SKF Production System, Input Cost Reduction, Technology Step-up and Manufacturing and Logistics Footprint.

### 1 SKF Production System

The SKF Production System is the basis for transforming production practices towards lean manufacturing. The goal is to create a process and culture of continuous improvements involving each and every employee across all operational units, based on the lean principles for a cost-effective flow. Focusing on the value of a product or service, as defined by the customers, is the first fundamental principle of the production system. Safety, Quality, Delivery, Cost, Working climate and the Environment have been set out as lean priorities to maximize customer value and minimize waste.

Several factories have achieved significant improvements in output, inventory reduction and scrapping rates with the SKF Production System. As a clear recognition of this leadership and commitment, the factory in Pune, India, received the prestigious Frost and Sullivan Platinum Award for India Manufacturing.

45 factories are on the same journey as Pune and are implementing the SKF Production System. The aim is for all main bearing factories to have commenced deployment of the system by 2019.

The continuous focus on and development of current and future competence is also key to achieving world-class manufacturing in the factories. SKF's Manufacturing Academy continues to focus on multi-skill development via its learning centres and on the job training.





## 2 Input cost reduction

Input cost reduction is mainly aimed at optimizing the costs of direct materials. One of the focus areas is integrated cost reduction, which concerns setting the right specifications for the design of SKF products and processes, according to customer and application needs, combined with sourcing optimization of components and materials, including development of alternative and innovative materials and supplier processes.

SKF's purchasing of goods and services focuses on total cost, and considers the end-to-end supply chain. It improves the identification of cost and waste drivers and eliminates non-value-adding work.

## 3 Technology step-up

Taking the step to world-class manufacturing requires the right equipment and processes to enable higher efficiency with flexible output in a trouble-free operation. A paperless environment, with first-time quality thanks to real-time performance monitoring, full traceability from suppliers to finished goods delivery, and a high robotization level, is becoming our new standard. In addition to the previously mentioned focus on digitalization of processes, the Manufacturing Development team works on other technologies that give competitive advantages. Examples include more cost-effective materials, technology for advanced traceability and quality control, and the improved precision or performance of the final products. The work is conducted in three focus areas:

**Standardization** drives the identification and systematic use of the best technical solutions for achieving a given process function. The actions range from establishing a standardized way of designing new plants to the standardization of technologies and components used in specific machines.

**Maintenance Excellence** aims at increasing machine uptime by implementing reliable solutions in the manufacturing operations. This ensures that machines produce the right quality at the right speed according to customer demand. As bearing manufacturing is a capital-intensive operation, even small improvements can have a significant effect on earnings. High process stability in all operations is key to autonomous production.

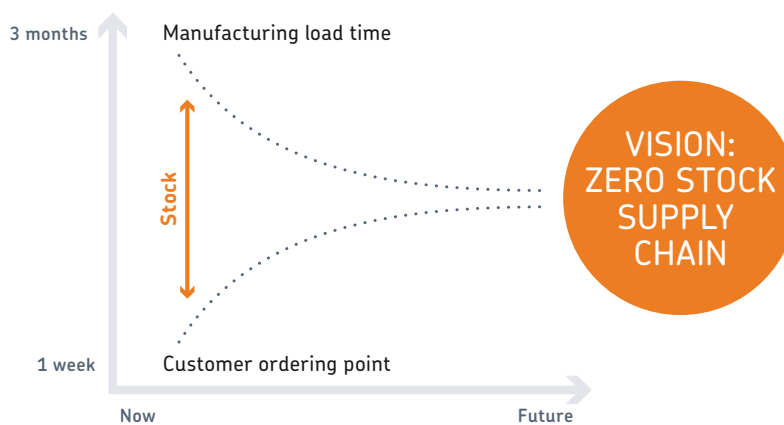
**Flexibility** is about defining the technology setup best suited to market demands. This can range from a high-volume setup, producing millions of the same item, to a super-flexible setup, producing individual parts for a specific application or numerically controlled manufacturing with zero resetting for low to medium volume. The various setups require different approaches – for example, how machines are re-set when moving from producing one type of item to another.

Over the last few years, SKF has established a number of Machine Centre of Excellence (MCE) units. The MCE's play a key role in technology step-up and act as an interface between manufacturing development and the factories, ensuring fast and cost-effective industrialization of new and innovative technologies. The existing MCE units are located in Gothenburg, Sweden, Airasca, Italy, St-Cyr-sur-Loire, France, and Shanghai, China. Additional MCEs will be established in the coming years.

Additional initiatives focus on our core process technology and latest developments such as the digitalization of our legacy equipment, leveraging new investments with the latest artificial intelligence technology, and increasing connectivity between people and "things" for improved decision making on the shop floor.

## Digitalization end-to-end enables stock reduction

The digitalization within manufacturing has only just started. SKF is gearing up for a future in which smart products predict upcoming failures and automatically order any replacements needed. Since a smart sensor can already diagnose itself, it is not hard to imagine that it might send an automated message all the way back through the supply chain. This extends the "just in time" manufacturing concept down to the individual component – and could one day bring stock levels close to zero.



#### 4 Manufacturing and logistics footprint

The manufacturing and logistics footprint is constantly optimized in order to serve customers in the most effective way. The strategic direction is a region-by-region approach, with manufacturing and suppliers closer to customers, which enables a responsive, cost efficient supply chain with limited shipping of products and hence reduced environmental impact.

The logistics and demand chain ensures efficient management of the flow of components and goods from suppliers to SKF, and from SKF to its customers. SKF currently reaches over 50,000 customer sites, with short lead times, through its global transportation network and local and regional warehouses. SKF has invested in several modernization and digitalization projects in the logistics area, such as the flexible SateLight warehouse solution in Europe and a new, highly-automated miniload system in its European Distribution Centre in Belgium.

Another project has been conducted in India, aimed at revitalizing the logistics system by consolidating several stocking points and creating an optimized transport network through global processes and systems. The logistics investments complement SKF's focus on modernizing and digitalizing manufacturing operations. The more flexible and digitalized manufacturing, logistics and warehouse base gives SKF and its customers increased competitive advantages.

#### Global certification

SKF has introduced global certification for quality management in accordance with ISO 9001 and, where required by the markets, in accordance with ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). Environment,

health and safety are essential issues in SKF's manufacturing and associated operations, and the Group is certified in accordance with ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management).

During 2017, SKF achieved Group certification in accordance with the significantly revised ISO 9001:2015 standard. SKF is also on track to update and certify its management systems and practices in accordance with the significant changes introduced in ISO 14001:2015, IATF 16949 (replacement for ISO 16949) and other related standards. All relevant units are covered by this global certification, and recently acquired companies are given a timeframe for implementing the management system. The environment, health and safety certification covered 113 sites in 35 countries at the end of 2017. The schedule for recently acquired companies and newly started units can be found at [skf.com/14001](http://skf.com/14001).

#### Quality

As part of the efforts to enhance customer satisfaction and to strengthen the continuous improvement process, a programme is in progress aimed at upgrading the customer complaint handling process, which is significantly improving the quality and lead time for responses to customer complaints.

#### Accident-free working environment

The belief that accidents are preventable and that an accident-free working environment is achievable has brought significant progress over the years. The aim is to eliminate all work-related accidents. The accident rate fell to 0.85 (0.87) in 2017. See page 135 for more on occupational health and safety and pages 131–134 for more on environmental performance.

## Large investments

- Upgrading of machines and processes in Flowery Branch and Hanover, USA.
- Modernization of the large-size bearing and cylindrical roller bearing production in Schweinfurt, Germany.
- Restructuring and upgrading of the facilities and investment in roller manufacturing in Poznan, Poland.
- Expansion of capacity at the Nilai factory in Malaysia.
- Assembly to order for DGBB manufacturing in St-Cyr-sur-Loire, France.
- Extension of manufacturing capacity for wheel bearings for passenger cars, to meet the growing demand in Asia and in Americas.





## Strategic priority

# Cost competitiveness

**Having a strong cost focus throughout the full value chain strengthens SKF's competitiveness. This includes continuous optimization of existing resources, step-up investments in new technology and accelerated digitalization of key processes.**

**Value for money and reliable processes** are crucial factors for SKF's customers as they encounter increased competition and new needs in a changing market. Naturally, SKF ensures that its own processes meet the highest possible standards and continuously invests in measures to reduce costs and increase productivity. These efforts encompass the entire value chain, from innovation to sourcing, manufacturing, sales and distribution. A key component is the creation of an optimum structure for each individual region, focusing on developing, producing and sourcing more locally in order to meet customers' requirements for increased flexibility and shorter lead times. SKF has increased its investments in new technology and the digitalization of different processes in order to further increase operational efficiency.

### Stable fixed costs

Since the end of 2015, the number of employees at SKF has declined by almost 1,000, mainly in administration. Significantly higher demand for SKF's products in 2017 resulted in increased staffing needs in production. At the same time, the process of merging production units and optimizing the Group's sales organization to reduce the fixed cost structure continued. At the end of 2017, SKF's fixed costs were at the same level as at the end of 2014. In 2017, SKF's total restructuring costs amounted to approximately SEK 328 million, which includes costs associated with ongoing factory consolidation in North America and Europe.

### ERP system for higher growth

The first large-scale implementation of SKF's new ERP system, Unite, was conducted in Sweden and Finland at the beginning

of the year. The system will increase SKF's competitiveness through best practice processes to increase business efficiency and growth. Unite encompasses all critical business processes and is being introduced progressively in the Group.

Expenses associated with Unite were SEK 820 million in 2017. SEK 700 million of this amount was recognized as a cost, while SEK 120 million was capitalized as an investment.

### Innovation

SKF's development of innovative new products and services is aimed at increasing customers' competitiveness. Digitalization has also become increasingly important in SKF's product development, eg. by using cloud services for real-time monitoring and analysis of SKF's bearings in the customers' processes. This provides an opportunity to develop new products targeted at individual machinery. Knowing conditions and performance through live data analysis, optimizing sourcing and challenging product specifications, allows SKF to find the right solution for the customer at the right cost without over-engineering. The application-specific requirements drive the technical solution to meet the exact needs, so that customers receive the performance they need, not more and not less.

### Purchasing

SKF works strategically with its suppliers to optimize the full value chain, and suppliers must fulfil SKF's Quality, Cost, Delivery, Innovation and Management (QCDIM) requirements. Initiatives are being conducted in close cooperation with key suppliers to ensure that the products are well suited for the applications and the environment in which they are used.

SAP-Ariba is being rolled out globally to further accelerate SKF's global strategic sourcing for both direct and indirect material and is now live in nine countries.

SKF's responsible sourcing programme is part of the supplier development system and is designed to ensure effective application of the SKF code of conduct for suppliers and sub-contractors. For more information on the governance and management approach, see Sustainability statements on page 141.

SKF has been driving the issue of key energy-intensive suppliers to be certified under the ISO 50001 energy management standard. SKF will also monitor the proportion of suppliers certified under ISO 50001 as part of its new 2025 climate targets. At the end of 2017, 73% of key suppliers were certified.

### Manufacturing

The consolidation of production units in the United States and China, which began in 2016, continued in 2017 and is expected to generate annual cost savings of approximately SEK 270 million from 2019. In 2017 SKF announced an expansion of the existing sealing solution site in Salt Lake City, Utah, while closing the factory in Seneca, Kansas. SKF has increased manufacturing investments, mainly driven by cost, flexibility and addition of new capacity to follow the strong market demand. Important components of the initiatives include upgrading of critical manufacturing technology, optimization of the manufacturing capacity utilization and continuing digitalization of production processes. Read more about manufacturing on pages 22–25.

### Logistics

SKF is investing significantly in its logistics structure around the world, with the primary goal of improving the customer delivery service, while enhancing capacity and cost efficiency. In India, a new distribution centre has been in place since 2016, enabling the closure of several branch warehouses during the year resulting in improved service and availability. Service and cost efficiency to serve the North-East Asia markets have improved with the full utilization of the Regional Distribution Centre in Shanghai, China. In Europe, the European Distribution Centre in Belgium has further increased its capacity for the Mini-Load system, a highly efficient and automated goods retrieval system with quadrupled productivity that is well-suited to meet the market trend of an increased number of smaller order lines. SKF's main European Factory Warehouses are currently being upgraded with a planned commissioning date in the second half of 2018. In North America, the merger of two distribution centres initiated last year has now been fully finalized.

### Sales and marketing

Work on cost optimization in SKF's sales organization continued. The fixed cost structure is under evaluation, resulting in the consolidation and closure of offices, rationalization of organizational structures and a market activity review.



The European Distribution Centre in Belgium has further increased its capacity for the Mini-Load system, a highly efficient and automated goods retrieval system with quadrupled productivity.



## Strategic priority

# Maximizing cash flow over time

**A key aim of SKF's strategic priorities is to contribute to a strong balance sheet and the ability to generate a high cash flow over time. This in turn creates resources for investment in future growth, while generating good returns for shareholders.**

**SKF's underlying cash flow generation** remains robust. Cash flow after investments before financing excluding acquisitions and divestments amounted to SEK 4.2 billion in 2017, a slight decrease compared with the previous year. This is largely due to a higher operating profit, offset by the need for working capital to continue to serve customers well in the strong business cycle as well as strategic investments in cost-reducing activities, flexibility and new capacity.

### Working capital

To create a strong underlying cash flow, it is important to manage working capital – inventories, trade receivables and trade payables – as efficiently as possible. SKF's target is to improve net working capital to a maximum of 25% of sales. The target will be achieved by reducing the number of inventory and trade receivable days and increasing the number of trade payable days.

### Inventories

Bearing Operations, an organization introduced in 2016 to integrate the Group's purchasing, manufacturing and logistics operations, is contributing to an end-to-end visibility, faster reaction times and increased flexibility along the supply chain. This allows for lower costs, improved service and greater scope for reducing tied-up capital compared to volume. Activities in 2017 have helped to decrease the average number of days that products are kept in stock. However, higher customer demand has resulted in an increased total inventory value compared with the previous year.

### Trade receivables

SKF works in a focused way to reduce the number of outstanding receivable days and reduce overdue payments.

The introduction of a common collection process, handled by an external party, the standardization of processes, a new credit policy, and the increasing role of incentive programmes in sales all contributed to reducing the number of outstanding receivable days in 2017. Since its introduction in 2015, total late payments have been decreased by 4% on average.

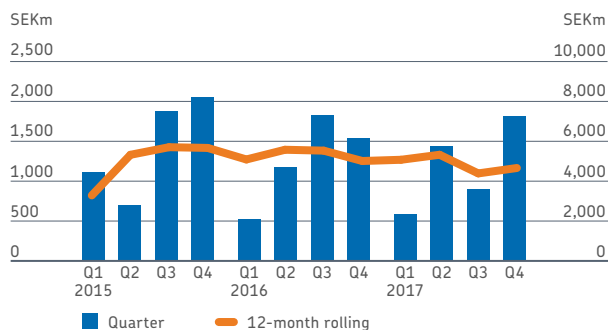
### Trade payables

SKF has continued the successful implementation of a supply chain financing programme with an external partner during 2017. The combination of the programme and improved global purchasing payment terms has increased the number of payment days, and around SEK 1.25 billion has been released since the programme was introduced in November 2014.

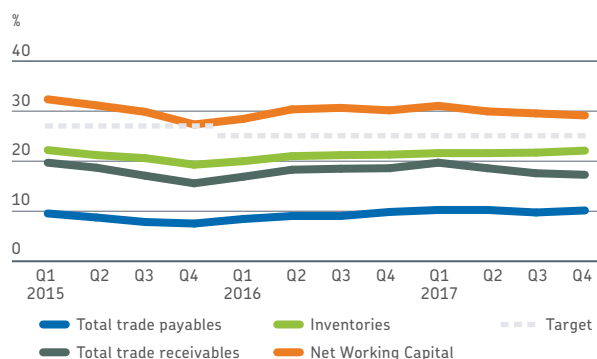
### Investments

SKF invests in increased efficiency and automation in order to reduce production costs. 39% of total approved investments in 2017 were related to this area. One of SKF's key investment projects is the modernization of the large-size bearing production in Schweinfurt, Germany. In total, SKF has announced investments of SEK 295 million to upgrade production channels, halve production lead times and improve competitiveness. This investment is expected to be completed during 2018. Further investments totalling SEK 150 million are being made to upgrade machinery and manufacturing processes in Hanover and Flowery Branch, North America. In response to demand for flexible production capacity that can handle shorter lead times, investment in SKF's factory in St-Cyr-sur-Loire, France, has also been initiated. R&D expenditure in 2017, excluding the development of IT solutions, amounted to SEK 2.4 billion, corresponding to 3.1% of sales, which is an increase of SEK 150 million from 2016.

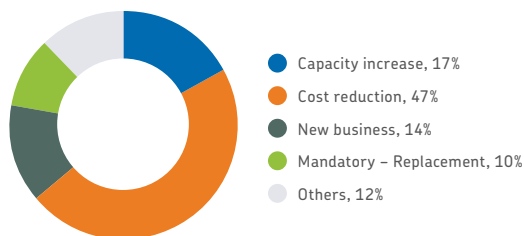
### Cash flow after investments before financing excluding acquisitions/divestments



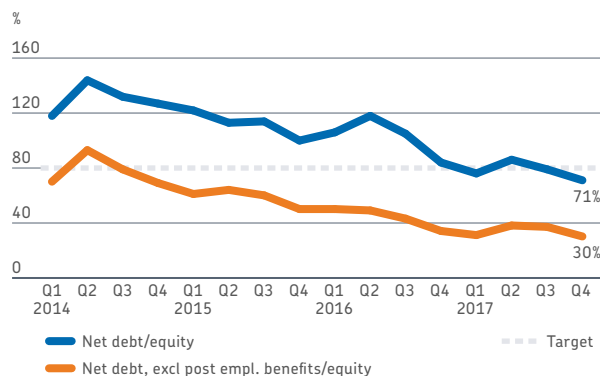
### Net working capital in % of annual sales



### Ongoing investments in 2017



### Net debt/equity



### Divestments

Reelcraft, a manufacturer of hose cord and cable reels for industrial applications, was divested in 2017, generating a positive cash flow of SEK 625 million after tax. A total of SEK 4 billion has been generated from divestments of non-core operations over the last three years.

### Financing

Some of the cash flow generated is used to reduce outstanding loans, thereby strengthening SKF's financial position. Loans totalling SEK 3.1 billion, net, were repaid in 2017, resulting in a net debt/equity ratio of 71.3% (84.4) at year-end, which meets the target of a net debt/equity ratio of no more than 80%.

### Dividend

The Annual General Meeting 2017 adopted a dividend of SEK 5.50 per share and a total of SEK 2.5 billion was distributed to shareholders in April 2017, corresponding to 60% of net income for 2016.

## All-electric vehicle powertrain platform

SKF has won a substantial order from Volkswagen to deliver bearings for their strategically important MEB, all-electric vehicle powertrain platform, as well as their new manual gearbox project. The MEB platform will form the basis for all of Volkswagen's future two-wheel and four-wheel drive e-vehicle development and the plan is to launch up to 50 pure e-car models by 2025. The contract confirms SKF's leadership as a bearings supplier to the electric vehicle (EV) manufacturing sector and strengthens the relationship with Volkswagen as their preferred bearings supplier for EVs. SKF will deliver an estimated 500,000 units per year, commencing in November 2019.





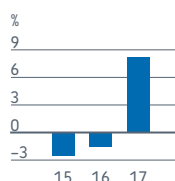


# Objectives and results

## Financial targets

SKF's financial targets were introduced in 2016 and are to be achieved over a business cycle. Performance indicators for several of the financial targets were improved in 2017, partly driven by stronger demand in the bearings market and partly as a result of SKF's various strategic initiatives to increase competitiveness and develop the offering.

### Organic growth



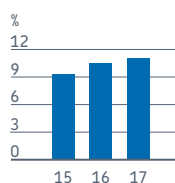
#### Why

This shows the business' ability to leverage on its existing strengths and competence and the attractiveness of the offer towards customers. Organic growth is generally less risky than growth through mergers and acquisitions and also demonstrates competitiveness in the market.

#### Comments 2017

Organic sales increased by 8.2%. Sales increased in all markets, with the strongest development in North America and Asia.

### Operating margin



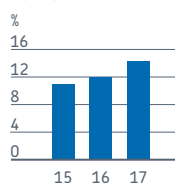
#### Why

This measures the business' ability to cover operational costs and generate profit in order to create value for shareholders.

#### Comments 2017

The operating margin was 11%, an improvement of 0.6 percentage points from 2016. The operating margin was positively affected by higher sales volumes, while higher costs for the Unite ERP system and general cost inflation had a negative effect.

### Return on capital employed



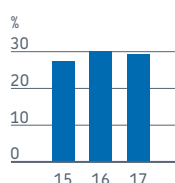
#### Why

This is an important indicator of performance over time and how efficiently a company can generate profit from its capital and therefore provides a more comprehensive evaluation of profitability.

#### Comments 2017

The return on capital employed was 14.2%, an improvement of 2.3 percentage points from 2016.

### Net working capital



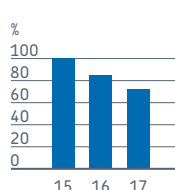
#### Why

Efficient management of the net working capital is important for short-term liquidity and the financial health of the business.

#### Comments 2017

Net working capital was 29% of sales at year-end, a decrease compared with the previous year. Higher inventories to meet strong customer demand had an adverse effect, while fewer payment days and a lower share of late customer payments had a positive effect.

### Net debt/equity



#### Why

The ratio measures the dependency on external funding and the ability to meet financial obligations on a long-term basis. A low ratio reduces the risk of financial default.

#### Comments 2017

The net debt/equity ratio has continued to improve and was 71.3% at year-end, which was below the target. Some of the strong cash flow, including cash flow after continuing disposals of non-core operations, has been used for loan repayments.

## Climate objectives 2025

Starting in 2017, SKF is working towards new climate objectives for 2025. The objectives cover manufacturing, goods transport, customer solutions and raw materials. The quantitative objectives are in line with the reduction levels proposed in relevant climate research.

### SKFs bearing manufacturing

-40% CO<sub>2</sub> emissions per tonnes of bearings sold



#### Why

Energy use and related emissions is one of the most significant and direct ways that SKF can reduce its environmental impact. It can also reduce cost over time.

#### Comments 2017

CO<sub>2</sub> emissions per tonne of bearings sold decreased by 6% compared to baseline 2015. Emissions increased driven by higher output, but the percent increase in production output was significantly higher.

### Goods transport

-40% CO<sub>2</sub> emissions per tonnes of goods shipped to end customers



#### Why

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

#### Comments 2017

CO<sub>2</sub> emission per tonne of shipped goods increased by 4% over baseline 2015. The main reason is the steep increase in customer demand, leading to more express shipments.

### Customer solutions

Support and enable CO<sub>2</sub> emission reductions for the Group's customers



#### Why

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

#### Comments 2017

The total revenues from renewable energy, electric vehicles, the recycling industry and bearings remanufacturing services was SEK 4.5 billion.

### Raw materials and components

Support CO<sub>2</sub> emission reductions for the Group's suppliers



#### Why

Raw material extraction and refinement have a significant impact from a lifecycle perspective.

#### Comments 2017

73% of the energy intensive major suppliers have been certified according to ISO 50001 energy management standard by third parties.

## Social objectives

Occupational safety and individual development for SKF's people.

### Safety



#### Why

SKF is convinced that work-related accidents and illnesses can be prevented. This is why the target to eliminate all accidents remains.

#### Comments 2017

The accident rate per 200,000 hours worked was 0.85.

### Personal development



#### Why

Individual development is needed to enable SKF's people to stay relevant in the changing employment market and deliver on the Group's strategy.

#### Comments 2017

In the most recent survey, covering the employees active in the Group's learning management system, 58% had individual goals and development plans.

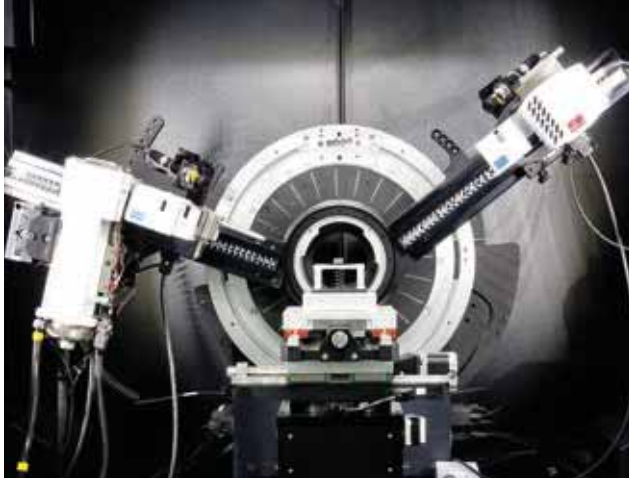
# Investment case

**SKF has a strong base for profitable and sustainable growth. In a rapidly changing market, driven by globalization and digitalization of the value chain, SKF is adapting its offering and business model to grow its market share, while increasing the overall market volume.**

## Strong brand and leading position

SKF was founded in 1907 and is currently one of the strongest and most well-known global industrial brands. The Company is a leader in the global bearing industry with significant positions in a large number of customer industries such as automotive, railways, energy and industrial distribution. SKF has also built up the market's most extensive distribution network with a total of 17,000 distributor locations.





## Increased investments for higher efficiency

SKF is allocating increasing resources to digitalization and software development. In 2016 and 2017, SKF invested an average of 3.1% of its revenue in R&D, compared with an average of 2.6% in 2010–2015. SKF has also increased its investments in property, plant and equipment, with a clear focus on cost-efficiency and upgrading of manufacturing technologies. The investments amounted to SEK 1.9 billion in 2016, increased to 2.2 billion in 2017 and is expected to increase to 2.4 billion in 2018.

## Unique comprehensive offering focusing on customer value

SKF has a unique comprehensive offering for rotating shafts for industry and the automotive sector, with expertise in bearings, seals, mechatronics, services, condition monitoring, and lubrication systems. With a deep understanding of customers' needs, SKF has the ability to constantly develop innovative and value-creating products, solutions and services. To address changing demand in the market, SKF has developed two strategic value propositions: Products and Rotating Equipment Performance.

## Diversification for increased risk spreading

Diversification of both the offering and geographical and industrial distribution makes SKF less vulnerable to business cycles and crises. SKF focuses primarily on the functionality and performance of customers' processes in over 40 industries around the world.

## Strong cash flow provides resources for growth

A key component of SKF's strategy is to create a strong balance sheet and to be able to maintain a high cash flow over time. This provides scope for investments in future growth and allows for better conditions to generate a good return for shareholders. Cash flow after investments, but before financing activities and acquisitions and divestments, amounted to SEK 4.2 billion in 2017. During the last three years, SKF has also released SEK 4 billion through the divestment of non-core operations, creating additional resources for activities such as development of the offering.

## Strategic investments in Industry 4.0

New opportunities for efficient data exchange, system connectivity and automation are strong drivers in the industry. SKF invests in technology development and cooperation that affect both its own business and the customer offering. Digitalization of the value chain using data exchange and automation increases reliability, security and ultimately both SKF's and customers' earnings. Shorter lead times and the ability to deliver the right product at the right time give SKF competitive advantages in a market where speed and flexibility are becoming increasingly important.

# The share

SKF's A and B shares are listed on NASDAQ Stockholm, Large Cap and are included in a large number of indexes. The price of the SKF B share increased by 9% during the year and the total return over the past five years was 32%.

**On Nasdaq Stockholm** the share price for the SKF A share increased by 9%, and at year-end the price was SEK 181.70 (167.80). The lowest price paid was SEK 154.50 on 29 August, and the highest price paid was SEK 202.80 on 27 April.

The share price for the SKF B share increased by 9% and at year-end the price was SEK 182.20 (167.60). The lowest price paid was SEK 154.50 on 29 August and the highest price paid was SEK 203.20 on 27 April.

In 2017, the total number of SKF shares traded on Nasdaq Stockholm was 591,125,225. SKF's B shares are also traded on Chi-X Europe Limited, Cboe Europe Equities and Turquoise. The total number of shares traded on these three market places combined in 2017 was 336,714,679. SKF's ADRs are traded on the OTC market.

## Share conversion

Owners of A shares have an option to convert these to B shares. In 2017, 1,242,730 shares were converted. A shares comprise 7.7% (8.0%) of the total number of shares.

## Dividend and total return

The Board of Directors proposes to the Annual General Meeting

that dividend of SEK 5.50 per share be paid for 2017, which is in line with SKF's dividend policy. The total return from investing in the SKF A share over the past five years was 31% and for the SKF B share 32%.

## Ownership structure

SKF had 62,998 shareholders on 31 December 2017. Around 47% of the share capital was owned by foreign investors, around 45% by Swedish companies, institutions and mutual funds and around 8% 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, wholly-owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing more than 10% of the voting rights in SKF.

## Information to shareholders

Financial reports and further information about the share can be found at [skf.com/investors](http://skf.com/investors) or in the Investor Relations App. A list of the analysts who monitor SKF and the opportunity to subscribe to information from SKF is available on the website.

## Sustainability Indexes

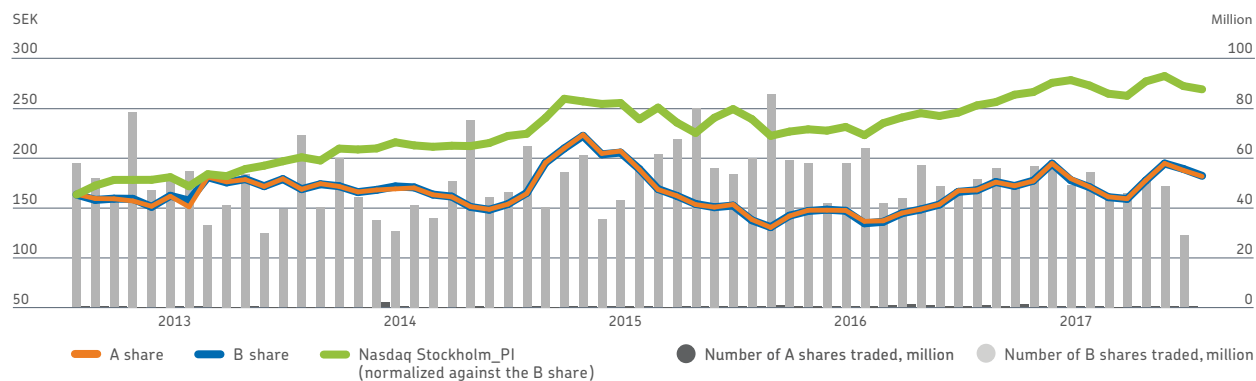
SKF is included in the FTSE4Good Index – one of the pioneering indices in responsible investment focusing on environmental, social and governance topics. The company is also included in Euronext Vigeo Index: Europe 120 – which includes Europe's 120 most advanced companies within environmental, social and governance performance. Additionally, the SKF B share was reconfirmed as a constituent of the Ethibel Sustainability Index (ESI) Excellence Europe since September 2017.



## Additional information

There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge no agreements exist between shareholders limiting the right to transfer SKF shares (e.g. by preemption or first refusal clauses). No restrictions exist limiting the number of votes that each shareholder may cast at a shareholders' meeting. There are no existing agreements between SKF and any Board member or employee, allowing them to receive compensation in the event of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid for the shares in AB SKF.

## Price trend of SKF's shares

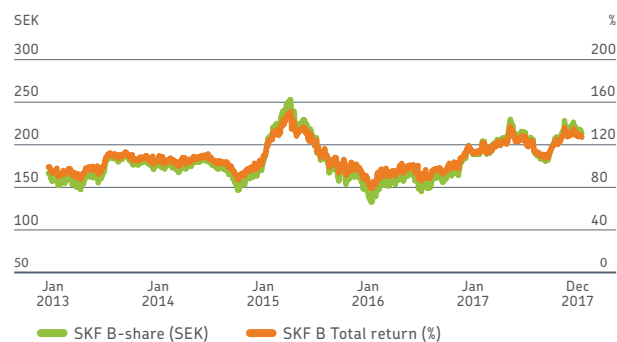


## Data per share

SEK per share unless otherwise stated	2017	2016
Earnings per share	12.02	8.75
Dividend per A and B share	5.50 <sup>1)</sup>	5.50
Total dividends, SEKm	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	182.2	167.6
Equity per share	62	57
Yield in percent (B)	3.0 <sup>1)</sup>	3.3
P/E ratio, B (share price/earnings per share)	15.2	19.2
Cash flow from operations, per share	14.1	15.7
Cash flow, after investments before financing, per share	10.44	16.95

1) According to the Board's proposal for the year 2017.

## Total return 2013–2017



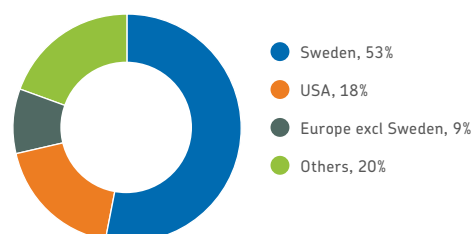
The total return, for a given period, is defined as share price performance including the value of all reinvested dividends. The dividend is calculated as reinvested from the ex dividend date. Total return is presented as a percentage.

## The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	61,936,151	13.6	28.9
Alecta Pensionförsäkring	8,452,552	1.9	3.7
Harris Associates	26,483,510	5.8	3.4
BlackRock	20,592,640	4.5	2.7
Livförsäkringsbolaget Skandia	2,865,467	0.6	2.3
AFA Försäkring	2,745,877	0.6	2.2
Swedbank Robur Fonder	13,715,325	3.0	1.8
SEB-Stiftelsen	1,500,000	0.3	1.7
SEB Trygg Liv	1,240,036	0.3	1.6
Didner & Gerge Fonder	11,844,548	2.6	1.5

Source: Monitor, Modular Finance as of 31 December 2017

## Geographic ownership 2017



# We are SKF

**SKF employs 45,678 people worldwide. The global presence and ambitious goals offer great opportunities for these people to grow. This section presents some of them and what they do.**

**Being part of a diverse global company** such as SKF means connecting seamlessly with colleagues across borders and operational areas. It means developing people who know the business and context of SKF, but also bringing new people on-board with new sets of skills and mindsets. A prerequisite to attract employees and capitalize on diversity is to make sure everyone in SKF has equal opportunities to compete for jobs

and has the possibilities for personal development. SKF aspires to have a working environment characterized by empowerment, high ethical standards, openness and teamwork. These values, together with constant focus on customers and their needs, enable SKF to deliver on its objectives and strategic priorities. Who are these people that act with purpose and generate value for customers and other stakeholders?



**Terese Abrahamsson, SKF Sverige**

Terese started at SKF in February 2017 as a Project Manager within Industrial Digitalization and Solutions.

She works on the development of the Enlight Centre digital platform. Terese has been working within IT for 16 years in various roles. When asked what she will be doing in three years from now Terese's answer is clear. "I'm still working at the fore-front of digitalization creating more value for the company as well as the customer."



**Fabio Fabri, SKF do Brasil**

In 2004, Fabio started as trainee at SKF do Brasil communications. Today he leads a team of communication professionals as MarCom Manager for Latin America.

Looking into the future he wants to focus on people and creating high-performance teams in a multicultural and fast changing environment, but also being part of people's development.

"I believe that if you combine technology with people's knowledge, everything is possible."



**Brian Zhang, SKF China**

Brian is Service Engineer Manager within the Industrial Sales Energy Team in China and he has been with SKF since 2010. His main responsibility is on-site service and handling requests from customers within the wind industry.

In a changing world, you never know what is around the corner, but we know that we have to support our customers.

"I will continue to help our customers to satisfy their needs."



## The SKF global trainee programme

Seventeen eager new employees started their SKF journey in 2017. The global trainee programme will allow SKF to ensure an inflow of young ambitious talents with great drive, outside-in thinking and an entrepreneurial mindset – the future leaders of SKF.

During three five-month rotation periods, one in the home country and two abroad, trainees get to broaden their knowledge of SKF's operations and are expected to plan, execute and deliver in a real project. The purpose is to create individual development for the trainee and to deliver business value to the host unit. The aim of the programme is also for the trainees to contribute to the technical development of SKF with an innovative and entrepreneurial mindset.



**This is a very exciting time to be working at a company like SKF. To learn and evolve with people towards a common goal, and to be challenged within new fields of technology is what I'm passionate about.**

Benjamin von Schmuck, Global Trainee, Innovation and Product Development, Hardware and Software Development.



### Sven Lümpert, SKF GmbH Germany

Sven has been with SKF since 2005, when he started as apprentice. Today he is working as induction hardener at the production of Nautilus bearings for the wind industry. Among other things, he has been working with heat treatment and as raceway grinder for large-size bearings up to 4 meter in diameter.

"I am looking forward to continue my journey within SKF and together with my ambitious and motivated colleagues make SKF world-class."



### Ajay Naik, AB SKF

Ajay has been with SKF since 1988. He has been Manufacturing Manager at Pune plant and his latest position was as Factory Manager at SKF's plant in Ahmedabad, both in India.

Since 1 July 2017 he has been located in Gothenburg as Factory Manager for an international assignment.

"When this assignment ends I will take on new challenges, different and never done before – I like it that way."



### Michaela Forster, SKF Österreich AG

In 1996, Michaela started as an apprentice at SKF in Steyr. Today she is Manager of Customer Service & Quality at the Industrial Services Centre in Steyr. She is the role model for accountability and how to take care of the customer's needs but also responsible for improving standards and raising quality awareness.

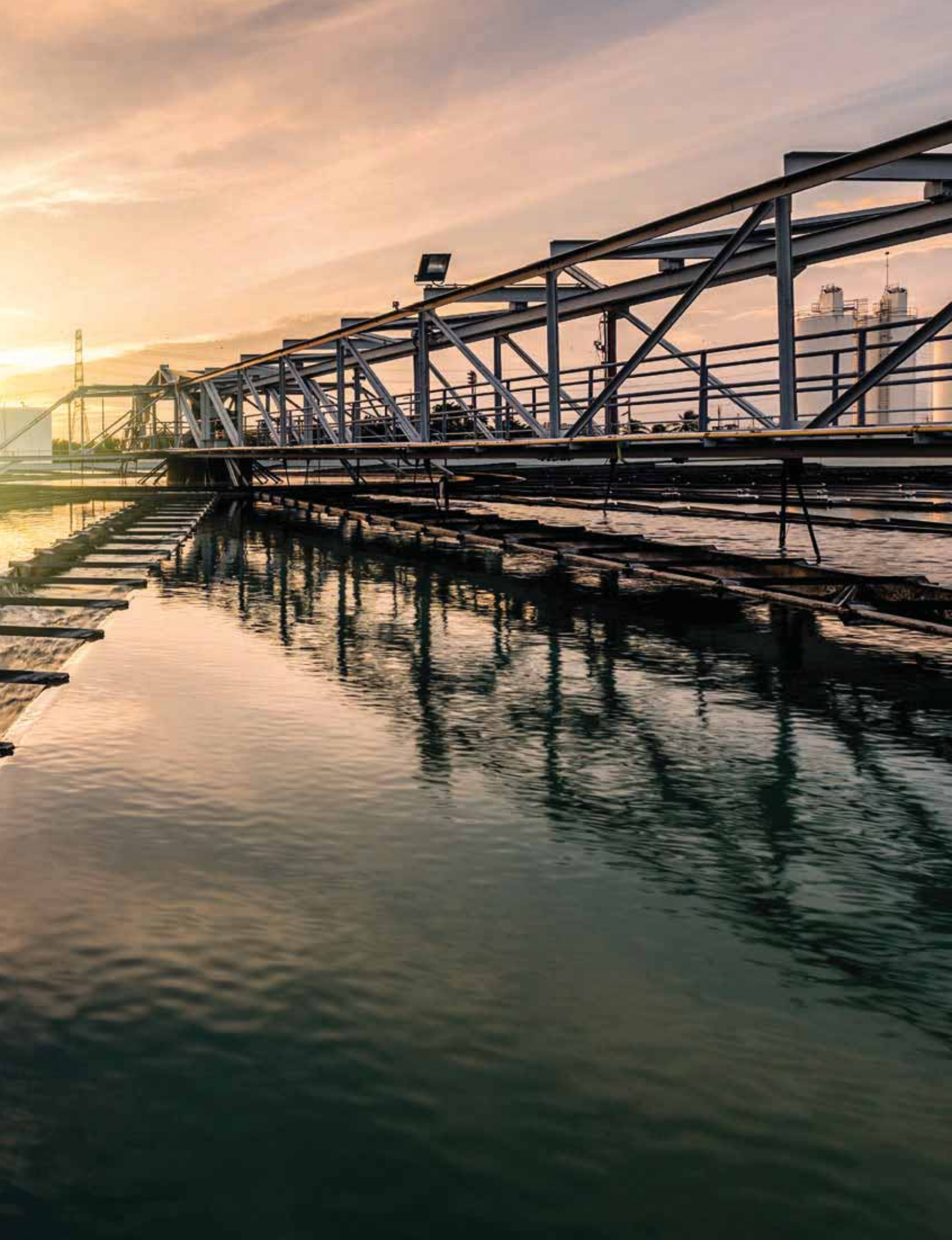
Going forward, she wants to be in a position where she can contribute and further develop her skills.

"Working for a small unit in a global company give me lots of opportunities to build up a global network and gain experience in my professional as well as personal life."

A photograph of a water treatment facility at sunset. The sky is filled with soft, golden light from the setting sun, which is visible on the right side. In the foreground, there are several long, narrow channels of water. The water is dark and appears to be moving, with some white foam or bubbles visible. In the background, there are several large, white, cylindrical tanks or structures. The overall scene is industrial and serene.

## Functionality is everything

As population growth and urbanization continue, fresh water scarcity continues to be a major challenge. Still, the UN estimates that over 80% of wastewater is released untreated. At the water treatment facilities in Cairo, the functionality of rotating equipment is critical to meet the demand for fresh water from the urban population, maintaining employee safety and reducing the cost of operations. SKF provides a wide range of bearing arrangements, maintenance and training together with condition monitoring equipment for the pumps, electric motors, fans and other rotating machinery in the water treatment system.





# SKF Care

SKF Care is the Group's definition of sustainability. The framework comprises four perspectives for value creation and sustainability integration in everything the Group does: Business Care, Environmental Care, Employee Care and Community Care.

**The Employee Care perspective** is about ensuring a safe working environment and promoting health, personal development and well-being of employees at SKF and in the supply chain.

**The Business Care perspective** is about customer focus, financial performance and shareholder returns – with the highest standards of ethical behaviour.

**The Environmental Care perspective** 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.

**The Community Care perspective** is about making positive contributions to the communities in which the Group operates.



## Sustainability Report

For detailed information on material topics, boundaries and management approach, SKF has published a comprehensive Sustainability Report, which can be found in the Sustainability statements on pages 120–142. The Sustainability Report has been prepared in accordance with the GRI Standards: Core option.

## Examples of SKF Care in action

SKF is committed to integrating sustainability in everything the Group does. This includes the products, services and solutions, the Group's over 100 factories, its global supply chain and logistics operations, and the work with business partners upstream and downstream the value chain. It also involves networks and collaborations with NGOs,

universities and local communities. Challenges, opportunities and results of the Group are best described by the actions taken to address them. Below is a summary of action areas which have been in focus during 2017. More details are provided on the following pages.

### Improvements and results 2017

#### Safe workplaces

- Accident rate per 100 full time employees down to 0.85
- SHIELD working method to prevent accidents

#### Health and wellbeing

- 86 percent employees covered by health and well-being activities
- Systemic approach to wellbeing – driving business performance

#### Ethics and compliance

- Strengthened message on the zero-tolerance of discrimination and harassment
- Leadership training and human rights reporting

#### Environment and energy

- New climate objectives for 2025, CO<sub>2</sub> emissions per sold bearings and units down by 6%
- Gothenburg site sets new recycling record for grinding swarf

#### Product compliance and performance

- Business with renewable energy, electric vehicles, recycling industry and bearings remanufacturing worth SEK 4.5 billion
- Broadened scope of sustainability in customer solutions – beyond environmental benefits

#### Equality and development

- Average gender pay gap narrower
- Digitalization increases the need for individual development

#### Responsible sourcing

- Updated responsible sourcing strategy
- 127 site audits at suppliers

#### Collaboration and sponsorship

- Social collaboration activities in 27 countries
- 20 teams to the Gothia Cup through SKF Meet the World

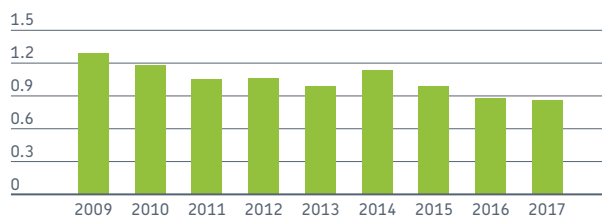
## Safe workplaces

**A central element of the Employee Care perspective is that employees shall be safe at work. It is SKF's belief that accidents can be prevented and the Group is committed to making this a reality.**

Significant progress has been made since the launch of the Zero Accidents programme. In 2017 the accident rate was 0.85, a reduction by over 90% since the mid-90s, there is however still significant room for improvements. Among the most common and sometimes serious accidents are hand and finger accidents related to machine work. Machine safety continues to be a prioritized area. In addition to accidents, SKF also follows up on near misses, first aid, and lost time.

SKF's health and safety management system is certified according to OHSAS 18001 and integrated with the environmental management system. At the end of 2017, it covered 113 sites in 35 countries. All manufacturing, technical and logistics centres are included and represent around 90% of SKF's employees. Some recently acquired units are not yet included.

### Accident rate 2009–2017



For detailed information, see the Sustainability statements on page 136.

## Health and well-being

**Increasingly, and stemming from the holistic approach of SKF's health and safety management system, SKF also takes care to ensure the good health and well-being of the Group's employees.**

It is SKF's belief that when people feel well at work and live healthy lives, they tend to be more motivated and energized at work. This brings value for individual employees and for the Group as a whole. In accordance with the global OHSAS 18001 certification, SKF has implemented joint health and safety committees focusing on work-related health and safety. Beyond this, in 2017, SKF continued the work to reinforce health as a Group-wide focus area by making it mandatory for all units to actively promote well-being. At the end of 2017, 86% of SKF's employees were covered by a documented health and well-being policy or programme.

SKF sees increased needs and opportunities to focus on work-life balance and psychological health. Most SKF operations have already initiated activities supporting health and wellbeing and the Group sees significant opportunity to work proactively and more systematically in this area.

Accident rate definition:

**Accident rate** =  $R \times 200,000/h$ , where

**R** = number of recordable accidents and

**h** = total hours worked at the site/company



## SHIELD

Safety must always come first. The SHIELD programme is a way to standardize safety performance across the Group. The method includes a set of standard tools and requirements within SKF's factories that must be strengthened to achieve sustainable safety performance.

Building on the many well-developed working methods across SKF's facilities, SHIELD

is used as a way to adopt good practice and proactively eliminate potential accidents.

In Schweinfurt, Germany, it has helped reducing potentially unsafe conditions. This includes the replacement of machines, the relocation of operations to more suitable machinery and intensive revision of risk assessments, as the basis for preventive safety activities.

## Ethics and compliance

**The SKF Code of Conduct is the foundation for ethical leadership in the Group. The code covers such topics as fraud, corruption, competition law, the environment, health, safety and human rights.**

Awareness is critical for ethical leadership. Ethical leadership trainings held at SKF units around the world bring up issues and situations in day-to-day operations – how to identify ethical dilemmas and how to prepare or avoid difficult situations prior to tenders, customer meetings, supplier events and business trips. Awareness trainings are also provided to all employees via e-learning and distribution of Group policies. Most SKF companies include this in their induction trainings. Since 2016 over 18,000 employees has taken part of SKF Code of Conduct e-learning, these are about the same number who has access to a personal company computer. In addition, SKF has provided e-learning to over 17,000 employees on anti-corruption since 2016, and on competition law (antitrust) since 2014.

### **Risk assessment, audit, reviews and reporting of ethical concerns**

SKF's plan for review and audit of ethics and compliance aspects is based on the risks identified in the Group risk assessment, covering all topics of the SKF Code of Conduct.

In 2017, Ethics and compliance reviews were conducted at 54 SKF sites in Europe, America, Asia and Africa. All reviews

identified points of improvements and in most cases corrective and preventive actions were initiated.

In addition, SKF has received 228 (211) reports to the Group's anonymized reporting line (whistle blowing system) or to the Group functions by other channels during 2017. 144 cases have been closed. Most cases led to training and policy reviews with people involved. A number of cases related to harassment or discrimination have resulted in verbal or written warning to the individuals involved. In addition to the cases reported to the central functions, grievances related to ethics and compliance are managed by local SKF units and not escalated to Group.

SKF's internal audit department investigated 21 cases related to fraud and/or corruption during 2017, compared to 16 last year. The investigations resulted in one person resigning. Read more on page 130.

### **Human rights**

SKF acknowledges the United Nation's Guiding Principles on Business and Human Rights and its protect-respect-remedy framework. The SKF Code of Conduct includes the most important human rights topics for how SKF conducts its business. Moreover, the SKF Code of Conduct addresses the issues set out in the UK Modern Slavery Act 2015, please read more on page 139.

## #MeToo

In the light of the #metoo-movement initiated in the autumn of 2017, SKF's top management has underlined the Group's absolute zero tolerance policy regarding discrimination and harassment.

It is the right, and also the obligation of SKF's employees to report ethical concerns. An employee who feels that he or she cannot

report a concern to his or her direct manager, the HR department or other managers, can use SKF's ethics and compliance reporting line. This reporting channel allows employees to report concerns in their own language, either via telephone or via the web. Reporting can take place anonymously in all countries where this is allowed by local legislation.



## Environment and energy

**SKF's commitment to the environment requires the Group to take steps to understand and reduce or avoid the environmental impacts occurring along its value chain. Systematic improvements create value for both the customers, SKF and the environment.**

SKF's Group-wide environmental management system dates back to the 1980's, when its first environmental policy was published. In 2017, the Group made the transition to the new ISO 14001:2015 standard and at year-end, the Group certificate included 113 sites in 35 countries. The schedule for inclusion of recently acquired companies' can be found at [skf.com/14001](http://skf.com/14001).

The life-cycle approach of the new ISO 14001:25 standard is the basis for the Group's new climate objectives for 2025 launched in March 2017. Since 2006 SKF's business has grown by 40% while at the same time reducing absolute energy demand. This long-term performance is a result of strategic focus and commitment as well as practical and local initiatives across operations, including such areas as lighting, heating and ventilation. Since many years, SKF has also applied topic

specific external standards across the Group's operations to reduce environmental impact such as:

- LEED green building certification mandatory for all new major constructions, see [skf.com/LEED](http://skf.com/LEED).
- ISO 50001 certification of its own energy intensive operations, which covers 90% of the Group's total energy use (Scope 1–2). See [skf.com/50001](http://skf.com/50001).

Every stage of the value chain presents potential for reducing or avoiding environmental impact, from the raw materials selected, how these are utilized and processed, the energy used by the products when running in customers' applications, to the way in which products are disposed of when they come to the end of their useful life. This is exemplified in the graphic on page 47 concerning SKF's climate targets and overall work to increase resource efficiency.

During 2017, SKF worked to set new environmental objectives also beyond emissions and energy. The focus will be on resource use and waste management by all SKF operations and water efficiency for 15 SKF sites located in areas of water risk. The Group starts reporting on these objectives in 2018.

For detailed environmental data see pages 131–134 in the Sustainability statements.

### Gothenburg site breaks record

Virtually all paper, plastic and metal residuals from SKF's global manufacturing operations are recycled. However, grinding swarf – a mix of small metal particles mixed with liquids – is especially challenging. At Gothenburg site, SKF broke the record in 2017 when managing to reach 97% recycling rate of grinding swarf, the rest was incinerated with heat recovery.



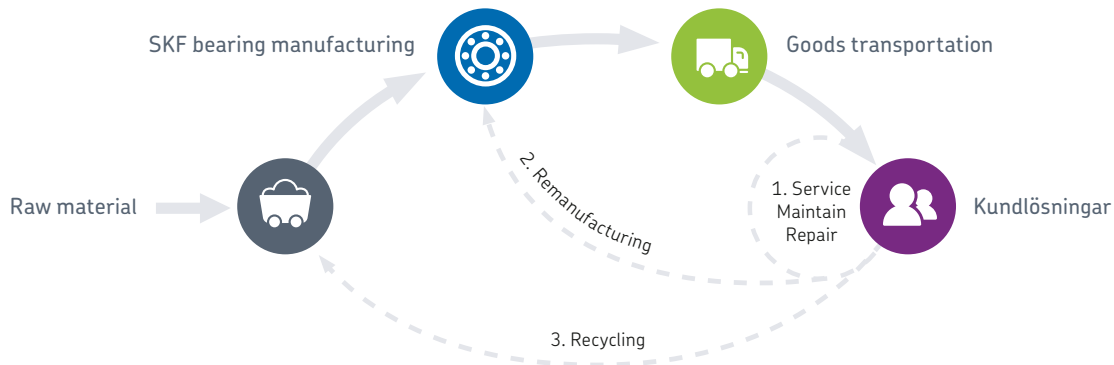
### Solar roof at SKF Jiading

In January 2017, SKF Jiading Campus outside Shanghai inaugurated a retro fitted solar roof. During the year, the installation generated close to two GWh of clean energy and is expected to cut emissions from the manufacturing site by 15% annually.



## Climate objectives and resource efficiency across the value chain

Raw material	SKF bearing manufacturing	Goods transportation	Customer solutions
<p><b>Objective</b> SKF supports its suppliers in reducing their CO<sub>2</sub> emissions.</p> <p><b>Status 2017: 73% certified</b> SKF continues to encourage the major energy intensive suppliers to adopt the ISO 50001 energy management standard for systematic improvements. This will reduce the cost and emissions for suppliers and for raw material for the Group. In 2017, 10 additional suppliers were added to the scope and at year end, 30 out of 41 were certified according to ISO 50001.</p>	<p><b>Objective 2025</b> –40% CO<sub>2</sub> emissions from manufacturing per tonne of bearings sold, from 2015.</p> <p><b>Status 2017: –6%</b> Material efficiency, energy efficiency and increased share of renewable energy are the three main strategic levers helping SKF towards this target. During 2017, efficiency was improved. Energy use and related emissions increased, however the percent increase in production output was significantly higher. SKF measures and reports energy and emissions from all sites. The scope of the target is SKF's production sites within bearings and units.</p>	<p><b>Objective 2025</b> –40% CO<sub>2</sub> emissions per tonne of goods shipped to end customer, from 2015.</p> <p><b>Status 2017: +4%</b> Transport optimization and routing, low emissions transport modes and shorter routes between suppliers, factories and customers are the main strategic levers moving SKF towards this target. During the second half of 2017, the emissions from goods transportation increased significantly, mostly due to a steep increase in customer demand, leading to more express shipments.</p>	<p><b>Objective</b> SKF supports its customers to reduce their CO<sub>2</sub> emissions.</p> <p><b>Status 2017: SEK 4.5 bn</b> SKF reports on the aggregated revenues from the key areas related to reduced climate impact: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenues in 2017 amounted to SEK 4.5 billion. The scope of the KPI is new for these objectives and has not been reported previously, read more on page 132.</p>



In addition to climate objectives, the graphic includes three main components on resource efficiency which is highly relevant for the Group's business.

**1.** Service, maintenance and repairs on the customers' site not only increase productivity and improve reliability in customers' operations, but also increases the operating life of products and makes better use of already processed materials.

**2.** SKF takes back and remanufactures products, and then ships these back to customers for another useful life. This saves time and cost for customers and improves material efficiency in the value chain.

**3.** Bearing steel is to a great extent made from scrap steel. The inherent opportunity to recycle SKF's products helps to improve sustainability, yet when bearing steel is re-melted, parts of the alloying elements are lost – which in turn makes it more important to optimize operating life and increase the remanufacturing of bearings and units. Read more at [skf.com/environment](http://skf.com/environment)

## Product compliance and performance

**SKF provides products and solutions which are used in different applications all over the world. The focus of SKF's technology development is to improve the safety and environmental performance of a machine or production line during its lifecycle, both in SKF's own and its customers' operations.**

### Product compliance

The SKF Group has a centralized function for the compliance surveillance of SKF's products, with respect to environmental and ethical laws and standards, such as, but not limited to, REACH, RoHS and in the area of conflict minerals.

SKF is predominately a downstream user (as opposed to a producer) of compounds targeted in the REACH and RoHS regulations and legislation. SKF complies with regulations by communicating both upstream and downstream the value chain to ensure that materials and compounds used in SKF's products and manufacturing are registered as safe to use.

The issue of conflict minerals – as defined in Section 1502 of the US Dodd-Frank act – is being addressed within the overall responsible sourcing activities.

### Product performance

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impacts lies in the customer use phase of the products and solutions.

Since many years, SKF has intensified efforts on developing customer solutions that reduce environmental impacts and help customers meet their requirements to reduce emissions, increase energy efficiency and reduce water use.

Building on what the Group has learnt from the focus on environmental impacts, in 2017 SKF decided to broaden the scope of the efforts to cover all relevant sustainability aspects for the customers. The ambition is that sustainability needs of its customers are understood and integrated into all products, services and solutions which SKF develops and offers to the market.

As part of the new climate objectives work, SKF will continue to provide yearly aggregated revenue data from the following key areas: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenue for these areas in 2017 amounted to SEK 4.5 billion.



## More energy output

SKF hybrid bearings offer a range of operational benefits in several applications. They are light weight, suitable for high speeds and generate less friction which helps to extend service life. One of the main benefits for wind energy customers is that it enables longer service intervals and thereby cutting the total cost of operations. In wind turbine generators, large hybrid bearings prevent passage of electric current, which is crucial for the basic functionality of the generators. These benefits together lead to more energy harvesting per turbine.

## Equality and development

**Empowerment, high ethical standards, openness and teamwork – these are the SKF values and characteristics that the Group aspires to for its employees and work-places.**

### **Equal opportunities, fair and equal pay**

A prerequisite to attract employees and capitalize on diversity is to make sure everyone in SKF has equal opportunities to compete for jobs and has the opportunities for personal development. This is a basic principle of the SKF Code of Conduct, and fundamental in SKF's recruitment principles.

SKF applies fair remuneration, which means that wages and other related benefits must at least meet the legal or industry minimum standards of the country in question, and they shall also be long term competitive to attract and retain skilled people.

For salaries, SKF uses an internationally recognized evaluation system, the International Position Evaluation (IPE). SKF follows up on differences between men and women regarding remuneration and development possibilities

Mapping of salaries in the eight largest SKF countries, shows that a smaller gap exists between the genders, but is decreasing. The conclusion is that while women are increasingly represented in lower management levels, men are still overrepresented at high-level management. It remains a challenge for SKF to rapidly alter this ratio. More information on diversity and equal opportunities is found in the Sustainability statements on pages 138–139.

### **Employee development**

Employee development is a critical success factor. The so called fourth industrial revolution will most likely change the way jobs are defined which puts pressure on people to develop and on SKF to provide the opportunity for people to do so.

Everyone at SKF is entitled to an individual development plan. In the latest survey, of the employees working in common HR systems, over 90% of the employees in the scope had concluded their annual performance review and 58% of employees had documented plans for individual development and life-long learning. Further details of SKF academies and training can be found in the Sustainability statements on pages 137–138.

At year-end 2017, SKF had 70 country managers, representing 66 nationalities. All regions in which the Group operates are represented among the top management (about 500 managers). 11% of this population are women. At the end of 2017, 25% of the Board of Directors and 22% of SKF Group management's positions were held by women. Locally, 85% of SKF units had at least one woman in local management. In these local management groups, throughout the Group, 18% were women. The proportion of women employed in the Group was 23%. For more people data, please refer to Sustainability statements on pages 135–139.

## Using technology to drive sustainability

The Future Industry challenge was launched to detect and engage start-ups helping to support the overall digital transformation in SKF's factories. In 2017, SKF France invited start-ups to propose ideas for how to use digitalization to serve productivity. More than 80 start-ups took part in the challenge. Four final projects were chosen to work with SKF and other business partners to drive and develop higher productivity, on-site quality improvement, energy savings and improved working conditions at SKF's factories.



## Responsible sourcing

**SKF works to deploy and follow up SKF Care standards in the supply chain, which can have a significant impact as the Group sources direct and indirect material – equivalent to over SEK 40 billion every year.**

About 1,200 suppliers account for around 80% of SKF's spend and the Group's overall approach is to attract and develop suppliers reflecting the Group's global manufacturing footprint. SKF's responsible sourcing programme exists to make sure suppliers work according to SKF's social, environmental and ethical standards. This helps to develop well-managed local suppliers and reduce the total cost of operations over time.

SKF's strategy for responsible sourcing was updated during 2017. The work can be summarized in two main approaches:

1. Redefined risk based management
2. Supplier development

### Redefined risk based management

SKF previously prioritized its work on high spend suppliers in high risk countries, i.e. where corruption and human rights risks are relatively higher. In recent years, the evaluation of suppliers has been refined and the overall awareness of such risks has increased so that today, a more careful evaluation of suppliers can take place prior to full scale auditing. The methods used include supplier self-evaluation and simplified

screening during quality audit and other site visits. These can flag potential non-conformances with the SKF standard that might then trigger a full on-site audit by responsible sourcing experts. With this approach the work is more effective, finding more of the deviations that matter and helping to see where support is needed.

### Supplier development

Responsible sourcing is part of supplier development and this is where the real improvements are made. Finding deviations at suppliers is not the end-goal of responsible sourcing but solely a means to drive improvements. When assessing which suppliers to develop, SKF looks at a wide range of aspects of supplier performance concerning quality, cost, delivery, innovation and management, including environment and human rights management. A holistic approach is key to determining the total cost of supplier development.

The Group carried out 127 full on-site audits in 2017 and all suppliers need to take corrective actions in a timely manner. If critical deviations are found SKF takes immediate action, and these cases are escalated to Group Purchasing who have the mandate to terminate the contract if needed.

For detailed data on risks and non-conformances, please see Sustainability statements on page 141.



## Railsponsible

SKF is active in Railsponsible – an industry initiative focused on sustainable procurement, with the aim to continuously improve sustainability practices throughout the railway industry supply chain. The collaboration includes railway operators and companies across the value chain.

## Collaboration and sponsorship

### **SKF plays an active role in the communities where it operates – creating additional positive social impact.**

The work does not start and end within SKF's boundaries but the Group must collaborate with others – business partners and trade associations, unions, NGOs, universities and schools and other organizations – to move forward on sustainability challenges.

### **External principles and charters**

Over the years, the Group has endorsed or subscribed to a number of internationally recognized principles, charters and guidelines, which promote sustainable and ethical business practices from organizations such as the UN Global Compact, ILO, ICC Charter and OECD. Read more about this on page 123.

### **Industry collaborations**

SKF engages with industry partners in a wide range of sustainability topics, where the challenges are sometimes complex and require collective action for change. One example related to a specific industry is Railsponsible presented on the previous page.

### **Tax – contributing to local communities**

SKF follows the OECD's development of country-by-country reporting of taxes and files tax receipts to Swedish authorities, but for competitive reasons does not publicly report taxes by country.

According to the SKF's Group Tax Policy, the SKF Group shall pay corporate income tax where it makes the profit. In 2017, corporate income tax amounted to SEK 1,898 million representing an effective tax rate of 24.8%.

The distribution of SKF economic value according to GRI 201-1 is shown on page 129. The SKF Group Tax policy is available at [SKF.com/tax](http://SKF.com/tax).

### **Sponsorship**

The types of causes and organizations to support is guided by the SKF Social Policy and instructions on sponsorship. SKF supports youth and sports, education and vocational training, as well as contributing to specific needs of local communities. The initiatives are typically driven by SKF country organizations, often in collaboration with local or global NGOs or non-profit organizations.

SKF organizations in 27 countries have reported social collaboration activities. Read more about initiatives driven by SKF and its employees at [skf.com/community](http://skf.com/community).

## SKF Meet the World and the Gothia Cup

The Meet the World tournament is all about inspiration and a chance for kids and young adults to discover other cultures and exchange ideas and dreams by following their passion for football.

SKF is Gothia Cup's main sponsor, and local SKF country organizations across the world work with the Meet the World tournaments, whereby teams from around 20 countries every year qualify and travel to Gothenburg to take part in the Gothia Cup. SKF started Meet the World in 2007 and since then, 3,000 young people from 41 countries have played the Gothia Cup.



## SKF and the United Nations Sustainable Development Goals

193 states have agreed a common agenda for 2030 – the UN Sustainable Development Goals. These 17 goals, also known as the Global Goals, set the direction in which the world needs to develop and thereby highlight challenges, risks and opportunities for companies.

SKF has analyzed and will continue to review its activities in the light of these Global Goals to ensure staying successful over time. Part of this is to understand how the Group best contributes to the realization of the Global Goals through the business made and the way business is made. This is presented above. More information is found on [SKF.com/globalgoals](https://www.skf.com/globalgoals).



## The business SKF makes

Supporting reliable, efficient and environmentally sound industrial operations



Developing and providing technology for the solutions we all need



Developing sustainable business models



Supporting customers to address industry specific sustainability challenges



## The way SKF does business

Conducting business with high ethical standards



Offering decent work in a safe and fair working environment



Reducing emissions and effluents into air, water and soil



Being a good steward of resources



Industry collaborations for sustainable development



Offering vocational training and supporting basic education and development



Sponsorships







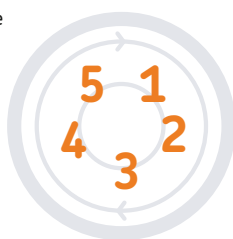
# Introduction to the Administration Report

The Administration Report comprises descriptions of SKF's strategic priorities, segments and risk management, the Board's proposal for remuneration and dividend and information concerning the nomination of Board members, notice of Annual General Meeting and SKF's financial position. The Administration Report is integrated into the Annual Report.

## Strategic priorities

Driven by the vision of "A world of reliable rotation", SKF strives to create value for its shareholders and other stakeholders by focusing on five strategic priorities.

- Create and capture customer value
- Application-driven innovation
- World-class manufacturing
- Cost competitiveness
- Maximize cash flow over time



Read more on pages 12–29.

**AB SKF's Board's proposal, remuneration**

See page 64

**Nomination of Board members and notice of Annual General Meeting**

See page 66

**Financial position and dividend policy**

See page 66

**Proposed distribution of surplus**

See page 119

## Segments

SKF's operations are divided into the two segments, Industrial and Automotive. Read more on pages 56–59.



**Share of net sales**

● Industrial 69% ● Automotive 31%



**Share of operating profit**

● Industrial 85% ● Automotive 15%

## Risk

SKF manages, mitigates or avoids a wide range of risks and short and long term uncertainties. Proactive risk management is an integral element of SKF's sustained success.

The risks can be divided into the following categories:

■ Strategic risks ■ Operational risks

■ Compliance risks ■ Financial risks

Read more on pages 60–63.

The Administration Report comprises pages 10–29, 36–37, 55–119. It has undergone reasonable assurance engagement by SKF's auditors.

See the Auditor's Report on pages 144–147.

According to the Swedish accounting act chapter 6, §11, SKF's sustainability reporting is prepared as a separate report.

The scope of this Sustainability Report is presented on page 120 in this publication.

# Industrial

Industrial operations showed stable development, with strong organic growth of 8.4% (-2.8) and an improved adjusted operating margin of 13.7% (12.1). Organic sales increased in all markets, with growth of 10.1% in North America, 6.6% in Europe and 9.6% in Asia.

Reelcraft, a manufacturer of hose cord and cable reels for industrial applications, was divested as part of the strategy to focus on core operations. SKF also undertook a reorganization during the year aimed at improving synergies between research, product development and business development, gathering these functions into one organization. This has given SKF a truly business driven R&D and the ability to directly steer its R&D spend, which is even more important in a fast moving and digitalized world. SKF is reshaping its R&D footprint to match current and future markets, and to ensure that as much as possible of the full value chain is located near the market it serves. As part of this strategy, in 2018, the global product development centre for deep groove ball bearings will be transferred from St-Cyr-sur-Loire, France, to Shanghai, China. SKF's research centre in the Netherlands will move to a new building in 2019. In line with reshaping the R&D footprint, SKF is moving key testing operations from the Netherlands closer to current and future growth markets.

## Investments

The Sven Wingquist Test Centre was opened in Schweinfurt, Germany, where the first tests of a new spherical roller bearing for the wind industry will be made in early 2018. SKF will also invest in a new test centre for aeronautical high-speed bearings at its existing facility in Valenciennes, France. In 2017, other investments were made to increase capacity for spherical roller bearings in Nilai in Malaysia, while the manufacturing of stabilizers for the marine industry was updated in Hamburg, Germany. There are ongoing investments in upgrading machines and processes in Flowery Branch and Hanover, USA, and in the manufacturing of cylindrical roller bearings and large-size bearings in Schweinfurt, Germany. These investments will be completed in 2018.

## Digitalization and application-driven innovation

SKF launched a number of solutions to make condition monitoring accessible to more users. The data handling and analysis system SKF Enlight is a tool for condition-based maintenance and condition monitoring over the Internet. The first version of SKF Enlight, designed for use by engineers decision makers in the marine industry, was launched in 2017, as was SKF Enlight for remote diagnostics of steel mills. SKF Insight sensor technology collects bearing data, which it transfers to the SKF Enlight Centre for remote diagnostics and analysis of mechanical problems. SKF Insight is adapted for rail, wind power and heavy industry. SKF QuickCollect hand-held sensors measure machine conditions. Data is then transmitted wirelessly to a mobile device on which diagnostics can be performed even by inexperienced users. The information can also be stored in SKF's clouds with access to SKF's expert remote monitoring services. IMx8 was also launched during the year. It is a compact, simple to use condition monitoring device designed for a broad group of industries. SKF also works closely with several companies in digitalization. A partnership with Honeywell Process Solutions was initiated during the year. The goal is to develop a user-friendly digital ecosystem that consolidates and analyzes large amounts of data from construction machinery.

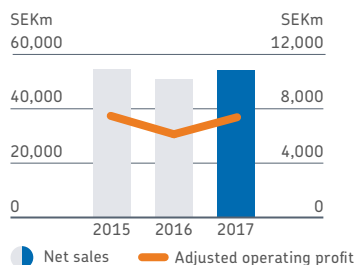
The new SKF SimPro software enables customer engineers to make their own choice of bearings or, if needed, to consult SKF's application engineers. This makes it easier for the customer to choose the right bearing early in the development process, and for SKF to be more closely involved when a new machine is developed.

## Cost-competitiveness initiative

To further improve utilization of the Group's manufacturing capacity, investments will be made to consolidate seal manufacturing by increasing the capacity of existing operations in Salt Lake City, Kansas, and closing down the seal factory in Seneca, Kansas.



Net sales and adjusted operating profit<sup>1)</sup>



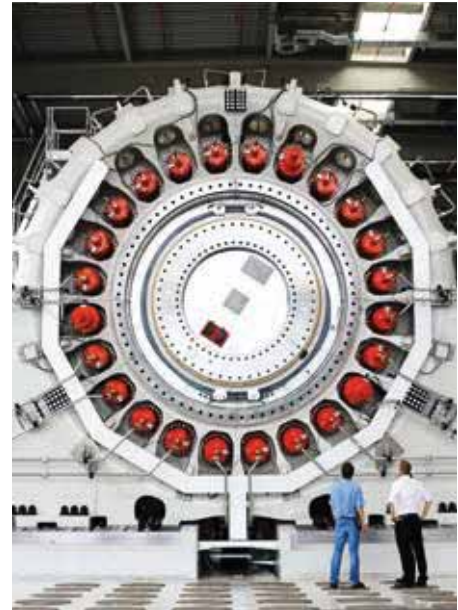
1) Previously published figures have been restated according to the new segment information.

## Main achievements in 2017

- Start-up of the fully automated and digital production channel in Gothenburg, Sweden.
- Opening of the test centre in Schweinfurt, Germany.
- Divestment of Reelcraft.
- Launch of numerous solutions to make condition monitoring accessible to more users.
- Partnership with Honeywell Process Solutions.



SKF inaugurated a new fully automated and digital production channel in Gothenburg for the manufacturing of spherical roller bearings.



SKF inaugurated its newly-built test centre, the Sven Wingquist Test Centre, in Schweinfurt, Germany.

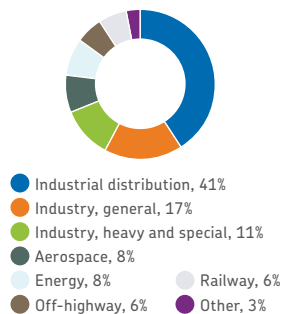


A multi-year framework agreement with ArcelorMittal was signed. SKF will supply bearings, units, seals and remanufacturing services across 14 countries in Europe and Northern Africa. SKF will also provide total-cost-of-ownership savings studies, validating the realized value generated from its products and services.



The Moroccan rail operator, Office Nationale des Chemins de Fer du Maroc placed an order for 15,000 railway wheelset bearings for both passenger and freight rolling stock, to be delivered over a period of three years.

### Net sales by customer industry



### Focus in 2018

- Continue the reshaping of the R&D footprint to match changes in the marketplace, and secure a full value chain.
- Continue developing new products and solutions with focus on providing equipment performance to customers, where digitalization and ease of use are major parts.
- Expand the range of offerings that meet the specific performance requirements of

different applications. This will improve the competitiveness of the SKF products and improve the realized value for the customer.

- Continued focus on cost-competitiveness across the entire value chain. Continued initiatives for designing with steels that are appropriate for customer operating conditions, in collaboration with purchasing and supply chain functions.

# Automotive

SKF outgrew the global automotive roller bearing market in 2017 and achieved strong organic growth of 7.9% (1.2) and an improved adjusted operating margin of 7.2% (6.5). The Turn Around Plan launched in 2015 contributed to the improved operating margin. Net sales increased in all major regions, with the strongest growth in Asia, 16.3%, followed by Europe, 4.1%, and North America, 0.5%.

## Investments

During the year SKF continued to invest in new production channels for bearings and seals to cover the growth in its OEM business. For the aftermarket business SKF moved all of its European automotive aftermarket activities to one site in St-Cyr-sur-Loire in France in order to streamline the EMEA activities. This was in response to changing market dynamics, with growing demand for flexible production capabilities that can cope with ever shorter lead times. In addition the site will also host a flexible new production facility dedicated to the production of wheel hub bearings for the spare parts market. This line will also be capable of responding very quickly to customer orders, especially smaller orders.

## Next-generation powertrains

The automotive industry is commencing the electrification of the powertrain in some countries, and new driver-assistant systems are pushing in the direction of autonomous driving, connectivity and shared mobility. SKF is developing new bearing and seal solutions to support this next generation of powertrain platforms in partnership with customers. With leading Truck OEMs SKF has developed the next generation of transmissions and hybrid powertrains. Other ongoing projects concern global car OEMs and to meet new application needs and to develop integrated bearings and seals solutions

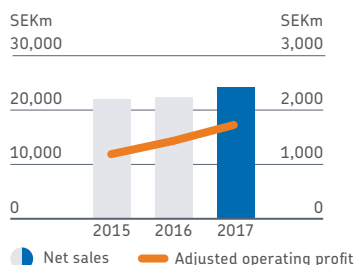
enabling increased compactness and power density, weight reduction and lower friction. Light weighting remains important to improving the CO<sub>2</sub> emissions of vehicles. To improve availability in the aftermarket, SKF launched a dynamic web-catalogue for the vehicle aftermarket assortment in Europe and North America. It matches the right product with a specific vehicle and finds a nearby dealer or online shop for purchase.

## Cost reduction initiatives

SKF is a leading supplier of wheel end bearings and to increase its competitiveness within this very important and highly competitive business SKF has been working on cost reduction activities addressing both existing and new product ranges. In past years this has led to cost reductions, increased market share and greater profitability. In 2017, the automotive business managed to bring down cost within the existing product range with about SEK 70 million in savings only from using Integrating Cost Reduction (ICR), read more about ICR on page 24. For the development of new products, to be implemented in automotive production in 3–4 years, the cost has been reduced by 10–15%, through ICR.



Net sales and adjusted operating profit<sup>1)</sup>



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

## Main achievements in 2017

- Improved adjusted operating margin as established in the Turn Around Plan in 2015.
- Development of solutions with customers, to support the electrification of the powertrain, autonomous driving, connectivity and shared mobility.
- Cost reduction activities addressing both existing and new product ranges.



Jeep Compass, the new compact sport utility vehicle from FCA, is equipped with SKF's third-generation, premium quality, front- and rear-wheel hub-bearing units.



SKF's new Scotseal X-Treme wheel-end seal for trucks and trailers offers superior reliability and high temperature performance, as well as a market leading warranty.

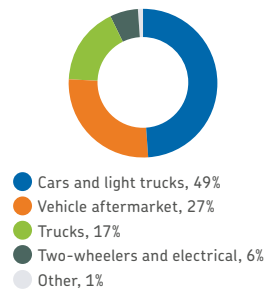
SKF has won an exclusive deal to deliver over 2.5 million robust and lightweight MacPherson Strut Bearing Units per year to a tier 1 company.



SKF augmented its rotor positioning bearings range with a new and compact design that is suitable for all belt-driven starter/generator applications in both 12 V and upcoming 48 V formats.



**Net sales by customer industry**



**Focus in 2018**

- Continue to drive innovation in product development.
- Continue to drive e-commerce initiatives in the aftermarket.
- Capture customer value with active pricing to compensate for material cost increases.
- Continued cost reduction activities and organizational efficiency.

# Risk management

## Current 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 EUR, USD and CNY. 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 an investigation by the US Department of Justice 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. 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. Daimler AG has initiated a lawsuit against SKF GmbH with a claim for damages as a consequence of said settlement decision.

## Risk management in SKF

SKF manages, mitigates or avoids a wide range of risks as well as short- and long-term uncertainties. SKF applies an integrated approach to business risk management whereby, as far as possible, risk identification, evaluation and response are carried out by persons within the business with the relevant operational responsibility and experience. SKF does not monetize all risks as many of them are highly complex and inter-related. The operational management of the risks is facilitated through a number of means, such as Group policies, training, internal controls, reporting reviews and approval processes, all of which are coordinated and overseen by the related Group functions. These risks can be summarized as below.





## Strategic risks

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

Some of SKF's businesses are subject to transitional risks and opportunities related to trends such as increased digitalization, electrification or pressure to decarbonize industry sectors. Such development may be driven by regulatory requirements, taxes, tariffs or other governmental policies. This type of macro trends could have an effect on the SKF Group's operations in

general and some of the customer industries in particular. Read more about the main industries SKF serves at [skf.com/skfs-business](http://skf.com/skfs-business).

Opportunities and risks related to the business are described in more detail in the Strategic priorities section on page 14.

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives as set out by the Group. SKF works with central recruitment processes, training, leadership and talent management to proactively manage succession planning, and in 2017, the Group launched a new global trainee programme. The Group also works continually on building a strong culture and creating a motivating working environment where decisions are taken with focus and energy.



## Operational risks

Everyday risks related to product and functionality, IT and supply and manufacturing can be described in the following way:

### **Product functionality and market related risks**

Competitors may find better and more cost-efficient ways to produce and distribute products and services. They may also find ways to produce better functioning products. SKF may suffer loss through new and disruptive technologies becoming available from companies which are currently not seen as competitors. These risks are managed through SKF's first two strategic priorities, creating and capturing customer value, and application driven innovation, see pages 12–19.

The risk of product failure in customer applications may lead to warranty claims and/or loss of business. SKF's global quality management system in accordance with ISO 9001 and other industry relevant industry standards is implemented to ensure that products and services conform with specified requirements and to continuously improve processes, products and services. Identification and minimization of potential performance risk is based on the use of SKF design rules and guidelines for product development, SKF application engineering, product simulation and product testing.

Another risk is related to counterfeit SKF products which are taking market share from SKF and whose unreliable

performance may damage SKF's reputation. SKF works actively to reduce negative impacts of counterfeit products through awareness campaigns and by offering free authentication of suspected counterfeit goods. SKF also works on limiting the supply of counterfeit bearings through distributor stock audits and by providing expert on-site verification and advice to local authorities during raids.

Hazardous substances in products and processes are continually being phased out from SKF's products and processes. SKF has established a product material compliance approach to help SKF's business to comply with directives and legislation such as REACH, RoHS, WEEE and Dodd-Frank regarding conflict minerals.

### **IT risks**

Risks can be related to cyber security and IT continuity. SKF runs IT Security Awareness training programmes for employees to avoid potential adversaries gaining unauthorized access to SKF information or computer systems, which could otherwise lead to a loss of production, loss of intellectual property or financial data, infringement of personal data or violations of export control regulations. SKF's processes concerning IT Security are based on ISO 27000, for the deployment and use of IT Systems.

SKF works with trusted IT partners, that employ best practice procedures such as ITIL, ISO 20000 and ISO 9000 for business critical IT systems, to avoid unplanned interruptions to SKF's computer systems that could potentially lead to a loss of production or delays in deliveries to customers.

### **Production risk**

SKF's risk of production disruption is not only related to its own operations but also to disruption further upstream in the demand chain. External factors such as fires, extreme weather events, natural disasters, water scarcity, war, terrorism or pandemic illness might result in disruption of supply to SKF and impact revenue and profit. This is managed by contingency planning and by not sourcing critical material from single sources.

Labour disputes, could lead to disruption which might effect SKF's ability to meet customer demands. SKF maintains an open and positive relationship with the trade unions, as exemplified by the Groups' global framework with the World Union Council.

SKF has a globalized manufacturing operation with more than 100 production sites around the world, supported by 1,200 suppliers accounting for about 80% of SKF's purchased volume. SKF's manufacturing strategy aims to ensure a high degree of flexibility, so that if one unit is taken out of action, others could provide support production. SKF has centrally purchased insurance lines and centrally managed loss prevention programmes. The aim is to protect SKF Group's tangible and intangible assets through active risk management.

Operational safety, health, environmental and human rights risks are managed via SKF's Group-wide management procedures covering virtually all significant sites. The work aims to prevent major incidents from negatively impacting people or the environment. The EHS system is certified in accordance with ISO 14001 and OHSAS 18001 and SKF's Code of Conduct is based on the SA8000 standards.

## Compliance risks

SKF has a formalized yearly process at Group level for the mitigation of ethical and compliance related risks. The process includes gathering information from internal and external sources, a consolidated risk assessment, prioritization of risks and the development of a strategic action plan to mitigate the risks. The SKF Group staff functions Sustainability and Compliance, Audit, Human Resources, Environment Health and Safety, Purchasing and IT are involved in the process and the result is presented to Group Management.

The main compliance risks are related to competition law, fraud, export control, data privacy, corruption and health and safety regulations. SKF has established compliance programmes which include policies, procedures, training, audits and investigations in order to mitigate these risks.

The global and diverse nature of SKF's business and operations means that the Group is required to adhere to numerous laws and regulations related to all aspects of its activities. Failure to meet these requirements could lead to legal and financial consequences as well as damage to the Group's

reputation. SKF has put in place policies, procedures and training programmes in order to ensure that legal risks relating to its business activities are identified and that risk decisions are taken at the appropriate level. In addition, SKF legal counsels support the SKF units in identifying and handling legal risks. The legal counsels work closely with the SKF units and provide contract drafting and negotiation support, claim and litigation management, training and general advice.

### **Reporting and internal control risks**

The Group's systems for internal control and risk management in relation to the preparation of the consolidated financial and other statements are described in the Corporate Governance Report under the heading Internal control and risk management regarding financial reporting – see page 154. Building on the maturity of the Group's internal controls for financial reporting, SKF uses a similar approach to non-financial reported parameters, such as ethical, social and environmental data.





# Financial risks

Energy and the cost of carbon can have an impact on SKF in several ways, e.g. via the cost of energy and raw materials and this is managed by systematic continuous improvement of energy use at SKF and in the supply chain.

Most of SKF's direct materials are subject to several refinement stages and for that reason SKF has been less sensitive to raw materials price fluctuation as opposed to operating costs of suppliers.

## Sensitivity analysis

### Costs

The annual cost of raw materials and components is around SEK 23 billion of which steel-based products account for the majority. An increase/decrease of 1% in the cost of raw materials and components reduces/increases the operating profit by around SEK 230 million. Steel scrap is a major ingredient in making bearing steel. An isolated 10% increase/decrease in market scrap prices would decrease/increase SKF's operating profit by around SEK 90 million.

An increase of 1% in wages and salaries (including social security charges) would reduce the operating profit by around SEK 200 million.

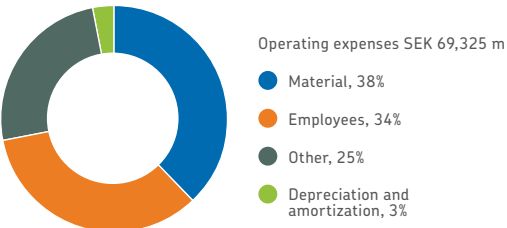
A decrease/increase of 1% in interest rates would have a positive/negative effect on the profit before tax of around SEK 160 million, based on the current position. The Group had net debt of SEK 21,274 million on 31 December 2017.

## Currency impact

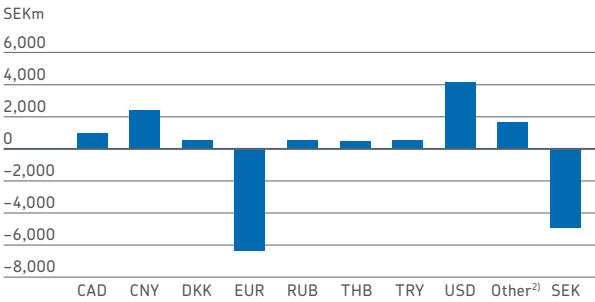
Translation effects: most of the operating profit is made outside Sweden, meaning that the Group is exposed to translation risks from all major currencies into the reporting currency SEK. Based on 2017 operating profits in local currencies, the graph below represents a sensitivity analysis that shows the effect of a 5% weaker SEK against all other currencies on the translation of operating profits into SEK.

Concerning the commercial foreign exchange exposure, the SKF Group is exposed to currencies shown in the graph below. Based on the assumption that the net currency flows will be the same as in 2017, the graph below represents a sensitivity analysis that shows the effect on operating profit of a 5% stronger SEK against all other currencies.

### Cost split 2017

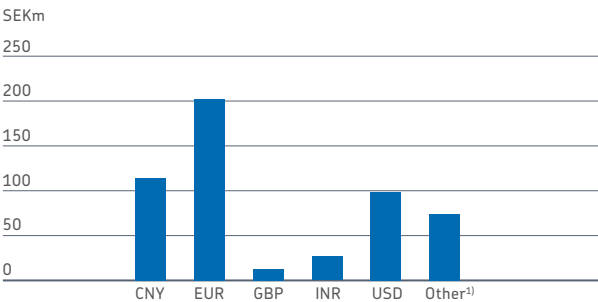


### Net currency flows 2017, SEKm



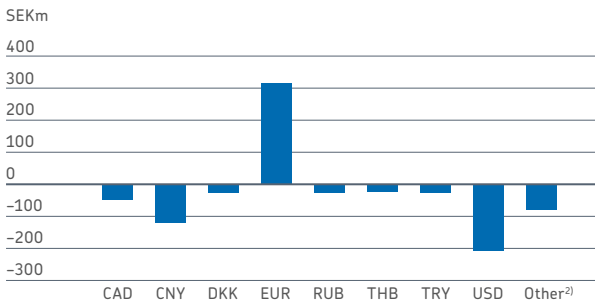
2) Other is a sum comprising 11 different currencies.

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



1) Other is a sum comprising 42 different currencies.

### Effect on operating profits of a 5% stronger SEK



2) Other is a sum comprising 11 different currencies.

# AB SKF's Board's proposal for principles of remuneration for Group Management

## Introduction

The Board of Directors of AB SKF has decided to submit the following principles of remuneration for SKF's Group Management to the Annual General Meeting. Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The objective of the principles is to ensure that the SKF Group can attract and retain the best people in order to support the SKF Group's mission and business strategy. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests.

The total remuneration package for a Group Management member consists primarily of the following components: fixed salary, variable salary, performance shares, pension benefits, conditions for notice of termination and severance pay, and other benefits such as a company car. The components shall create a well-balanced remuneration reflecting individual performance and responsibility as well as the SKF Group's overall performance.

## Fixed salary

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

## Variable salary

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

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF financial performance management model called Total Value Added (TVA). TVA is a simplified, economic value-added model. This model promotes greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital. The TVA result development for the SKF Group correlates well with the trend of the share price over a longer period of time.

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 50% and 70% for Group Management members. If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary will not exceed 70% of the accumulated annual fixed salary of Group Management members.

## Performance Shares

Since 2008 SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees (SKF's Performance Share Programmes 2008–2017). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2018.

It is proposed that 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 B shares.

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the TVA development for the financial years 2018–2020 compared to the financial year 2017. Under the programme, no more than 1,000,000 B shares may be allotted.

The allocation of shares is based on the level of TVA increase. In order for allocation of shares to take place the TVA increase must exceed a certain minimum level (the threshold level). In addition to the threshold level a target level is set. Maximum allotment is awarded if the target level is reached or exceeded.

Provided that the TVA increase reaches the target level, the participants of the programme may be allotted the following maximum number of shares per person within the various key groups:

- CEO and President: 30,000 shares
- Other members of Group Management: 13,000 shares
- Managers of large business units and similar: 4,500 shares
- Other senior managers: 3,000 shares
- Other key persons: 1,250 shares

Before the number of shares to be allotted is finally determined, the Board shall examine whether the allotment is reasonable considering SKF's financial results and position, the conditions on the stock market as well as other circumstances, and if not, as determined by the Board, reduce the number of shares to be awarded to the lower number of shares deemed appropriate by the Board.

If the TVA increase exceeds the threshold level for allotment of shares but the final allotment is below 5% of the target level, payment will be made in cash instead of shares, whereupon the amount of the cash payment shall correspond to the value of the shares calculated on the basis of the closing price for SKF's B share the day before settlement.

Assuming maximum allocation under SKF's Performance Share Programme 2018 and a share price of SEK 170, the cost, including social security costs, is estimated at around SEK 204 million. On the basis of a share price of SEK 220, the cost, including social security costs, is estimated at around SEK 264 million. In addition, administrative costs are estimated at around SEK 2 million.

#### **Other benefits**

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

#### **Pension**

The SKF Group strives to establish pension plans based on defined contribution models, which means that a premium is paid amounting to a certain percentage of the employee's annual salary. The commitment in these cases is limited to the payment of an agreed premium to an insurance company offering pension insurance.

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. The normal retirement age for Group Management members is 65 years.

#### **Notice of termination and severance pay**

A Group Management member may terminate his/her employment by giving six months' notice. In the event of termination of employment at the request of the company, employment shall cease immediately. The Group Management member shall however receive a severance payment related to the number of years' service, provided that it shall always be maximized to two years' fixed salary.

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

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

#### **Preparation of matters relating to remuneration for Group Management**

The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of a maximum of four Board members. The Remuneration Committee prepares all matters relating to the principles of remuneration for Group Management, as well as the employment conditions of the President. The principles of remuneration for Group Management are presented to the Board of Directors that submits a proposal for such principles to the Annual General Meeting for approval. The Board of Directors must approve the employment conditions of the President.

#### **Information about remuneration decided upon but not due for payment**

The structure of Group Management remuneration decided upon prior to the approval of these principles for remuneration but not due for payment is in line with these principles. In relation hereto the following should be noted:

- The Annual General Meetings 2008–2017 resolved on SKF's Performance Share Programmes 2008–2017.
- No allotment of shares was made under SKF's Performance Share Programme 2009 due to non-fulfillment of the TVA target for the financial year 2009. Allotment of shares under SKF's Performance Share Programme 2010 was made in the beginning of 2013. Allotment of shares under SKF's Performance Share Programme 2011 was made in the beginning of 2014. No allotment of shares was made under SKF's Performance Share Programme 2012–2013 due to non-fulfillment of the TVA target for the financial years 2012–2013. Allotment of shares under SKF's Performance Share Programme 2014 was made in the beginning of 2017. Allotment of shares under SKF's Performance Share Programme 2015 was made in the beginning of 2018. Any allotment of shares under SKF's Performance Share Programme 2016 will be made during 2019. Any allotment of shares under SKF's Performance Share Programme 2017 will be made during 2020.
- The pension conditions of the President are described under Note 23 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- The normal retirement age for Group Management members is 65 years. One member of Group Management still have a retirement age of 62 years based on already existing agreement.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.

Principles of remuneration for Group Management 2017 and remuneration of Group Management 2017, see Consolidated Financial Statements Note 23.

## 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 comprise a minimum of five and a maximum of twelve members, with a maximum of five deputies. The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

Notice to attend an Annual General Meeting and notice to attend an Extra General Meeting where an issue relating to a change in the Articles of Association will be dealt with, shall be issued no earlier than six weeks and no later than four weeks prior to the General Meeting. Notice to attend an Extra General Meeting for other matters, shall be issued no earlier than six weeks and no later than three weeks prior to the General Meeting.

---

## Financial position and dividend policy

### Financial performance management model

SKF's financial performance management model is a simplified, economic value-added model, called Total Value Added (TVA), promoting a greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital in the country where business is conducted. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 6% above the risk-free interest rate for the equity part and on actual borrowing cost. The TVA performance for the Group correlates well with the share price trend over a longer period of time. This model is a key component in the variable salary schemes.

### Capital structure

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December, 2017, the gearing was 49.9% (55.3), the equity/assets ratio 36.7% (33.0) and the net debt/equity ratio 71.3% (84.4).

### Financing

SKF's policy is to have long-term financing of its operations. As of 31 December, 2017, the average maturity of SKF's loans was four years. SKF has four notes issued on the European bond market. EUR 234 million due 2018, EUR 266 million per 2019, EUR 450 million per 2020, and one with an outstanding amount of EUR 500 million, due 2022. 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 two loans, one of EUR 200 million due in 2021 and one of USD 100 million due in 2027.

In addition to its own liquidity, AB SKF had two committed credit facilities, one of EUR 500 million with a due date in 2019 and one of EUR 250 million with a due date in 2020.

### Credit rating

On 31 December, 2017, the Group had a BBB- rating with a stable outlook for long-term credit from Standard and Poor's and a Baa2 rating with a neutral outlook from Moody's Investors Service. SKF intends to keep a strong credit rating, which is reflected in its capital structure targets.

### Dividend

SKF's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow, while taking into account the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend should amount to around one half of SKF's average net profit calculated over a business cycle. If the financial position of the SKF Group exceeds the targets for the capital structure an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or a repurchase of the company's own shares. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Based on the operating performance, cash generation capacity and outlook, the Board has decided to propose to the Annual General Meeting a dividend of SEK 5.50 (5.50) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2018, see page 119, Proposed distribution of surplus.

# Financial statements

## Contents

Consolidated income statements and consolidated statements of comprehensive income .....	68	<b>Financial statements of the Parent Company</b>	
Comments on the consolidated income statements .....	69	Parent Company income statements and statements of comprehensive income .....	108
Consolidated balance sheets .....	70	Parent Company balance sheets .....	109
Comments on the consolidated balance sheets .....	71	Parent Company statements of cash flow .....	110
Consolidated statements of cash flow .....	72	Parent Company statements of changes in equity .....	111
Comments on the consolidated statements of cash flow .....	73		
Consolidated statements of changes in equity and comments .....	74	<b>Notes to the financial statements of the Parent Company</b>	
<b>Notes to the consolidated financial statements</b>		<b>Note 1</b> Accounting policies .....	112
<b>Note 1</b> Accounting policies .....	75	<b>Note 2</b> Revenues and operating expenses .....	112
<b>Note 2</b> Segment information .....	77	<b>Note 3</b> Financial income and financial expenses .....	112
<b>Note 3</b> Acquisitions .....	79	<b>Note 4</b> Appropriations .....	113
<b>Note 4</b> Divestment of businesses .....	79	<b>Note 5</b> Taxes .....	113
<b>Note 5</b> Research and development .....	80	<b>Note 6</b> Intangible assets .....	113
<b>Note 6</b> Expenses by nature .....	80	<b>Note 7</b> Property plant and equipment .....	114
<b>Note 7</b> Other operating income and expenses .....	80	<b>Note 8</b> Investments in subsidiaries .....	114
<b>Note 8</b> Financial income and financial expenses .....	81	<b>Note 9</b> Investments in equity securities .....	117
<b>Note 9</b> Taxes .....	81	<b>Note 10</b> Provisions for post-employment benefits .....	117
<b>Note 10</b> Intangible assets .....	83	<b>Note 11</b> Loans .....	118
<b>Note 11</b> Property, plant and equipment .....	87	<b>Note 12</b> Salaries, wages, other remunerations, average number of employees and men and women in Management and Board .....	118
<b>Note 12</b> Inventories .....	89	<b>Note 13</b> Contingent liabilities .....	118
<b>Note 13</b> Financial assets .....	89		
<b>Note 14</b> Other short-term assets .....	92		
<b>Note 15</b> Share capital .....	92		
<b>Note 16</b> Earnings per share .....	93		
<b>Note 17</b> Provisions for post-employment benefits .....	93		
<b>Note 18</b> Other provisions and contingent liabilities .....	97		
<b>Note 19</b> Financial liabilities .....	98		
<b>Note 20</b> Leasing .....	99		
<b>Note 21</b> Other short-term liabilities .....	99		
<b>Note 22</b> Related parties including associated companies .....	99		
<b>Note 23</b> Remuneration to key Management .....	100		
<b>Note 24</b> Fees to the auditors .....	103		
<b>Note 25</b> Average number of employees .....	104		
<b>Note 26</b> Financial risk management .....	104		

# Consolidated income statements

SEKm	Note	January–December	
		2017	2016
Net sales <sup>1)</sup>	2	77,938	72,589
Cost of goods sold <sup>1)</sup>	5, 6	-58,513	-54,832
<b>Gross profit</b>		<b>19,425</b>	<b>17,757</b>
Selling expenses <sup>1)</sup>	6	-10,398	-9,785
Administrative expenses	6	-414	-437
Other operating income and expenses, net	7	-21	-8
<b>Operating profit</b>		<b>8,592</b>	<b>7,527</b>
Financial income and expenses, net	8	-934	-788
<b>Profit before taxes</b>		<b>7,658</b>	<b>6,739</b>
Income tax	9	-1,898	-2,530
<b>Net profit</b>		<b>5,760</b>	<b>4,209</b>
<b>Net profit attributable to:</b>			
Shareholders of AB SKF		5,475	3,985
Non-controlling interests		285	224
Basic earnings per share (SEK)	16	12.02	8.75
Diluted earnings per share (SEK)	16	12.02	8.75

# Consolidated statements of comprehensive income

SEKm	Note	January–December	
		2017	2016
<b>Net profit</b>		<b>5,760</b>	<b>4,209</b>
<b>Items that will not be reclassified to the income statement</b>			
Remeasurements (actuarial gains and losses)	17	359	-1,746
Income tax	9	-512	423
		<b>-153</b>	<b>-1,323</b>
<b>Items that may be reclassified to the income statement</b>			
Currency translation adjustments		-876	1,273
Available-for-sale assets	13	-101	-205
Cash flow hedges	26	0	18
Income tax	9	35	50
		<b>-942</b>	<b>1,136</b>
<b>Other comprehensive income, net of tax</b>		<b>-1,095</b>	<b>-187</b>
<b>Total comprehensive income</b>		<b>4,665</b>	<b>4,022</b>
<b>Total comprehensive income attributable to</b>			
Shareholders of AB SKF		4,446	3,714
Non-controlling interests		219	308

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

# Comments on the consolidated income statements

Amounts in parentheses refer to comparable figures for 2016.

## General

The Group's income statement for 2017 included the result of the divested Reelcraft business 1 January–30 June as well as the result of a acquired component business in Sweden for the period 1 November–31 December.

## Net sales

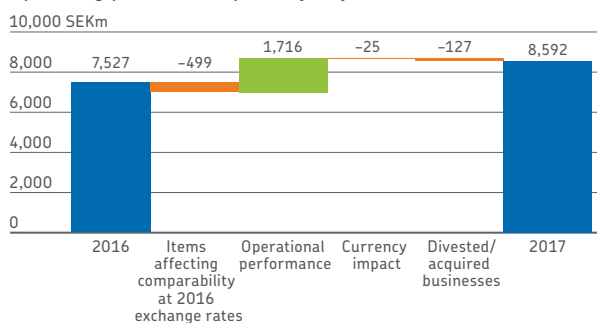
In 2017, net sales amounted to SEK 77,938 m (72,589) corresponding to an increase of 7.4% compared to 2016. The change of the Swedish krona towards other currencies had a positive impact in 2017 of 0.8%. Structural changes accounted for –1.6%. Net sales in local currencies increased by 8.2% driven by higher sales volumes in all geographical areas.

Sales development percent y-o-y	Q1	Q2	Q3	Q4	Full year
Organic	8.0	7.5	8.0	8.2	8.2
Structure	–2.0	–2.0	–0.7	–0.6	–1.6
Currency	4.9	4.9	–3.0	–3.6	0.8
<b>Total</b>	<b>10.9</b>	<b>10.4</b>	<b>4.3</b>	<b>4.0</b>	<b>7.4</b>

## Operating profit

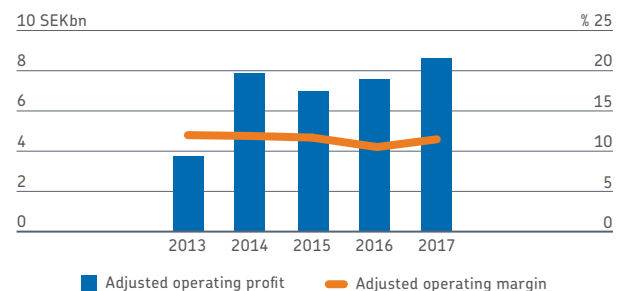
The Operating profit amounted to SEK 8,592 m (7,527). Operating profit excluding items affecting comparability amounted to SEK 9,096 m (7,544) giving an adjusted operating margin of 11.7% (10.4).

## Operating profit development y-o-y



The operating profit was positively impacted by higher organic sales and manufacturing volumes as well as savings from cost reduction programmes. Operating profit was negatively impacted by sales price and customer mix development, higher costs for the ERP implementation, higher items affecting comparability, general inflation and divested companies. Operating profit 2017 included items affecting comparability of SEK –504 m (–17) whereof SEK –328 m (–576) related to the restructuring and cost reduction programme, SEK –339 m net (–191) related to profit on sold businesses, settlements, impairments, and write-off of assets, SEK 163 m (618) related to a curtailment gain due to changed conditions in the defined benefit retirement plans.

## Adjusted operating profit



## Financial income and expenses, net

The financial income and expenses, net for 2017 was SEK –934 m (–788). For more information about the changes year-over-year, see Note 8.

## Taxes

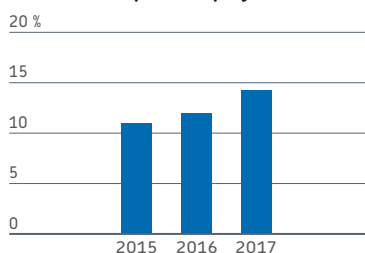
The effective tax rate for the year was 24.8% (37.5). Taxes were positively impacted by the US tax reform by SEK 771 m and negatively by divestments of businesses by SEK –267 m (–383). Excluding this, the effective tax rate for the year was 31.2% (31.8). For more information see Note 9.

Values by quarter SEKm	Q1	Q2	Q3	Q4	Full year
Net sales	19,601	20,229	18,627	19,481	77,938
Operating profit	2,295	2,315	1,965	2,017	8,592
Profit before taxes	2,125	2,057	1,692	1,784	7,658
Basic earnings per share (SEK)	3.09	2.51	2.29	4.12	12.02

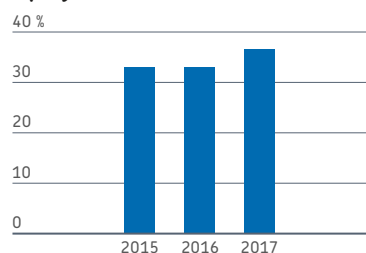
# Consolidated balance sheets

SEKm	Note	As of 31 December	
		2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	9,995	11,137
Other intangible assets	10	7,365	8,431
Property, plant and equipment	11	15,762	15,746
Long-term financial assets	13	1,187	1,345
Deferred tax assets	9	3,633	3,806
Other long-term assets		440	343
		<b>38,382</b>	<b>40,808</b>
<b>Current assets</b>			
Inventories	12	17,122	15,418
Trade receivables	13	13,416	13,462
Other short-term assets	14	3,664	3,133
Other short-term financial assets	13	1,507	1,147
Cash and cash equivalents	13	7,112	9,939
		<b>42,821</b>	<b>43,099</b>
<b>Total assets</b>		<b>81,203</b>	<b>83,907</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders of AB SKF		28,036	26,034
Equity attributable to non-controlling interests		1,787	1,649
		<b>29,823</b>	<b>27,683</b>
<b>Non-current liabilities</b>			
Long-term financial liabilities	19	15,790	22,031
Provisions for post-employment benefits	17	12,309	13,945
Deferred tax provisions	9	1,100	1,380
Other long-term provisions	18	1,551	1,410
Other long-term liabilities		111	80
		<b>30,861</b>	<b>38,846</b>
<b>Current liabilities</b>			
Trade payables	19	7,899	7,100
Short-term provisions	18	725	814
Other short-term financial liabilities	19	2,718	1,619
Other short-term liabilities	21	9,177	7,845
		<b>20,519</b>	<b>17,378</b>
<b>Total equity and liabilities</b>		<b>81,203</b>	<b>83,907</b>

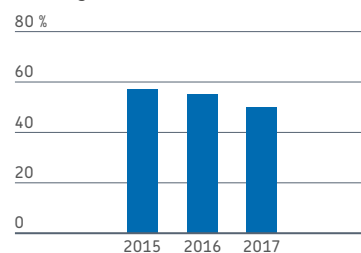
## Return on capital employed



## Equity/assets



## Gearing





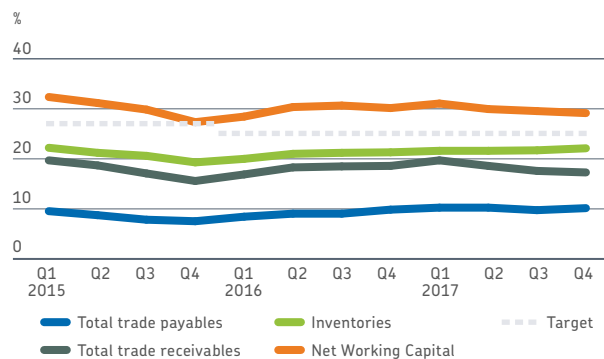
# Comments on the consolidated balance sheets

Amounts in parentheses refer to comparable figures for 2016.

## Net working capital

The 2017 target for net working capital as a percentage of sales was set at 25%. At 31 December 2017, it was 29.0% (29.9) consisting of the following components:

### Net working capital in % of annual sales



- Inventories amounted to SEK 17,122 m (15,418) being 21.9% (21.1) of annual sales. The inventories decreased by some SEK –612 m due to a stronger Swedish krona and increased due to volumes by SEK 2,316 m.
- Trade receivables amounted to SEK 13,416 m (13,462) which is 17.2% (18.5) of annual sales. The change in trade receivables was attributable to currencies with SEK –467 m, and to a volume increase of SEK 421 m. The average days of outstanding trade receivables were 65 days (65).
- Trade payables amounted to SEK 7,899 m (7,100) corresponding to 10.1% (9.8) of annual sales. The change attributable to currencies was SEK –111 m and the remaining SEK 910 m was due to volume increase.

## Plant and property

Plant and property amounted to SEK 15,762 m (15,746) at 31 December, 2017. This was as a percentage of annual sales 20.2% (21.6). The change attributable to currencies was SEK –289 m.

### Plant and property % of net sales



## Net debt

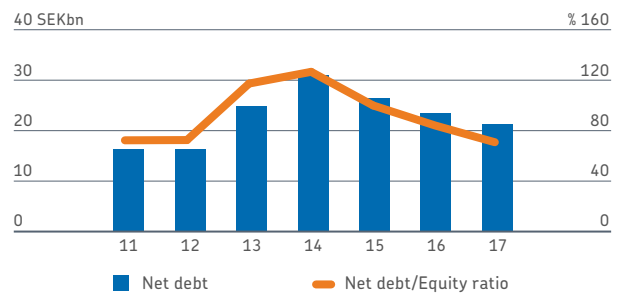
Net debt amounted to SEK 21,274 m (23,357) at the end of 2017, representing an improvement of SEK 2,083 m compared to previous year.

Post-employment benefit provisions totalled SEK 12,229 m (13,892) at year end, representing a net decrease of SEK 1,663 m (882), which was attributable to:

- Cash payments of SEK –1,801 m (–1,853), including a one-time contribution of SEK –724 m (858).
- Actuarial gains and losses of SEK –359 m (1,746).
- Expenses of SEK 606 m (355), which included a curtailment gain of SEK 163 m.
- The remainder was attributable to currency translation differences.

Loans totalled SEK 17,479 m (20,399), at the end of 2017, representing a decrease of SEK 2,920 m. The decrease was primarily attributable to net repayments of SEK 3,141 m and currency translation effects of SEK 182 m mainly related to EUR.

## Net debt/equity



## Equity

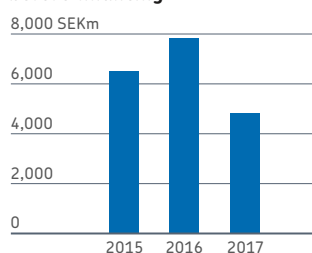
During the year, equity increased from SEK 27,683 m to SEK 29,823 m. Net profit amounted to SEK 5,760 m (4,209) and dividends paid were SEK 2,618 m (2,635). Currency translation had a negative effect of SEK –876 m (1,273). Remeasurments had a net of tax effect of SEK –118 m (1,323). Tax losses on remeasurments are related to Post-employment benefits and are affected by the US tax reform with SEK –401 m.

The capital structure target for the Group is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business. On 31 December, 2017, the gearing was 49.9% (55.3), the equity/assets ratio 36.7% (33.0) and the net debt/equity ratio 71.3% (84.4).

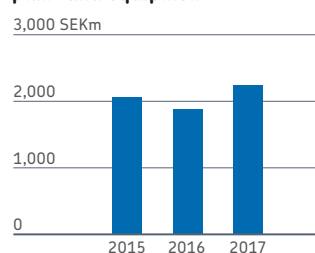
# Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2017	2016
<b>Operating activities</b>			
Operating profit		8,592	7,527
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	2,323	2,368
Net gain on sales of businesses, property, plant and equipment and shares		-46	-8
Other non-cash items		534	123
Income taxes paid		-2,353	-1,897
Contributions to and payments under post-employment defined benefit plans	17	-1,077	-995
<i>Changes in working capital</i>			
Inventories		-2,316	-306
Trade receivables		-421	-1,200
Trade payables		910	1,217
Other operating assets and liabilities, net		927	264
Interest and other financial items		-644	57
<b>Net cash flow from operating activities</b>		<b>6,429</b>	<b>7,150</b>
<b>Investing activities</b>			
Additions to intangible assets	10	-165	-340
Additions to property, plant and equipment	11	-2,243	-1,869
Sales of property, plant, equipment, and intangible assets	10, 11	136	75
Acquisitions of businesses, net of cash and cash equivalents	3	-27	-60
Divestments of businesses, net of cash and cash equivalents	4	892	3,146
Income taxes paid related to divestments		-267	-383
Investment in/sale of equity securities		-2	-2
<b>Net cash flow used in investing activities</b>		<b>-1,676</b>	<b>567</b>
<b>Net cash flow after investments before financing</b>		<b>4,753</b>	<b>7,717</b>
<b>Financing activities</b>			
Proceeds from medium- and long-term loans		1,124	96
Repayments of medium- and long-term loans		-4,265	-2,086
Other financing items		-780	16
Cash dividends to shareholders of AB SKF and non-controlling interests		-2,618	-2,635
Funding of post-employment benefits	17	-724	-858
Tax payment related to funding of post-employment benefits		277	332
Investments in financial assets		-1,369	-653
Sales of financial assets		913	570
<b>Net cash flow used in financing activities</b>		<b>-7,442</b>	<b>-5,218</b>
<b>Net cash flow</b>		<b>-2,689</b>	<b>2,499</b>
Cash and cash equivalents at 1 January		9,939	7,218
Translation effect		-138	222
<b>Cash and cash equivalents at 31 December</b>		<b>7,112</b>	<b>9,939</b>

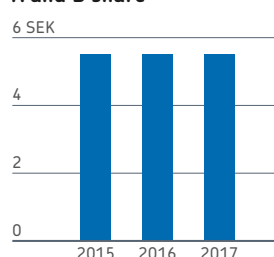
**Cash flow after investments, before financing**



**Additions to property, plant and equipment**



**Paid dividend per A and B share**



The Board of Directors' proposed distribution of surplus for the year 2017, which is subject to approval at the Annual General Meeting in March 2018, includes an ordinary dividend of SEK 5.50 per share, see Note 15.

# Comments on the consolidated statements of cash flow

Amounts in parentheses refer to comparable figures for 2016.

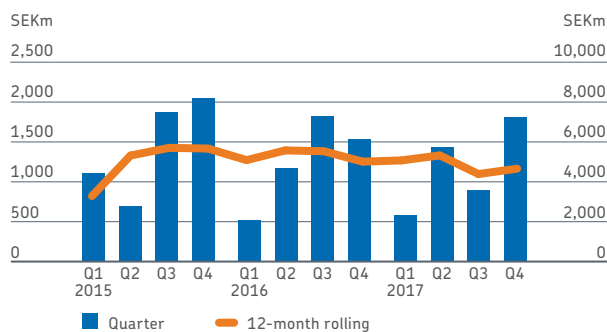
The consolidated statements of cash flow have been adjusted for exchange rate effects arising upon the translation of foreign subsidiaries' balance sheets to Swedish krona, as these do not represent cash flows.

Cash and cash equivalents comprise of cash on hand, bank deposits, debt securities and other liquid investments that have a maturity of three months or less at the time of the investment.

## Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measure used in the Group, reached SEK 4,753 m (7,717) in 2017. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to SEK 4,155 m (5,014).

## Cash flow after investments before financing excluding acquisitions/divestments



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 SEK 407 m (382), interest received of SEK 42 m (76), and the remainder related primarily to realised derivatives on commercial flows between Group companies.

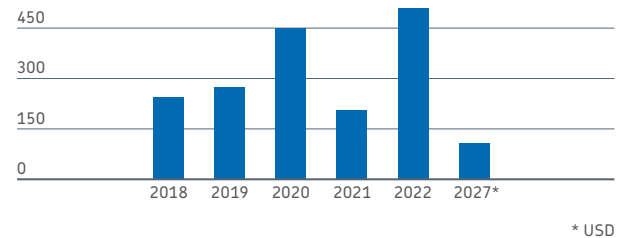
During the year the Group divested the Reelcraft business, which generated SEK 625 m, net of income tax, payments.

## Cash flow used in financing activities

The Group's debt structure improved in 2017 through the repayment of the EUR 300 m loan due in 2020.

## Current debt structure

600 EURm



Cash flow used in financing activities included a payment of SEK 447 m (526), net of taxes, related to a contribution to the defined benefit retirement plan in the US.

Other financing items amounted to SEK -780 m and included the effects of closing derivative contracts and interest costs related to the EUR 300 m loan repayment.

Change in net debt (SEKm)	2017 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2017 Opening balance
Loans <sup>1)</sup>	17,479	-3,141	4	35	182	20,399
Post-employment benefits, net <sup>2)</sup>	12,229	-1,801	—	207	-69	13,892
Other short-term financial assets <sup>3)</sup>	-1,322	-340	—	-5	18	-995
Cash and cash equivalents	-7,112	2,679	10	—	138	-9,939
<b>Net debt</b>	<b>21,274</b>	<b>-2,603</b>	<b>14</b>	<b>237</b>	<b>269</b>	<b>23,357</b>
Derivatives <sup>4)</sup> included in Other financing items	473	-545	—	-1,269	—	2,287

Change in net debt (SEKm)	2016 Closing balance	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2016 Opening balance
Loans <sup>1)</sup>	20,399	-1,990	—	158	882	21,349
Post-employment benefits, net <sup>2)</sup>	13,892	-1,853	-25	2,072	688	13,010
Other short-term financial assets <sup>3)</sup>	-995	-75	—	1	-49	-872
Cash and cash equivalents	-9,939	-2,579	80	—	-222	-7,218
<b>Net debt</b>	<b>23,357</b>	<b>-6,497</b>	<b>55</b>	<b>2,231</b>	<b>1,299</b>	<b>26,269</b>
Derivatives <sup>4)</sup> included in Other financing items	2,287	—	—	646	—	1,641

1) Excludes derivatives, see Note 19.

2) Cash changes are split SEK -1,077 m (-995) in operating activities and SEK -724 m (-858) in financing activities. Other non-cash changes includes remeasurements as well as expenses on defined benefit plans, see Note 17.

3) Other short-term financial assets excludes derivatives, see Note 13.

Cash change of SEK -340 m is explained by Investment in financial assets of SEK 1,138 m and sale of financial assets of SEK 798 m.

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

# Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF						Subtotal	Non-controlling interests	Total
	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings			
<b>Opening balance 1 January, 2016</b>	<b>1,138</b>	<b>564</b>	<b>512</b>	<b>-15</b>	<b>-256</b>	<b>22,872</b>	<b>24,815</b>	<b>1,467</b>	<b>26,282</b>
Net profit	—	—	—	—	—	3,985	3,985	224	4,209
<b>Components of other comprehensive income</b>									
Currency translation adjustments	—	—	—	—	1,189	—	1,189	84	1,273
Change in fair value of available-for-sale assets and cash flow hedges	—	—	-205	16	—	—	-189	—	-189
Release of available-for-sale assets and cash flow hedges	—	—	—	2	—	—	2	—	2
Remeasurements	—	—	—	—	—	-1,746	-1,746	—	-1,746
Income taxes	—	—	—	-4	54	422	472	1	473
<b>Transactions with shareholders</b>									
Non-controlling interest	—	—	—	—	—	-4	-4	4	—
Cost for Performance Share Programmes, net <sup>1)</sup>	—	—	—	—	—	14	14	—	14
Dividends	—	—	—	—	—	-2,504	-2,504	-131	-2,635
<b>Closing balance 31 December, 2016</b>	<b>1,138</b>	<b>564</b>	<b>307</b>	<b>-1</b>	<b>987</b>	<b>23,039</b>	<b>26,034</b>	<b>1,649</b>	<b>27,683</b>
Net profit	—	—	—	—	—	5,475	5,475	285	5,760
<b>Components of other comprehensive income</b>									
Currency translation adjustments	—	—	—	—	-809	—	-809	-67	-876
Change in fair value of available-for-sale assets and cash flow hedges	—	—	-101	—	—	—	-101	—	-101
Release of available-for-sale assets and cash flow hedges	—	—	—	—	—	—	—	—	—
Remeasurements	—	—	—	—	—	358	358	1	359
Income taxes	—	—	—	—	35	-512	-477	—	-477
<b>Transactions with shareholders</b>									
Non-controlling interest	—	—	—	—	—	-33	-33	33	—
Cost for Performance Share Programmes, net <sup>1)</sup>	—	—	—	—	—	93	93	—	93
Dividends	—	—	—	—	—	-2,504	-2,504	-114	-2,618
<b>Closing balance 31 December, 2017</b>	<b>1,138</b>	<b>564</b>	<b>206</b>	<b>-1</b>	<b>213</b>	<b>25,916</b>	<b>28,036</b>	<b>1,787</b>	<b>29,823</b>

1) See Note 23 for details.

## Available-for-sale reserve

The available-for-sale reserve accumulates changes in the fair value of available-for-sale assets, net of tax, with the exception of any dividends and any impairment losses, which are recognized directly in the income statement. See Note 13 for details on available-for-sale 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.

## Non-controlling interests

The category non-controlling interests accumulates the portion of a subsidiary's equity that is not attributable to the Group for subsidiaries where the Group owns less than 100%. The largest non-controlling interest is SEK 1,217 m (1,095) relating to SKF India Ltd, representing a 47.7% (46.4) shareholding. This represents 4.1% (4.0) of the Group's total equity and is not considered by management to be significant.

# Notes to the consolidated financial statements

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2016.

## 1 Accounting policies

### Basis of presentation

The consolidated financial statements of the SKF Group 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 2 March, 2018. 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 27 March, 2018.

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. which is a publicly listed company in India of which the Group has control via ownership of 52.3% of the voting rights. For the subsidiaries where less than 100% is owned, the non-controlling interests are shown separately within equity.

### Translation of foreign financial statements and items denominated in foreign currency

AB SKF's functional currency is the Swedish krona (SEK), which is also the Group's reporting currency.

All foreign subsidiaries report in their functional currency, being the currency of the primary economic environment in which the subsidiary operates. Upon consolidation, all balance sheet items are translated to the Swedish krona based on the year-end exchange rates. Income statement items are translated at average exchange rates. 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 in case of a disposal of the foreign operation.

Transactions in foreign currencies during the year have been translated at the exchange rate prevailing at the respective transaction date.

Assets and liabilities denominated in a foreign currency, primarily receivables and payables and loans, have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

### Exchange rates

The following exchange rates have been used when translating the financial statements of foreign subsidiaries operating in the countries shown below into SEK:

Country	Unit	Currency	Average rates		Year-end rates	
			2017	2016	2017	2016
Argentina	1	ARS	0.51	0.58	0.43	0.57
China	1	CNY	1.26	1.29	1.26	1.31
EMU countries	1	EUR	9.63	9.45	9.48	9.56
India	100	INR	13.11	12.73	12.88	13.39
Brazil	1	BRL	2.67	2.47	2.48	2.79
United Kingdom	1	GBP	11.03	11.58	11.11	11.17
USA	1	USD	8.54	8.56	8.22	9.09

### 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. Sales are recorded net of allowances for volume rebates and sales returns. Accruals for such allowances are recorded at the time of revenue recognition.

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognized when (1) there is no longer any continuing managerial involvement over the goods, (2) the revenue can be measured reliably, (3) the collection of the amounts due is reasonably assured (4) any costs in respect of the sale are identifiable and can be measured reliably.

Contracts and customer purchase orders are generally used to determine the existence of an arrangement. Shipping documents and customer acceptances are used, when applicable, to verify delivery. Collectability is assessed based primarily on the credit worthiness of the customer as determined by credit limit control and approval procedures, as well as the customer's payment history.

Revenues from service and/or maintenance contracts where the service is delivered to the customer over time are accounted for on a straight-line basis over the duration of the contract or under the percentage of completion method, which is based on the ratio of actual costs incurred to total estimated costs expected to be incurred.

Any anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

Cont. Note 1

**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 used in the recognition of internally developed software (Note 10)
- Estimates and key assumptions used in impairment testing of intangibles (Note 10)
- Significant assumptions used in the calculation of the post-employment benefit obligations (Note 17)
- Judgements used in the recognition and disclosure of provisions and contingent liabilities (Note 18)

**New accounting principles****New accounting principles 2017**

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.

**New accounting principles 2018**

IASB issued and endorsed several amended accounting standards effective starting 1 January, 2018. None of these are expected to have a material impact on the SKF Group's financial statements. IASB has also issued and endorsed two new accounting standards effective from 1 January, 2018; IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers".

**IFRS 9 "Financial Instruments"**

The standard includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

For SKF Group, the new accounting standard has a limited impact on the accounting for financial instruments. There is no effect regarding Classification and Measurement. For impairment, the impact from the expected loss model is immaterial. For hedge accounting, there is no effect. Since the effects are immaterial, there will be no transition impact to the opening balances for 2018.

**IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue consists of sales of products or services in the normal course of business. The vast majority of the Group's sales are product sales and are recognized at a point in time. Service and/or maintenance contracts where the service is delivered to the customer over time are accounted for on a straight-line basis over the duration of the contract or under the percentage of completion method. SKF is aligned with the revenue recognition method according to IFRS 15 when selling products or services. The new standard has a limited impact to the accounting of service contracts where the supply of products is linked to the fulfilment of the contract. The impact is seen in the timing of when revenues for these products are recognized and it also impacts the classification between services and products. There is no material impact of the new accounting standard in light of the limited magnitude of such contracts for the SKF Group. Since the effects are immaterial, there will be no transition impact to the opening balances for 2018.

**Other new accounting principles issued but not yet effective**

The following have been issued by the IASB and are effective for annual periods after 2018 as noted.

IFRS 16 "Leases" is effective as of 1 January 2019. For lessees, the standard eliminates the classification of leases as either operating or finance, as required by IAS 17, and instead introduces a single lease accounting model. Applying that model a lessee is required to recognize, (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liabilities in the income statement.

The implementation of the new standard will have a material impact on the financial statements for the Group. When implementing the new standard, the depreciation charge will be lower than the current leasing fee and will therefore have a positive effect on operating profit. Net financing costs will increase and include interest on lease liabilities. The total impact in the income statement will be higher in the beginning of the lease term when the lease liability is higher and decrease during the lease term when the liability is being amortized. Cash flow from operating activities will be higher when lease payments are reclassified to the section financing activities in the cash flow statement.

The assessment of the full impact of the new standard is ongoing. In note 20, the current leasing commitments are disclosed. SKF will implement the new standard from 1 January, 2019. The modified retrospective method will be used.

**Reclassifications made to previously published financial information**

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

**Reclassifications to the income statement**

Expenses totalling to SEK 198 m have in 2016 been reclassified from cost of goods sold and selling expenses to net sales to correspond with the classification of these expenses in 2017.

	As previously reported 2016	Restated 2016
Net sales	72,787	72,589
Cost of goods sold	-54,984	-54,832
Gross profit	17,803	17,757
Selling expenses	-9,831	-9,785
Administrative expenses	-437	-437
Other income and expenses, net	-8	-8
Operating profit	7,527	7,527

The consolidated balance sheets and statements of cash flow have not been impacted by the reclassification above.

## 2 Segment information

Each operating segment is defined as those business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. In the case of SKF, the CODM is defined as Group Management which make decisions about allocation of resources to the segments and also to assess their performance on a regular basis. The internal reporting package comprises two segments, Industrial and Automotive.

This segment information includes sales and operating profit related to all significant industrial and automotive customers. Sales and other transactions between segments are based on market conditions. Segment profit represents the business result generated by the capital employed of the segment and includes allocated corporate expenses and eliminations.

Segment assets include all operating assets used and controlled by a segment and consist principally of property plant and equipment, intangible assets, external trade receivables and inventories. Segment liabilities include all operating liabilities used and controlled by a segment and consist principally of external trade payables, other provisions as well as accruals. Reconciling items to the Group's reported assets and liabilities include consolidation eliminations, all tax-related balances as well as items of a financial, interest bearing nature, including post-employment benefit assets and provisions.

Asymmetrical allocations affecting the segments relate primarily to post-employment benefits where non-financial expenses are allocated to the segments although the related provision is not.

Additionally inter-segment receivables and payables relating to sales between segments, are not allocated to the segments as such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Industrial is structured according to a functional approach and is managed as one segment comprising six different functional organizations: Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Industrial Units, Bearing Operations, and Aerospace.

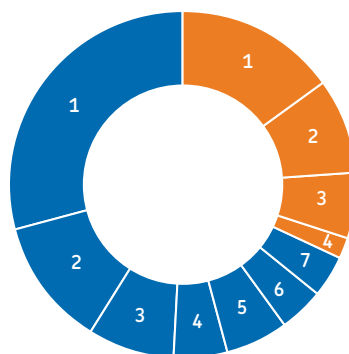
Industrial sells to customers in the global industrial market, directly and indirectly through SKF's worldwide distributor network. Key customers are companies within heavy industry (such as metals, mining, cement, pulp and paper, and off-highway), general industry (such as automation, machine tool and industrial drives), railway, marine and 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 the Administration report pages 56–59.

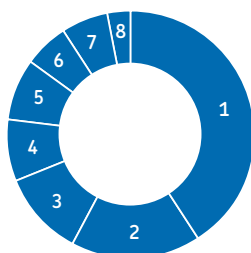
Previously published segment figures for 2016 have been restated to reflect a change in classification of smaller customers. Net sales moved between segments for 2016 amounted to SEK 44 m.

- 1 Industrial distribution, 29%  
Sales through industrial distributors.
- 2 Industry, general, 12%  
Automation, machine tools, industrial drives, medical and health care.
- 3 Industry, heavy and special, 8%  
Heavy industrial machinery: metals, mining and cement, pulp and paper. Special machinery: marine, food and beverage.
- 4 Aerospace, 5%  
Manufacturer of aircrafts and helicopters, aero-engine, gearboxes and other aircraft systems.
- 5 Energy, 6%  
Renewable and traditional energy.
- 6 Railway, 4%  
Passenger, locomotives and freight cars.
- 7 Off-highway, 4%  
Construction, agriculture and forestry machines and fork lift trucks.



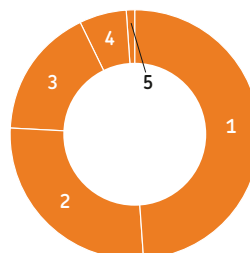
- 1 Cars and light trucks, 15%  
Cars and light truck manufacturers and their sub-suppliers.
- 2 Vehicle aftermarket, 9%  
Spare-part kits products for cars, trucks and two-wheelers.
- 3 Trucks, 6%  
Truck, trailer and bus manufacturers and their sub-suppliers.
- 4 Two-wheelers and Electrical, 2%  
Motorcycles, scooters, skates, home appliances, portable power tools and electric motors.

### Net sales by customer industry – Industrial



- 1 Industrial distribution, 41%
- 2 Industry, general, 17%
- 3 Industry, heavy and special, 11%
- 4 Aerospace, 8%
- 5 Energy, 8%
- 6 Off-highway, 6%
- 7 Railway, 6%
- 8 Other, 3%

### Net sales by customer industry – Automotive



- 1 Cars and light trucks, 49%
- 2 Vehicle aftermarket, 27%
- 3 Trucks, 17%
- 4 Two-wheelers and Electrical, 6%
- 5 Other, 1%

Cont. Note 2

SEKm	Net sales		Sales including intra-Group sales		Contribution to profit before tax	
	2017	2016	2017	2016	2017	2016
Industrial	53,972	50,588	60,788	57,053	7,271	6,108
Automotive	23,966	22,001	25,401	23,423	1,321	1,419
<b>Subtotal operating segments</b>	<b>77,938</b>	<b>72,589</b>	<b>86,189</b>	<b>80,476</b>	<b>8,592</b>	<b>7,527</b>
Other units	—	—	—	38	—	—
Eliminations of intra Group sales	—	—	-8,251	-7,925	—	—
Financial net	—	—	—	—	-934	-788
<b>Total</b>	<b>77,938</b>	<b>72,589</b>	<b>77,938</b>	<b>72,589</b>	<b>7,658</b>	<b>6,739</b>

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2017	2016	2017	2016	2017	2016
Industrial	1,829	1,851	59	50	1,251	1,229
Automotive	431	450	4	17	594	520
Eliminations and unallocated items	—	—	—	—	563	460
<b>Total</b>	<b>2,260</b>	<b>2,301</b>	<b>63</b>	<b>67</b>	<b>2,408</b>	<b>2,209</b>

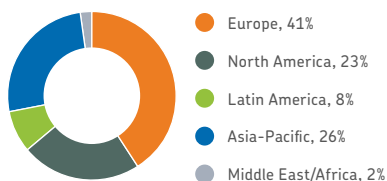
SEKm	Assets		Liabilities	
	2017	2016	2017	2016
Industrial	47,423	48,727	9,764	9,370
Automotive	14,470	14,055	5,206	4,714
<b>Subtotal operating segments</b>	<b>61,893</b>	<b>62,782</b>	<b>14,970</b>	<b>14,084</b>
Financial and tax items	14,415	16,805	31,784	36,335
Eliminations and other unallocated items	4,895	4,320	4,626	5,805
<b>Total</b>	<b>81,203</b>	<b>83,907</b>	<b>51,380</b>	<b>56,224</b>

Geographic disclosure SEKm	Net sales by customer location		Non-current assets	
	2017	2016	2017	2016
Sweden	2,011	1,784	4,020	3,776
Europe excl. Sweden	29,359	27,533	11,577	11,093
North America (incl. Mexico)	18,544	18,202	12,082	15,273
Asia-Pacific	21,249	19,031	4,858	5,165
Middle East/Africa	2,070	1,931	84	86
Latin America	4,705	4,108	1,423	710
Eliminations	—	—	-562	-499
<b>Total</b>	<b>77,938</b>	<b>72,589</b>	<b>33,482</b>	<b>35,604</b>

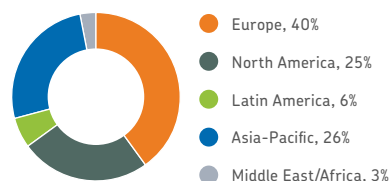
Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (21) were located in the USA, 15% (14) in China, and 12% (12) in Germany. Non-current assets exclude financial assets, deferred tax

assets and post-employment benefit assets. Non-current assets are allocated according to the location of the subsidiaries. Of the Group's total non-current assets as defined above, 36% (40) were located in the USA, 16% (15) in Germany, and 10% (10) in China.

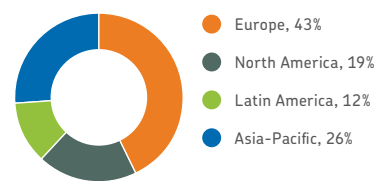
Net sales by geographic area



Net sales by geographic area – Industrial



Net sales by geographic area – Automotive





### 3 Acquisitions

#### Accounting policy

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, when control is obtained, the acquired assets, assumed 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.

SEKm	2017	2016
<b>Total fair value of net assets acquired</b>		
Property, plant and equipment	12	1
Current assets	4	26
Non-current liabilities	-4	—
Current liabilities	-2	-19
<b>Fair value net assets acquired</b>	<b>10</b>	<b>8</b>
Goodwill	17	56
<b>Total acquisition cost</b>	<b>27</b>	<b>64</b>
Cash and cash equivalents acquired	—	-4
<b>Cash outflow</b>	<b>27</b>	<b>60</b>

In 2017, SKF had a total net cash outflow of SEK 27 m for the acquisition of a component business in Sweden.

In 2016, SKF had total net cash outflows of SEK 60 m for the acquisition of a lubrication business in Sweden.

### 4 Divestment of businesses

SEKm	2017	2016
Goodwill	518	1,791
Other intangible assets	276	1,319
Property, plant and equipment	40	212
Current assets	164	590
Deferred tax provisions	-61	-518
Non current liabilities	-4	-2
Current liabilities	-55	-192
<b>Net assets disposed of</b>	<b>878</b>	<b>3,200</b>
Profit	24	15
<b>Total consideration</b>	<b>902</b>	<b>3,215</b>
Cash and cash equivalents divested	-10	-84
Cash inflow for divestments in previous years	—	15
<b>Total cash inflow</b>	<b>892</b>	<b>3,146</b>

During 2017, the Group divested businesses for a total cash flow of SEK 892 m resulting in a net gain of SEK 24 m.

In June 2017, SKF completed the divestments of the Reelcraft business to Madison Industrial Solutions corporation. The total consideration of the divestment was around USD 107 m on a cash-free and debt-free basis.

During 2016, the Group divested businesses for a total cash flow of SEK 3,146 m resulting in a profit of SEK 15 m.

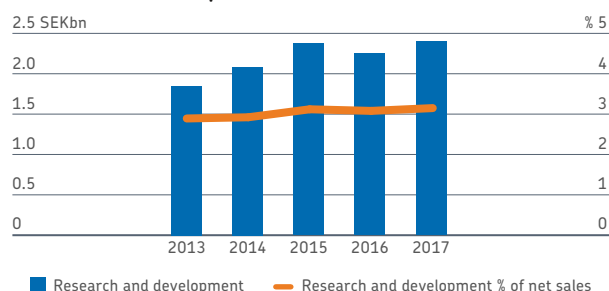
In June 2016, SKF completed the divestments of the Fly-by-wire business to LORD corporation. The total consideration of the divestment was around EUR 40 m on a cash-free and debt-free basis.

Also divested in June 2016 was Kaydon Velocity Control business to Stabilus. The total consideration of the deal was approximately USD 340 m on a cash-free and debt-free basis.

## 5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled SEK 2,395 m (2,246), corresponding to 3.1% (3.1) of annual sales.

### Research and development % of net sales



## 6 Expenses by nature

SEKm	2017	2016
Employee benefit expenses including social charges	23,540	22,770
Raw material and components consumed, including traded products	24,756	22,964
Change in work in process and finished goods	1,513	1,275
Depreciation, amortization and impairments	2,323	2,368
Other expenses, primarily purchased services, shop supplies and utilities	17,193	15,875
<b>Total operating expenses</b>	<b>69,325</b>	<b>65,252</b>

Depreciation, amortization and impairments were accounted for as (SEKm)	2017				2016			
	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,690	96	36	1,822	1,711	101	19	1,831
Selling expenses	98	376	27	501	102	387	48	537
<b>Total</b>	<b>1,788</b>	<b>472</b>	<b>63</b>	<b>2,323</b>	<b>1,813</b>	<b>488</b>	<b>67</b>	<b>2,368</b>

## 7 Other operating income and expenses

SEKm	2017	2016
<b>Other operating income</b>		
Exchange gains on trade receivables/payables	460	303
Profit from sale of property, plant and equipment	14	34
Profit from associated companies	9	8
Profit from divestment of businesses	24	174
Other	75	123
<b>Total</b>	<b>582</b>	<b>642</b>
<b>Other operating expenses</b>		
Exchange losses on trade receivables/payables	-537	-365
Loss from sale of property, plant and equipment	-21	-23
Loss on divestment of businesses	—	-159
Other	-45	-103
<b>Total</b>	<b>-603</b>	<b>-650</b>
<b>Other operating income and expenses, net</b>	<b>-21</b>	<b>-8</b>

## 8 Financial income and financial expenses

SEKm	2017	2016
Interest income	109	107
Interest expense	-677	-436
Net gains/losses:		
Net interest cost on post-employment benefits	-316	-355
Exchange differences, net	35	-38
Other financial income including dividends	67	56
Other financial expense	-152	-122
<b>Financial net</b>	<b>-934</b>	<b>-788</b>

Interest expense amounted to SEK -677 m (-436), and included SEK -250 m related to the debt repurchase of EUR 300 m, while the effect from the related derivative was SEK 160 m. Total net expense for the debt repurchase amounted to SEK -90 m. Other financial expense included costs related to unwinding the discount on provisions, bank charges and other transaction-related costs.

The below table specifies which category of financial instrument that gave rise to the financial income and expense as described above. For a specification of the underlying financial assets and financial liabilities to these categories see Note 13 and Note 19.

Financial net specified by category of financial instruments (SEKm)	2017			2016		
	Interest income	Interest expense	Net gains/ losses	Interest income	Interest expense	Net gains/ losses
Financial assets/liabilities at fair value through profit or loss						
Designated upon initial recognition	-8	—	—	-16	—	—
Derivatives held for trading	1	-31	1 731	—	21	-76
Derivatives held for hedge accounting	—	—	1	—	—	2
Financial assets classified as loans and receivables	116	—	-1 171	123	—	1,043
Financial assets classified as available-for-sale	—	—	2	—	—	—
Other financial liabilities, primarily loans	—	-646	-461	—	-457	-952
Other liabilities including post-employment benefits	—	—	-468	—	—	-476
<b>Total</b>	<b>109</b>	<b>-677</b>	<b>-366</b>	<b>107</b>	<b>-436</b>	<b>-459</b>

Derivatives classified as held for trading are mainly used for economic hedging. 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

Income tax include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding 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 compute current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable. Provisions have been made in the financial statements for estimated taxes on earnings of subsidiaries

expected to be remitted in the following year, but not for taxes, which may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries as they can be distributed free of tax or as the Group does not intend to internally distribute them in the foreseeable future.

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 repaid. 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.

Cont. Note 9

**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. 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.

Tax expense (SEKm)	2017			2016		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,405	—	-2,405	-2,198	—	-2,198
Deferred taxes	507	-477	30	-332	473	141
<b>Total</b>	<b>-1,898</b>	<b>-477</b>	<b>-2,375</b>	<b>-2,530</b>	<b>473</b>	<b>-2,057</b>

Taxes charged to other comprehensive income included SEK -512 m (423) related to remeasurements of post employment benefits, SEK 0 m (-4) related to cash flow hedges and SEK 35 m (54) related

to net investment hedges. Of the amount related to remeasurements of post employment benefits, SEK -401 m are related to the US tax reform.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2017	2016
Tax calculated using statutory tax rate in Sweden	-1,685	-1,483
Difference between statutory tax rate in Sweden and foreign subsidiaries	-346	-520
Other taxes	-102	-106
Tax credits and similar items	177	97
Non-deductible/non-taxable profit items	-495	-419
Change in tax rate	771	—
Tax loss carry-forwards	-111	-105
Current tax referring to previous years	-119	-17
Other	12	23
<b>Actual tax</b>	<b>-1,898</b>	<b>-2,530</b>

The corporate statutory income tax rate in Sweden was 22% (22.0). The actual tax rate on profit before taxes was 24,8% (37.5).

Taxes were positively impacted by the US tax reform by SEK 771 m and negatively by divestments of businesses by SEK -267 m (-383). Excluding this, the effective tax rate for the year was 31.2% (31.8).

The tax loss carry-forwards included losses created during the year not recognized as tax assets.

Gross deferred taxes per type (SEKm)	2017		2016	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	-104	1,314	-130	2,347
Property, plant and equipment	-18	831	-31	999
Inventories	-479	377	-469	455
Trade receivables	-66	6	-77	5
Provisions for post-employment benefits	-2,428	44	-3,240	36
Other accruals and liabilities	-633	20	-770	16
Tax loss carry-forwards	-1,123	—	-1,264	—
Tax credit carry-forwards	-309	—	-305	—
Other	-47	82	-114	116
<b>Gross deferred taxes</b>	<b>-5,207</b>	<b>2,674</b>	<b>-6,400</b>	<b>3,974</b>
Net deferred taxes presented in the Consolidated balance sheet	-3,633	1,100	-3,806	1,380

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 SEK 326 m (421), whereof SEK 200 m (264) related to tax loss carry-forwards and SEK 126 m (157) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of SEK 46 m (43) related to tax losses and will expire during the period 2018 to 2022. The remaining unrecognized assets will expire after 2022 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 80 m (335) relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that increased deferred tax expense was SEK 13 m (91) which resulted from a revised judgement on the realizability of certain tax assets in future years.

#### Gross value of tax loss carry-forwards

At 31 December, 2017, the Group had tax loss carry-forwards amounting to SEK 5,846 m (6,750), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2018	37
2019	31
2020	108
2021	81
2022	52
2023 and thereafter	636
Never	4,901

## 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 ERP system (Unite) follows another amortization pattern, as described below under Internally developed intangibles. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset.

The useful lives are:

- Patents and similar rights up to 11 years;
- Software in use 4–12 years;
- Customer relationships 10–15 years;
- Product development expenditures 3–7 years;
- Technology acquired in business combinations 15–18 years;
- Other intangibles 3–5 years;
- Strategic tradenames indefinite
- Goodwill indefinite

Amortization and impairments are included in cost of goods sold, selling expenses or administrative expenses depending on where the assets have been used.

### Internally developed intangibles

The Group's most significant internally developed intangibles are software in use, developed for internal purposes and to a minor extent product development. The amortization plan for Unite is a straight line method following the implementation plan during the useful life period of twelve years. This amortization plan reflects when the assets will be ready for its intended use in each of the SKF legal units. For 2018 and 2019, the yearly amortization will be around 3% of the amount capitalized for Unite at the end of 2017. Capitalized costs during 2017 start being amortized during 2018 and the original useful life for the asset remains, which expects to end in 2028.

### Intangible assets with definite useful lives

Intangible assets with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The determination is usually performed at the cash generating unit (CGU) level but could also be at the individual asset level.

Factors that are considered important are:

- Underperformance relative to historical and forecasted operating results;
- Significant negative industry or economic trends;
- Significant changes relative to the asset including plans to discontinue or restructure the operation to which the asset belongs.

## Cont. Note 10

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 analysed 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, with the exception of some CGUs mentioned in Other CGUs below.

**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 cost of goods sold in the income statement when incurred.

When there is an indication that the carrying value may not be recoverable, the carrying amount of the asset is compared against its recoverable amount. The recoverable amount is the greater of the estimated fair value less costs to sell and value in use. In assessing value in use, a discounted cash flow model (DCF) is used. This assessment contains a key source of estimation uncertainty because the estimates and assumptions used in the DCF model encompass uncertainty about future events and market conditions. The actual outcomes may be significantly different. However, estimates and assumptions are reviewed by management and are consistent with internal forecasts and the business outlook.

The DCF model involves the forecasting of future operating cash flows over a five years period and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the revenue growth rates and the discount rate. These forecasts of future operating cash flows are built up from business strategic plans representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information. Estimates are extrapolated using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors. A terminal value is then calculated based on the Gordon Growth model, which includes a terminal growth factor representing an outlook not exceeding the market growth for the industry.

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, taking into account 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.

SEKm	2017 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2017 Opening balance
Acquisition cost								
Goodwill	11,248	—	-501	-11	—	—	-710	12,470
Patents, tradenames and similar rights	2,667	—	-139	—	—	—	-225	3,031
Internally developed software	2,290	128	—	-160	—	8	-3	2,317
Customer relationships	4,421	—	-245	—	—	—	-298	4,964
Leaseholds	264	29	—	—	—	10	-10	235
Product development	299	8	—	—	—	—	-1	292
Technology	1,150	—	—	—	—	—	23	1,127
Other intangible assets	115	—	—	-16	—	11	-91	211
<b>Total</b>	<b>22,454</b>	<b>165</b>	<b>-885</b>	<b>-187</b>	<b>—</b>	<b>29</b>	<b>-1,315</b>	<b>24,647</b>

SEKm	2017 Closing balance	Amortiza- tions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2017 Opening balance
Accumulated amortization and impairments								
Goodwill	1,253	—	—	-11	15	—	-84	1,333
Patents, tradenames and similar rights	415	22	-2	—	—	—	6	389
Internally developed software	632	55	—	-160	—	-13	-1	751
Customer relationships	2,076	289	-106	—	—	—	-108	2,001
Leaseholds	89	9	—	—	—	14	-6	72
Product development	170	13	—	—	—	—	1	156
Technology	381	81	—	—	—	7	-9	302
Other intangible assets	78	3	—	-4	—	19	-15	75
<b>Total</b>	<b>5,094</b>	<b>472</b>	<b>-108</b>	<b>-175</b>	<b>15</b>	<b>27</b>	<b>-216</b>	<b>5,079</b>
<b>Net book value</b>	<b>17,360</b>							<b>19,568</b>

SEKm	2016 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2016 Opening balance
Acquisition cost								
Goodwill	12,470	—	-1,735	—	—	—	858	13,347
Patents, tradenames and similar rights	3,031	—	-274	—	—	—	226	3,079
Internally developed software	2,317	327	2	—	—	—	7	1,981
Customer relationships	4,964	—	-836	—	—	—	363	5,437
Leaseholds	235	—	-3	—	—	-1	4	235
Product development	292	13	-147	—	—	—	17	409
Technology	1,127	—	-353	—	—	—	—	1,480
Other intangible assets	211	—	-40	-5	—	15	96	145
<b>Total</b>	<b>24,647</b>	<b>340</b>	<b>-3,386</b>	<b>-5</b>	<b>—</b>	<b>14</b>	<b>1,571</b>	<b>26,113</b>

SEKm	2016 Closing balance	Amortiza- tions	Businesses sold	Disposals	Impairments	Other	Translation effects	2016 Opening balance
Accumulated amortization and impairments								
Goodwill	1,333	—	—	—	—	—	64	1,269
Patents, tradenames and similar rights	389	22	—	—	—	—	15	352
Internally developed software	751	7	—	—	30	—	6	708
Customer relationships	2,001	328	-151	—	—	—	131	1,693
Leaseholds	72	10	—	—	16	—	2	44
Product development	156	30	-21	—	—	—	6	141
Technology	302	91	-80	—	—	-3	—	294
Other intangible assets	75	—	-80	-2	—	4	26	127
<b>Total</b>	<b>5,079</b>	<b>488</b>	<b>-332</b>	<b>-2</b>	<b>46</b>	<b>1</b>	<b>250</b>	<b>4,628</b>
<b>Net book value</b>	<b>19,568</b>							<b>21,485</b>

Cont. Note 10

**Impairment losses**

Impairments amounted to SEK –15 m in 2017, where the majority relates to a smaller heat transfer coil and tube machinery business in the US.

In 2016, impairments amounted to SEK –46 m, of which SEK –16 m related to leaseholds and the remaining SEK –30 m related to internally developed software which is described below under Significant intangibles.

**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 SEK 1,085 m (1,345), Kaydon Friction SEK 635 m (702), Peer SEK 205 m (227), GBC SEK 187 m (207) and others SEK 98 m (105).

**Significant intangibles**

Internally generated software related primarily to the development of Unite to create and deploy improved processes and solutions across the Group. The balance of capitalized expenditures in 2017 was SEK 1,649 m (1,572), including amortizations of SEK –47 m (0). Remaining useful life is eleven years. No impairments has been made during 2017. In 2016, an impairment of SEK –30 m was made due to changes of on premise licenses for a cloud solution.

Other individual intangible assets that are material for the Group include the customer relationship intangibles for Lincoln amounting to SEK 982 m (1,333) having a remaining useful life of eight years, and for Kaydon amounting to SEK 959 m (1,159) having a remaining useful life of eleven years.

**CGUs with significant intangibles**

The CGUs follow the segment reporting with the exception of some minor businesses in Industrial that are tested as separate CGUs, see below Other CGUs.

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.

	2017		2016	
	Industrial	Automotive	Industrial	Automotive
Goodwill, SEKm	7,909	449	8,954	483
Tradenames, SEKm	1,840	189	2,178	210
Average revenue growth rate	4.9%	3.5%	3.5%	3.0%
Discount rate, pre tax	11.0%	9.3%	11.8%	10.9%
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 analyses were performed to evaluate if any reasonable possible adverse changes in assumptions would lead to impairment. The analyses focused around decreasing the revenue growth rates, and increasing the discount rate by two percentage points, each taken individually and while holding all other assumptions constant. No impairment needs were indicated.

**Other CGUs**

The Group has three other CGUs, which contain individually identified goodwill and intangibles with indefinite useful lives. These CGUs have value in use calculations using the same common DCF methodology as described in the accounting policy, with estimates and assumptions determined on an individual CGU basis. No impairment needs were identified.



## 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 PPE are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review.

The useful lives are:

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

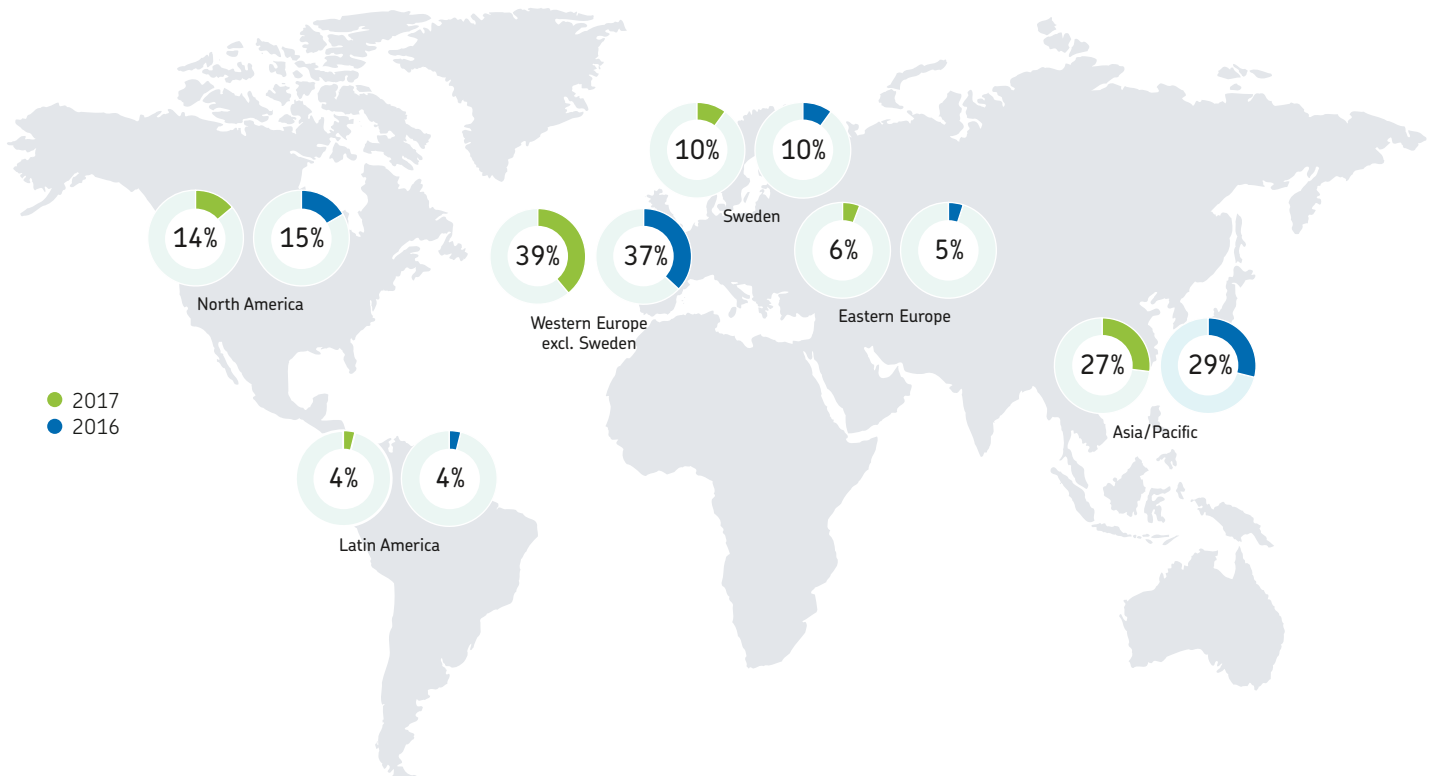
Depreciation and impairments are included in cost of goods sold, selling expenses or administrative expenses depending on where the assets have been used.

### Accounting estimates and judgments

The useful lives are based upon estimates of the periods during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological development.

PPE is tested for impairment whenever events or changes in circumstances indicates that the carrying value may not be recoverable.

### Geographical distribution of property, plant and equipment 2016–2017



## Cont. Note 11

SEKm	2017 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2017 Opening balance
Acquisition cost								
Buildings	8,156	79	-23	-45	—	129	-68	8,084
Land and land improvements	781	12	-5	-20	—	-4	1	797
Machinery and supply systems	29,587	725	-16	-126	—	91	-226	29,139
Machine toolings and factory fittings	3,942	221	-7	-62	—	-114	-56	3,960
Assets under construction including advances <sup>2)</sup>	2,213	1,206	-2	-2	—	-735	-44	1,790
<b>Total</b>	<b>44,679</b>	<b>2,243</b>	<b>-53</b>	<b>-255</b>	<b>—</b>	<b>-633</b>	<b>-393</b>	<b>43,770</b>

SEKm	2017 Closing balance	Deprecia- tion	Businesses sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2017 Opening balance
Accumulated depreciation and impairments								
Buildings	4,057	242	-5	-16	29	-47	9	3,845
Land improvements	225	47	—	-12	1	-5	3	191
Machinery and supply systems	21,332	1,299	-14	-111	18	-386	-78	20,604
Machine toolings and factory fittings	3,303	200	-6	-49	—	-188	-38	3,384
<b>Total</b>	<b>28,917</b>	<b>1,788</b>	<b>-25</b>	<b>-188</b>	<b>48</b>	<b>-626</b>	<b>-104</b>	<b>28,024</b>

**Net book value** **15,762** **15,746**

SEKm	2016 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2016 Opening balance
Acquisition cost								
Buildings	8,084	115	-95	-79	—	216	342	7,585
Land and land improvements	797	5	-28	-13	—	-81	47	867
Machinery and supply systems	29,139	566	-119	-250	—	614	1,128	27,200
Machine toolings and factory fittings	3,960	138	-1	-120	—	30	191	3,722
Assets under construction including advances	1,790	1,045	-6	—	—	-1,101	88	1,764
<b>Total</b>	<b>43,770</b>	<b>1,869</b>	<b>-249</b>	<b>-462</b>	<b>—</b>	<b>-322</b>	<b>1 796</b>	<b>41,138</b>

SEKm	2016 Closing balance	Deprecia- tion	Businesses sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2016 Opening balance
Accumulated depreciation and impairments								
Buildings	3,845	228	-2	-54	4	-18	160	3,527
Land improvements	191	57	—	-2	1	-72	10	197
Machinery and supply systems	20,604	1,326	-39	-233	4	-166	759	18,953
Machine toolings and factory fittings	3,384	202	3	-101	12	-60	170	3,158
<b>Total</b>	<b>28,024</b>	<b>1,813</b>	<b>-38</b>	<b>-390</b>	<b>21</b>	<b>-316</b>	<b>1,099</b>	<b>25,835</b>

**Net book value** **15,746** **15,303**

1) Includes primarily reclassification between categories.

2) Contractual commitments for acquisition of PPE not yet booked amounted to SEK 663 m (275).

## 12 Inventories

### Accounting policy

Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realizable 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 realizable value. Net realizable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realizable 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 realizable 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.

SEKm	2017	2016
Finished goods	9,741	9,036
Raw materials and supplies	5,775	4,883
Work in process	1,606	1,499
<b>Total</b>	<b>17,122</b>	<b>15,418</b>

Inventory values are stated net of a provision for net realizable value of SEK 1,438 m (1,566). The amount charged to expense for net realizable provisions during the year was SEK 54 m (204). Reversals of net realizable provisions during the year were SEK 19 m (14).

## 13 Financial assets

### Accounting policy

Financial assets are recognized in the balance sheets when the Group becomes a party to the contractual provisions of a financial instrument. Financial instruments are initially recorded at fair value, which is normally equal to cost. Transaction costs are included in the initial measurement of financial assets that are not subsequently measured at fair value through the income statement. Settlement day recognition is applied for regular way purchases and sales of financial assets.

Financial assets categorized as loans and receivables are measured at amortized cost using the effective interest method. Impairment losses (primarily allowance for doubtful accounts) are recognized if management believes that sufficient objective evidence exists indicating that the asset may not be recovered. For disclosure purposes, 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.

Debt securities and equity securities categorized as available-for-sale are valued at fair value based on the current bid price for the securities. Equity securities without a quoted price are held at cost because their fair value cannot be measured reliably.

Financial instruments are designated at fair value through profit or loss when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as held for trading unless they are subject to hedge accounting.

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, customer creditworthiness and changes in customer payment terms.

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.

Cont. Note 13

**Financial assets per category 2017**

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Trade receivables	13,416	—	—	—	—	13,416	13,416
Cash and cash equivalents	1,635	—	5,477	—	—	7,112	7,112
Equity securities	—	397	—	—	—	397	—
Marketable securities	—	—	—	664	—	664	—
Deposits	807	—	—	—	—	807	807
Derivatives	—	—	—	178	7	185	185
Loans and receivables	420	—	—	—	—	420	315
Debt securities	—	21	200	—	—	221	200
<b>Carrying amount</b>	<b>16,278</b>	<b>418</b>	<b>5,677</b>	<b>842</b>	<b>7</b>	<b>23,222</b>	<b>22,035</b>
<b>Fair value</b>	<b>16,278</b>	<b>418</b>	<b>5,677</b>	<b>842</b>	<b>7</b>		

**Financial assets per category 2016**

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Trade receivables	13,462	—	—	—	—	13,462	13,462
Cash and cash equivalents	3,108	—	6,831	—	—	9,939	9,939
Equity securities	—	498	—	—	—	498	—
Marketable securities	—	—	—	670	—	670	—
Deposits	824	—	—	—	—	824	824
Derivatives	—	—	—	187	13	200	151
Loans and receivables	111	—	—	—	—	111	4
Debt securities	—	21	168	—	—	189	168
<b>Carrying amount</b>	<b>17,505</b>	<b>519</b>	<b>6,999</b>	<b>857</b>	<b>13</b>	<b>25,893</b>	<b>24,548</b>
<b>Fair value</b>	<b>17,505</b>	<b>519</b>	<b>6,999</b>	<b>857</b>	<b>13</b>		

Financial assets categorized as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This includes trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Debt securities and strategic investments in equity securities are categorized as available-for-sale. The exception is debt securities

held by SKF Treasury Centre which are categorized as fair value through profit or loss at initial recognition.

Financial instruments are designated at fair value through profit or loss when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as held for trading unless they are subject to hedge accounting.

Fair value hierarchy for financial assets at fair value (SEKm)	Level 1	Level 2	Level 3	2017	Level 1	Level 2	Level 3	2016
Available-for-sale								
Equity securities	355	—	—	355	459	—	—	459
Debt securities	21	—	—	21	21	—	—	21
Fair value through profit or loss								
Trading securities	792	—	72	864	760	—	78	838
Cash and cash equivalents	5,477	—	—	5,477	6,831	—	—	6,831
Trading derivatives	—	178	—	178	—	187	—	187
Derivatives used for hedge accounting	—	7	—	7	—	13	—	13
<b>Total</b>	<b>6,645</b>	<b>185</b>	<b>72</b>	<b>6,902</b>	<b>8,071</b>	<b>200</b>	<b>78</b>	<b>8,349</b>

Financial assets recorded at fair value, which includes the columns Available-for-sale, Fair value through profit or loss, and Derivatives for hedge accounting are disclosed above according to the hierarchy that shows the significance of the inputs used in the fair value measurements as defined in IFRS 13. Level 1 includes financial assets with a quoted price in an active market. Level 2 includes

financial assets with inputs based on observable data other than quoted prices in an active market. Level 3 includes inputs that are not based on observable market data.

Amounts for equity securities include SEK 42 m (39) valued at cost and consequently this is not included in the specification above.

Trade receivables by due date (SEKm)	Carrying amount	Not yet due	Past due, net of allowance			
			1–30 days	31–60 days	61–90 days	> 91 days
<b>2017</b>	13,416	11,444	1,392	254	106	220
2016	13,462	11,367	1,294	327	154	320

The average days outstanding of trade receivables in 2017 were 65 days (65). Trade receivables as a percentage of annual net sales totaled 17,2% (18.5). Trade receivables included receivables sold with recourse amounting to SEK 71 m (194). 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 (SEKm)	2017	2016
<b>Opening balance 1 January</b>	<b>395</b>	<b>376</b>
Additions	74	67
Reversals	–34	–21
<b>Changes through the income statement</b>	<b>40</b>	<b>46</b>
Allowances used to cover write-offs	–34	–44
Acquired/ divested companies	0	–3
Currency translation adjustments	–4	20
<b>Closing balance 31 December</b>	<b>397</b>	<b>395</b>

## 14 Other short-term assets

SEKm	2017	2016
Value added taxes receivables, net	1,051	934
Income tax receivables	977	569
Prepaid expenses	477	500
Accrued income	153	184
Advances to suppliers	91	103
Other current receivables	915	843
<b>Total</b>	<b>3,664</b>	<b>3,133</b>

## 15 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total	
Opening balance 1 January, 2016	36,298,533	419,052,535	455,351,068	1,138
Conversion of A shares to B shares	—	—	—	—
<b>Closing balance 31 December, 2016</b>	<b>36,298,533</b>	<b>419,052,535</b>	<b>455,351,068</b>	<b>1,138</b>
Conversion of A shares to B shares	-1,242,730	1,242,730	—	—
<b>Closing balance 31 December, 2017</b>	<b>35,055,803</b>	<b>420,295,265</b>	<b>455,351,068</b>	<b>1,138</b>

An A share has one vote and a B share has one-tenth of one 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, 191,880,944 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 SEK 16,884 m (16,115), see page 109. The Board has decided to propose to the Annual General Meeting, on 27 March, 2018, a dividend of SEK 5.50 (5.50) per share to be paid to the shareholders. The proposed dividend for 2017 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 29 March 2018. The total proposed dividend to be paid is SEK 2,504 m (2,504). 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 5 April 2017, a dividend of SEK 5.50 (5.50) per share was paid to the shareholders.

## 16 Earnings per share

	2017	2016
Net profit attributable to owners of AB SKF (SEKm)	5,475	3,985
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
<b>Basic earnings per share (SEK)</b>	<b>12.02</b>	<b>8.75</b>
Dilutive shares from Performance Share Programmes	254,214	197,634
Weighted average diluted number of shares	455,605,282	455,548,702
<b>Diluted earnings per share (SEK)</b>	<b>12.02</b>	<b>8.75</b>

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.

To fulfill AB SKF's obligations under the 2015 Performance Share Programme settled in 2018, SKF International AB (SKF Treasury Centre) entered into an equity swap agreement with a financial institution. The agreement includes the possibility to get delivery of SKF shares from the financial institution to the participants of the programmes.

## 17 Provisions for post-employment benefits

### Accounting policy

The post-employment provisions and assets arise from defined benefit obligations in plans which are either unfunded or funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation. For funded defined benefit plans, the assets of the plans are held in trusts legally separate from the Group. The related balance sheet provision or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation. However, an asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of reductions in future contributions or refunds from the plan. When such excess is not available it is not recognized, but it is disclosed in the note as an asset ceiling adjustment.

The projected unit credit method is used to determine the present value of all defined benefit obligations and the related current service cost. Valuations are carried out quarterly for the most significant plans and annually for other plans. External actuarial experts are used for these valuations and estimating the obligations and costs involves the use of assumptions. Remeasurements arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized immediately in other comprehensive income and are never reclassified to the income statement.

For all defined benefit plans the cost charged to the income statement consists of current service cost, net interest cost and when applicable past service cost, curtailments and settlements. Any past service cost is recognized immediately. Net interest cost is classified as financial expense while all other expenses are allocated to the operations based on the employee's function as manufacturing, selling or administrative.

The defined benefit accounting described above is applied only in the consolidated accounts. Subsidiaries, as well as the Parent company, continue to use the local statutory pension calculations to determine pension costs, provisions and assets in the stand-alone statutory reporting, and when applicable funding requirements.

Some post-employment benefits are also provided by defined contribution schemes, where the Group has no obligation to pay benefits after payment of an agreed-upon contribution to the third party responsible for the plan. Such contributions are recognized as expense when incurred.

### Accounting estimates and judgements

Significant judgements and assumptions are required to determine the present value of all defined benefit obligations and the related costs. Such assumptions vary according to the economic conditions of the country in which the plan is located and are adjusted to reflect market conditions at valuation point. However, the actual costs and obligations that in fact arise under the plans may be materially different from the estimates based on the assumptions due to changing market and economic conditions.

The most significant assumptions can vary per plan but in general include discount rate, pension increase rate, salary growth rate and longevity. These assumptions are established for each plan separately. The discount rate for each plan is determined by reference to yields on high quality corporate bonds (AA-rated corporate bonds as well as mortgage bonds for the plans in Sweden) having maturities matching the duration of the obligation. The pension increase rate assumption is relevant mainly for retired plan members, and refers to the indexation of pension payments tied primarily to inflation. The salary growth rate is relevant for active plan members and reflect the long-term actual experience, the near term outlook and assumed inflation. Longevity reflects the life expectancy of plan members and is established based on mortality tables used for each plan.

## Cont. Note 17

Amounts recognized in the consolidated balance sheet (SEKm)	2017						
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	445	778	980	—	248	899	3,350
Present value of funded defined benefit obligation	8,430	—	8,761	3,711	1,868	1,836	24,606
Less: Fair value of plan assets	-7,773	—	-2,772	-2,880	-673	-1,629	-15,727
<b>Total</b>	<b>1,102</b>	<b>778</b>	<b>6,969</b>	<b>831</b>	<b>1,443</b>	<b>1,106</b>	<b>12,229</b>
Reflected as							
Other long-term assets	—	—	—	—	—	-80	-80
Provisions for post-employment benefits	1,102	778	6,969	831	1,443	1,186	12,309
<b>Total</b>	<b>1,102</b>	<b>778</b>	<b>6,969</b>	<b>831</b>	<b>1,443</b>	<b>1,106</b>	<b>12,229</b>

Amounts recognized in the consolidated balance sheet (SEKm)	2016						
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	510	898	684	—	297	880	3,269
Present value of funded defined benefit obligation	9,390	—	9,247	3,414	1,710	1,843	25,604
Less: Fair value of plan assets	-7,591	—	-2,601	-2,583	-636	-1,570	-14,981
<b>Total</b>	<b>2,309</b>	<b>898</b>	<b>7,330</b>	<b>831</b>	<b>1,371</b>	<b>1,153</b>	<b>13,892</b>
Reflected as							
Other long-term assets	—	—	—	—	—	-53	-53
Provisions for post-employment benefits	2,309	898	7,330	831	1,371	1,206	13,945
<b>Total</b>	<b>2,309</b>	<b>898</b>	<b>7,330</b>	<b>831</b>	<b>1,371</b>	<b>1,153</b>	<b>13,892</b>

The Group sponsors post-employment defined benefit plans in a number of subsidiaries. The most significant plans are the pension plans in the USA, Germany, UK, and Sweden, which supplement the social security pensions in these countries.

**USA**

The major US pension plans, represent around 87% of the total US obligation. Benefits are based on length of service and average final salary or a years of service multiplier. All these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. The salary and non-Union defined benefit pension plans have been frozen as of December 2016, hence no additional service cost will be accrued for these plans. To further reduce the US net position of the defined benefit pension plan, a contribution of SEK 724 m (858) was paid.

Governance of the plans lies with a benefit board whose members are chosen by the board of directors of the US 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 US 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 US Medicare Program Part D, for prescription drug costs for certain plan participants. At 31 December 2017, this reimbursement right totalled SEK 22 m (22).

**Germany**

The major German pension plans represent around 87% of the total German obligation. Benefits are based on length of service and final salary, and are indexed when paid. The majority of entitlement conditions are determined in accordance with a governmental pensions act. There are no regulatory funding requirements, however voluntary partial funding has been provided for the plans through a Contractual Trust Arrangement. A plan change affecting around 75% of the participants of the major German pension plan occurred from January 1, 2018. For these participants no additional service cost will be accrued from 2018 and they will be covered by defined contribution pension solutions. The remaining participants

of the major German pension plan will still be entitled to a defined benefit pension solution.

**United Kingdom**

The major plans in the UK represent around 90% of the total UK 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 88% 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 1979, 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.



SEKm	2017			2016		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
<b>Opening balance 1 January</b>	<b>28,873</b>	<b>-14,981</b>	<b>13,892</b>	<b>26,202</b>	<b>-13,192</b>	<b>13,010</b>
Interest expense/(income)	775	-459	316	821	-466	355
Current service cost	490	—	490	618	—	618
Past service cost and gains on settlements <sup>1)</sup>	-200	—	-200	-621	—	-621
Other	-3	3	—	1	2	3
Subtotal expenses	1,062	-456	606	819	-464	355
Difference between actual return and interest income	—	-876	-876	—	-496	-496
Actuarial (gains)/losses – demographic assumptions	-125	—	-125	-260	—	-260
Actuarial (gains)/losses – financial assumptions	775	—	775	2,407	—	2,407
Experience adjustments	-133	—	-133	101	—	101
Other	—	—	—	—	-6	-6
Subtotal remeasurements in OCI	517	-876	-359	2,248	-502	1,746
Employer contribution <sup>2)</sup>	—	-987	-987	—	-1,387	-1,387
Employee contribution	34	-9	25	31	-9	22
Benefit payments	-1,700	861	-839	-1,498	1,010	-488
Subtotal cash flow <sup>3)</sup>	-1,666	-135	-1,801	-1,467	-386	-1,853
Other	-41	1	-40	-67	13	-54
Translation differences	-789	720	-69	1,138	-450	688
<b>Closing balance 31 December</b>	<b>27,956</b>	<b>-15,727</b>	<b>12,229</b>	<b>28,873</b>	<b>-14,981</b>	<b>13,892</b>

1) Past service cost includes a positive effect of SEK 163 m from the change in the defined benefit plan (DB) in Germany for the majority of the participants. 2016 past service cost included a favourable curtailment of SEK 618 m from the hard freeze of all defined benefit plans in the US.

2) To further reduce the US net position of the defined benefit pension plan, a one-time contribution of SEK 724 m (858) was paid.  
3) Cash outflows for 2018 are expected to be some SEK 800 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Components of total post-employment benefit expenses (SEKm)	2017	2016
Post-employment defined benefit expense	606	355
Post-employment defined contribution expense	547	419
<b>Total post-employment benefit expenses<sup>1)</sup></b>	<b>1,153</b>	<b>774</b>
Whereof amounts charged to:		
Cost of goods sold	504	434
Selling expenses	271	-67
Administrative expenses	62	52
Financial expenses	316	355
<b>Total</b>	<b>1,153</b>	<b>774</b>

1) The total post-employment benefit expenses amount includes a positive effect of SEK 163 m from the change in the defined benefit plan in Germany.

In 2016 the total expenses amount included a favourable curtailment of SEK 618 m from the hard freeze of all defined benefit plans in the US.

Plan asset composition (SEKm)	2017			2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Government bonds	1,629	251	1,880	1,836	102	1,938
Corporate bonds	5,401	67	5,468	4,965	36	5,001
Equity instruments	4,720	554	5,274	5,433	512	5,945
Real estate	212	581	793	244	707	951
Other, primarily cash and other financial receivables	1,683	629	2,312	492	654	1,146
<b>Total</b>	<b>13,645</b>	<b>2,082</b>	<b>15,727</b>	<b>12,970</b>	<b>2,011</b>	<b>14,981</b>

## Cont. Note 17

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.

Significant weighted-average assumptions at end of year	2017					
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	3.7	3.6	1.9	2.6	2.5	1.9
Pension increase rate <sup>1)</sup>	n/a	n/a	1.0	3.6	1.8	n/a
Salary growth rate <sup>2)</sup>	n/a	n/a	2.7	3.6	3.5	3.1
Longevity male/female <sup>3)</sup>	20.7/22.7	20.7/22.7	19.3/23.4	21.8/23.6	22.2/24.6	20.4/23.3
Weighted average duration of the plan (in years) <sup>4)</sup>	11.6	8.9	18.1	19.1	22.5	12.6

Significant weighted-average assumptions at end of year	2016					
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	4.2	4.0	1.8	2.7	2.5	1.8
Pension increase rate <sup>1)</sup>	n/a	n/a	2.0	3.6	1.5	n/a
Salary growth rate <sup>2)</sup>	n/a	n/a	2.7	2.8	3.5	3.3
Longevity male/female <sup>3)</sup>	20.8/22.8	20.8/22.8	19.1/23.1	21.4/23.3	22.2/24.6	20.4/22.8
Weighted average duration of the plan (in years) <sup>4)</sup>	11.1	8.9	17.8	22.3	21.3	13.7

1) Pension increase rate refers to indexation primarily tied to inflation.  
2) Salary growth rate for US 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 (SEKm)	Change in actuarial assumption	Impact on DBO Defined benefit obligations
Discount rate	+1%	-3,390
	-1%	4,350
Salary growth rate	+0.5%	525
	-0.5%	-480
Pension increase rate	+0.5%	1,005
	-0.5%	-920
Longevity	+1 year	940
	-1 year	-950

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 recognised within the obligation.

The sensitivity analysis considers the most significant plans in the USA, Germany, UK and Sweden, and it has been prepared consistently with prior years.

## 18 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 the 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 provisions are recognized as contingent liabilities.

SKF is part of investigations regarding possible violations of anti-trust rules, class action claims and lawsuits. For more information, see page 60. As per management judgement, these investigations did not qualify for recognition as other provisions or disclosed as 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 company.

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.

SEKm	2017 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2017 Opening balance
Claims	419	253	-168	-54	-1	-6	395
Other long-term employee benefits	709	103	-86	-7	23	13	663
Restructuring	402	332	-387	-11	-4	-18	490
Other	746	425	-254	-38	-51	-12	676
<b>Total</b>	<b>2,276</b>	<b>1,113</b>	<b>-895</b>	<b>-110</b>	<b>-33</b>	<b>-23</b>	<b>2,224</b>

In 2017 the total restructuring cost amounted to around SEK 332 m and included the consolidation of three factories in North Americas. The cost of voluntary and involuntary termination benefits spread over a several number of countries, with the largest being the USA, Italy and Germany. The majority of the remaining restructuring provisions are expected to be settled in 2018.

The largest items in other long-term employee benefits are jubilee bonuses in Italy and part-time retirement programmes in Germany.

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

Contingent liabilities at nominal values (SEKm)	2017	2016
Guarantees	29	16
Tax claims <sup>1)</sup>	673	369
Other contingent liabilities	19	20
<b>Total</b>	<b>721</b>	<b>405</b>

1) 2016 has been restated.

## 19 Financial liabilities

### Accounting policy

Financial liabilities are recognized in the balance sheets when the Group becomes a party to the contractual provisions of a financial instrument. Financial instruments 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 measured at amortized cost 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.

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.

SEKm	Maturity	2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Long-term financial liabilities</b>					
EUR 500 m (outstanding EUR 234 m)	2018	—	—	2,280	2,389
EUR 500 m (outstanding EUR 266 m)	2019	2,624	2,695	2,534	2,651
EUR 750 m (outstanding EUR 450 m)	2020	4,598	4,646	7,565	7,643
EUR 200 m	2021	1,968	1,969	1,913	1,914
EUR 500 m	2022	4,895	5,246	4,748	5,198
USD 100 m	2027	821	961	—	—
Other long-term loans	2019–2022	140	140	125	127
Derivatives held for hedge accounting	2019–2020	439	439	1,724	1,724
Derivatives held for trading	2018	305	305	1,142	1,142
<b>Subtotal long-term financial liabilities</b>		<b>15,790</b>	<b>16,401</b>	<b>22,031</b>	<b>22,788</b>
<b>Short-term financial liabilities</b>					
SEK 1,000 m	2017	—	—	1,000	1,000
EUR 500 m (outstanding EUR 234 m)	2018	2,299	2,385	—	—
Medium-term loans	2018	41	41	19	19
Trade payables	2018	7,899	7,899	7,100	7,100
Short-term loans	< 3 months	93	93	214	214
Derivatives held for trading	2018	285	285	386	386
<b>Subtotal short-term financial liabilities</b>		<b>10,617</b>	<b>10,703</b>	<b>8,719</b>	<b>8,719</b>
<b>Total</b>		<b>26,407</b>	<b>27,104</b>	<b>30,750</b>	<b>31,507</b>

Derivatives are classified in the category “Fair value through profit or loss” and fall into Level 2 of the fair value hierarchy for both 2016 and 2017. See Note 13 for a description of the fair value hierarchy. The remaining financial liabilities are classified in the category “Other financial liabilities”.

The maturities for bonds and loans stated in the table above are based on the earliest date on which they can be required to be repaid.

One of the loans is subject to fair value hedging. The fixed EUR interest on the EUR 450 m loan has been swapped into floating USD interest rate.

The loans with due date 2018 and 2019 have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to SEK 5,080 m (5,040) as of the balance sheet date.

More information regarding financial risk management and hedge accounting can be found in Note 26. Methods used for establishing fair value are described in Note 13. 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.

## 20 Leasing

Future minimum lease payments at 31 December (SEKm)	2017		2016	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Within one year	12	715	14	672
Later than one year but within five years	30	1,691	34	1,731
Later than five years	3	1,051	5	1,172
<b>Total</b>	<b>45</b>	<b>3,457</b>	<b>53</b>	<b>3,575</b>
Interest	-3		-4	
<b>Present value of minimum lease payments under finance leases</b>	<b>42</b>		<b>49</b>	
Current portion	12		14	
Non-current portion	30		35	

### Accounting policy

A lease agreement that, according to the management's judgment, transfers substantially all the benefits and risks of ownership to the Group, is accounted for as a finance lease. Operating leases rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

Net rental expenses related to operating leases was SEK 838 m (760). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in USA, China, Germany, Sweden and Italy.

Contingent rentals and sub-lease revenues were not significant in any of the years presented.

## 21 Other short-term liabilities

SEKm	2017	2016
Employee related accruals	3,744	3,204
Accrual for rebates	784	763
Income tax payable	599	211
Deferred income	299	323
Customer advances	301	304
Value added taxes payable, net	443	342
Other current liabilities	1,165	752
Other accrued expenses	1,842	1,946
<b>Total</b>	<b>9,177</b>	<b>7,845</b>

## 22 Related parties including associated companies

In 2007 Knut och Alice Wallenbergs Stiftelse transferred its shares in the Parent company to FAM AB.

FAM's mission is to create, through co-ordination and in an efficient way, good and sustainable return for Knut och Alice Wallenbergs Stiftelse, Marianne och Marcus Wallenbergs Stiftelse and the foundation Marcus och Amalia Wallenbergs Minnesfond (the "Foundations"). The aim of the foundations is to support research and education through contributions, 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 2017 FAM is the major shareholder of the Parent company, holding 28.9% (29.2) of the voting rights and 13.6% (13.6) of the share capital.

Investments in associated companies include a 25% shareholding of Simplex-Turbolo Co. Ltd. in the UK. Other investments include primarily a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, and a 20% share in CoLinX, LLC in the USA.

Transactions with Associated companies	2017	2016
Sales of goods and services	66	67
Purchases of goods and services	366	294
Receivables as of 31 December	9	10
Liabilities as of 31 December	27	28

Other related party transactions include remuneration to key management as specified in Note 23. For a list of significant subsidiaries, see Note 8 to the financial statements of the Parent company.

## 23 Remuneration to key Management

### Salaries and other remunerations for SKF Board of Directors, President and Group Management

#### Principles of remuneration for Group Management

In March 2017, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The objective of the principles is to ensure that the SKF Group can attract and retain the best people in order to support the SKF Group's mission and business strategy. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests.

The total remuneration package for a Group Management member consists primarily of the following components: fixed salary, variable salary, performance shares, pension benefits, conditions for notice of termination and severance pay, and other benefits such as a company car. The components shall create a well-balanced remuneration reflecting individual performance and responsibility as well as the SKF Group's overall performance.

#### Fixed salary

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

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

#### Variable salary

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

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF financial performance management model called Total Value Added (TVA). TVA is a simplified, economic value-added model. This model promotes greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital. The TVA result development for the SKF Group correlates well with the trend of the share price over a longer period of time.

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

If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary will not exceed 70% of the accumulated annual fixed salary of Group Management members.

#### Performance Shares

The Annual General Meeting 2017 decided on the introduction of SKF's Performance Share Programme 2017. The programme covers a maximum of 225 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF shares of series B.

The number of shares that may be allotted is related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial years 2017–2019 compared to the financial year 2016. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

The allocation of shares is based on the level of TVA increase. In order for allocation of shares to take place the TVA increase must exceed a certain minimum level (the threshold level). In addition to the threshold level a target level is set. Maximum allotment is awarded if the target level is reached or exceeded.

Provided that the TVA increase reaches the target level, the participants of the programme may be allotted the following maximum number of shares per person within the various key groups:

- CEO and President: 30,000 shares
- Other members of Group Management: 13,000 shares
- Managers of large business units and similar: 4,500 shares
- Other senior managers: 3,000 shares
- Other key persons: 1,250 shares

Before the number of shares to be allotted is finally determined, the Board shall examine whether the allotment is reasonable considering SKF's financial results and position, the conditions on the stock market as well as other circumstances, and if not, as determined by the Board, reduce the number of shares to be awarded to the lower number of shares deemed appropriate by the Board.

If the TVA increase exceeds the threshold level for allotment of shares but the final allotment is below 5% of the target level, payment will be made in cash instead of shares, whereupon the amount of the cash payment shall correspond to the value of the shares calculated on the basis of the closing price for SKF's B share the day before settlement.

#### Other benefits

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

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

#### Pension

The SKF Group strives to establish pension plans based on defined contribution models, which means that a premium is paid amounting to a certain percentage of the employee's annual salary. The commitment in these cases is limited to the payment of an agreed premium to an insurance company offering pension insurance.

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. The normal retirement age for Group Management members is 65 years.

**Notice of termination and severance pay**

A Group Management member may terminate his/her employment by giving six months' notice. In the event of termination of employment at the request of the company, employment shall, according to the contract, cease immediately. The Group Management member shall however receive a severance payment related to the number of years' service, provided that it shall always be maximized to two years' fixed salary.

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

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

**Preparation of matters relating to remuneration for Group Management**

The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of a maximum of four Board members. The Remuneration Committee prepares all matters relating to the principles of remuneration for Group Management, as well as the employment conditions of the President.

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

**Board of Directors**

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2017 it was decided that the Board be entitled to a firm allotment of SEK 7,512,000 to be distributed with SEK 2,008,000 to the Chairman of the Board and with SEK 688,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that an allotment of SEK 1,182,000 for committee work shall be divided with SEK 233,000 to the Chairman of the Audit Committee, with SEK 166,000 to each of the other members of the Audit Committee, with SEK 133,000 to the Chairman of the Remuneration Committee and with SEK 106,000 to each of the other members of the Remuneration Committee.

**President and Chief Executive Officer**

Alrik Danielson, President and Chief Executive Officer of AB SKF, received from the company in year 2017 as salary and other remunerations a total of SEK 14,060,718, of which SEK 11,492,812 was fixed annual salary and SEK 2,567,906 was short-term variable salary related to 2016 performance.

The variable salary for the year 2017 was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 63.

Alrik Danielson is covered by the SKF Performance Share Programme 2017.

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

Alrik Danielson's shareholdings (own and/or held by related parties) in the company as well as material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships are listed in the Corporate Governance Report.

**Group Management**

The SKF's Group Management, consisting of 9 people at the end of the year, received in 2017 (exclusive of the President) salary and other remunerations amounting to a total of SEK 54,592,372, of which SEK 46,027,804 was fixed annual salary and SEK 8,564,568 was short-term variable salary related to 2016 performance. For managers that have joined or left Group Management during the year, the fixed salary is accounted in relation to the period that each individual has been a member of Group Management.

The variable salary for Group Management was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 63.

Group Management (exclusive of the President) was in the beginning of 2017 allotted 2,138 SKF shares of series B under SKF Performance Share Programme 2014. SKF's Performance Share Programmes are further described on pages 100 and 102–103.

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). A limited number of members of Group Management have defined benefit pension entitlements relating to previous pension plans. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements. The normal retirement age is 65 years.

## Cont. Note 23

Amounts in SEK	Fixed salary and other benefits <sup>1)</sup> /fixed Board remuneration		Short-term variable salary		Performance Share Programmes		Remuneration for committee work		Gross pension costs <sup>2)</sup>	Total expensed in 2017	Total expensed in 2016
	Amounts paid in 2017 <sup>3)</sup>	Amounts expensed in 2017 <sup>3)</sup>	Amounts paid in 2017 related to 2016 <sup>3)</sup>	Amounts expensed in 2017 <sup>3)</sup>	Amounts paid in 2017 related to prior years <sup>3)</sup>	Amounts expensed in 2017 <sup>3)</sup>	Amounts paid in 2017 <sup>3)</sup>	Amounts expensed in 2017 <sup>3)</sup>	Amounts expensed in 2017 <sup>3)</sup>		
<b>Board of directors of AB SKF</b>											
Leif Östling <sup>4)</sup>	3,958,000	2,008,000	—	—	—	—	589,000	299,000	—	2,307,000	2,240,000
Lena Treschow Torell	334,000	—	—	—	—	—	—	—	—	—	668,000
Peter Grafoner	678,000	688,000	—	—	—	—	106,000	106,000	—	794,000	771,000
Lars Wedenborn	678,000	688,000	—	—	—	—	339,000	339,000	—	1,027,000	997,000
Joe Loughrey	334,000	—	—	—	—	—	—	—	—	—	668,000
Baba Kalyani	678,000	688,000	—	—	—	—	—	—	—	688,000	668,000
Hock Goh	678,000	688,000	—	—	—	—	—	—	—	688,000	668,000
Marie Bredberg	678,000	688,000	—	—	—	—	166,000	166,000	—	854,000	829,000
Nancy Gougarty	678,000	688,000	—	—	—	—	—	—	—	688,000	668,000
Ronnie Leten	344,000	688,000	—	—	—	—	272,000	272,000	—	960,000	—
Barb Samardzich	344,000	688,000	—	—	—	—	—	—	—	688,000	—
CEO <sup>4)</sup>	11,492,812	11,574,804	2,567,906	6,037,500	—	5,347,200	—	—	4,504,239	27,463,743	17,039,304
Group Management <sup>4),5)</sup>	46,027,804	47,657,622	8,564,568	13,149,108	332,948	18,388,548	—	—	16,291,462	95,486,740	78,739,635
whereof AB SKF	30,824,463	32,380,281	5,943,130	7,262,140	247,928	14,405,376	—	—	10,521,884	64,569,681	50,074,577
Total 2017	66,902,616	66,744,426	11,132,474	19,186,608	332,948	23,735,748	1,472,000	1,182,000	20,795,701	131,644,483	—
whereof AB SKF	51,699,275	51,467,085	8,511,036	13,299,640	247,928	19,752,576	1,472,000	1,182,000	15,026,123	100,727,423	—
Total 2016	65,382,501	69,515,048	10,111,649	10,480,808	—	3,010,170	876,000	883,000	20,066,913	—	103,955,939
whereof AB SKF	49,468,467	53,580,013	7,468,958	5,940,289	—	2,442,874	876,000	883,000	12,444,705	—	75,290,881

1) Other benefits include housing, car and similar items.

2) Represents premiums paid under defined contribution plans as well as gross service costs under defined benefit plans.

3) Amounts paid represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes. Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual.

4) Total pension obligations, for SKF Group, related to Group Management (including CEO) were SEK 164 m.

5) Exclusive of CEO. Includes managers who have joined or left Group Management during the year accounted in relation to the period that each individual has been a member of Group Management and includes only remuneration in their capacity as member of Group Management.

6) Amounts paid in 2017 represent board remuneration for 2016 and for 2017.

### SKF's Performance Share Programme

The share-based compensation programmes of the Group are mainly equity-settled through the SKF Group's Performance Share programmes.

The fair value of the SKF B share at grant date is calculated as the market value of the share excluding the present value of expected dividend payments for the next three years.

The estimated cost for these programmes, which is based on the fair value of the SKF B share at grant date and the number of shares expected to vest, is recognized as an operating expense with a corresponding offset in equity. The fair value of the SKF shares of series B at grant date was determined as SEK 165 for SKF's Performance Share Programme 2017. The dividend com-

pensation 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 2015:** Allotment of shares was made in the beginning of 2018. In total 185,880 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 2015–2017.

**SKF's Performance Share Programme 2016:** Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2019, if all the conditions of the programme are met and the allotment is approved by the Board.

**SKF's Performance Share Programme 2017:** Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2020, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2017 for all programmes were SEK 128 m (14) excluding social charges. The total provision for all programmes was SEK 153 m (34) and the total provision for social charges for all programmes was SEK 36 m (8).

Men and women in Board of Directors and Group Management	2017		2016	
	Number of persons	Whereof men	Number of persons	Whereof men
<b>The Group</b>				
Board of Directors of the Parent company incl. CEO	12	75%	12	75%
Group Management incl. CEO	9	78%	11	82%
<b>Parent Company</b>				
Board of Directors of the Parent company incl. CEO	12	75%	12	75%
Group Management incl. CEO	7	71%	9	78%

## 24 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (SEKm)	2017	2016
Audit fees	48	39
Audit related fees	1	2
Tax fees	9	10
Other fees	1	3
	<b>59</b>	<b>54</b>
<b>The Parent Company's share (SEKm)</b>		
Audit fees	10	6
Audit related fees	1	1
Tax fees	—	2
Other fees to auditors	—	2
	<b>11</b>	<b>11</b>

Audit fees related to examination of the annual report and financial accounting and the administration by the Board and the President as well as other tasks related to the duties of a company auditor. Audit related fees are mainly attributable to the review of the SKF's sustainability report. Tax fees related to tax consultancy and tax compliance services. All other assignments were defined as other.

Payments made in 2017 to PwC AB included audit fees of SEK 13 m, audit related fees of SEK 1 m and SEK 0 m for tax and other fees respectively.

At the Annual General Meeting in 2017, PwC was elected auditor for AB SKF until the Annual General Meeting in 2021.

## 25 Average number of employees

	2017		2016	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	723	75%	613	69%
Subsidiaries in Sweden	2,510	80%	1,941	80%
Subsidiaries abroad	40,581	77%	40,954	78%
	<b>43,814</b>	<b>77%</b>	<b>43,508</b>	<b>78%</b>

Geographic specification of average number of employees in subsidiaries abroad	2017		2016	
	Number of employees	Whereof men	Number of employees	Whereof men
France	2,448	81%	2,488	81%
Italy	3,189	77%	3,219	77%
Germany	5,941	87%	5,950	87%
Other Western Europe excluding Sweden	3,588	84%	3,606	83%
Central and Eastern Europe	4,609	63%	4,051	63%
USA	4,526	73%	4,677	72%
Canada	249	78%	259	78%
Mexico	1,545	76%	1,616	70%
Latin America	2,650	74%	2,714	89%
China	5,565	68%	5,821	68%
India	2,574	96%	3,182	97%
Other Asian countries/Pacific	3,198	80%	2,857	76%
Middle East and Africa	499	76%	514	79%
	<b>40,581</b>	<b>77%</b>	<b>40,954</b>	<b>78%</b>

## 26 Financial risk management

The Group's overall financial objective is to create value for its shareholders. Over time, the return on the shareholders' investment in the SKF share should exceed the risk-free interest rate by around six percentage points. This is the basis for the Group's financial objectives and the financial performance management model.

The SKF Group defines its managed capital as the capital employed. One of the Group's long term financial targets is to achieve a return on capital employed of 16%.

The capital structure target of the Group is

- a gearing of around 50%, which corresponds to
- an equity/assets ratio of around 35% or
- a net debt/equity ratio of around 80%.

Key figures <sup>1)</sup>	2017	2016
Total equity, SEKm	29,823	27,683
Gearing, %	49.9	55.3
Equity/assets ratio, %	36.7	33.0
Net debt/equity ratio, %	71.3	84.4
Return on capital employed, %	14.2	11.9

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

The purpose of the targeted capital structure is to keep an appropriate balance between equity and debt financing. This will ensure financial flexibility and enable the Group to continue investing in its business while maintaining a strong credit rating. The Group's policy and structure of debt financing are presented below.

The SKF Group's operations are exposed to various types of financial risks; market risks (being currency risk, interest rate risk and other price risks), liquidity risks and credit risks, each being discussed below.

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or 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 SEK 62,346 m (58,926) to SEK 4,928 m (3,142). This amount represented the Group's main transaction exposure excluding hedges.

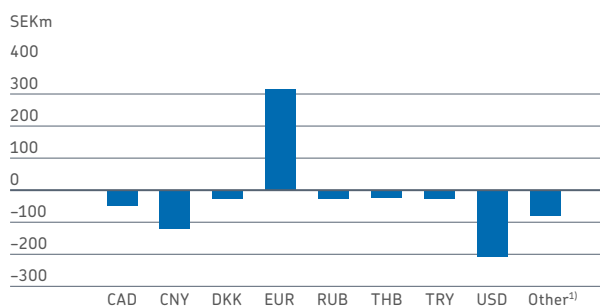
Net currency flows (SEKm)	2017	2016
CAD	965	885
CNY	2,377	—
DKK	518	407
EUR	-6,330	-6,192
RUB	554	411
THB	485	463
TRY	537	474
USD	4,152	5,290
Other <sup>1)</sup>	1,670	1,250
SEK	-4,928	-3,142

1) Other is a sum comprising 11 different currencies

Based on the assumption that the net currency flows will be the same as in 2017, the below graph represents a sensitivity-analysis that shows the effect in SEK on operating profit of a 5% stronger 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.

### Sensitivity analysis: Effect on operating profits of a 5% stronger SEK

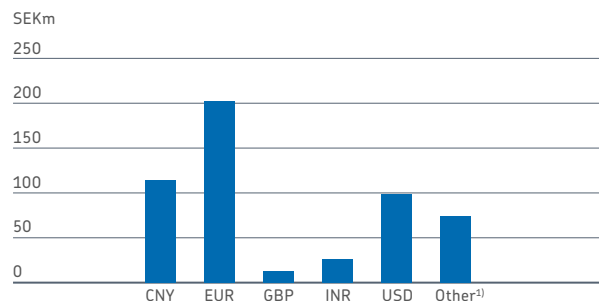


1) Other is a sum comprising 11 different currencies.

### 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 2017 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 106–107.

### Sensitivity analysis: Effect on translation of operating profits to SEK of a 5% weaker SEK



1) Other is a sum comprising 42 different currencies.

### Market risk – Interest rate risk

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates.

At year-end, total interest bearing financial liabilities amounted to SEK 29,788 m (34,344) and total interest bearing financial assets amounted to SEK 9,585 m (12,005). 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, floating SEK interest rates are swapped into floating EUR and floating EUR interest rates are swapped into floating USD.

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavourable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around SEK 160 m (180). 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 SEK 397 m (459), which are categorized as available-for-sale. 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 SEK 20 m (23) higher/lower.

Cont. Note 26

**Liquidity risk**

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet commitments. Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks that will expire in 2019, and one committed credit facilities of EUR 250 m that will expire in 2020.

A good rating is important in the management of liquidity risks. As of 31 December, 2017 the long-term rating of the Group is BBB- with stable outlook by Standard & Poor's and Baa2 with neutral outlook by Moody's Investor Service.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment flows. All instruments held at 31 December, 2017 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, 2017. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

SEKm	2017 Cash flows			2023 and thereafter
	2018	2019	2020-2022	
Loans	-2,770	-2,964	-12,008	-996
Trade payables	-7,899	—	—	—
Derivatives, net	-73	-6	-738	—
<b>Total</b>	<b>-10,742</b>	<b>-2,970</b>	<b>-12,746</b>	<b>-996</b>

**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 SEK 22,820 m (25,394) 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 (SEKm)	2017	2016
Trade receivables	13,416	13,462
Other receivables	2,107	1,793
Derivatives	185	200
Cash and cash equivalent	7,112	9,939
<b>Total</b>	<b>22,820</b>	<b>25,394</b>

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 counterparty, 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 SEK 116 m (170) and derivative liabilities of around SEK 965 m (3,200) 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 which either do not qualify for hedge accounting under IAS 39 or are otherwise 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 at December 2017, by using cross-currency interest rate swaps.

The EUR 450 m loan with fixed interest payments has been swapped into floating USD interest.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the

dollar-offset method. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125%). 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 SEK –438 m (–1,722) as fair value hedges as of 31 December, 2017.

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

SEKm	Financial expense 2017	Financial expense 2016
Financial liabilities (hedged items)	240	–24
Cross-currency interest-rate swaps (hedging instruments)	–235	27
<b>Difference (inefficiency)</b>	<b>5</b>	<b>3</b>

#### Cash flow hedges

Hedge accounting is applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted electricity consumption. Changes in the fair value of the derivative financial instruments designated as hedge instruments that meet the criteria for hedging future cash flows are recognized in the hedging reserve in equity via other comprehensive income.

Electricity forward contracts were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2017 financial year, gains totalling SEK 1 m (15) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year gains of SEK 1 m (–2) were transferred via other comprehensive income to cost of goods sold. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

#### 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 EUR 571 m (571) were hedged by the Group against changes in the EUR/SEK exchange rates. EUR loans for an amount of EUR 500 m (500) and derivatives for an amount of EUR 71 m (71) were designated as hedge instruments.

The result of the hedges totalled SEK –161 m (–246) before tax in 2017 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 13 and liabilities in Note 19. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, net investment hedge, cash flow hedge) or not.

Derivative assets and liabilities, net (SEKm)	Category	2017	2016
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	–438	–1,722
Economic hedges	Trading	–291	–628
Currency forwards/currency options			
Net investment hedges	Hedge accounting	7	12
Economic hedges	Trading	–121	–712
Electricity forwards			
Cash flow hedges	Hedge accounting	–1	–1
		<b>–844</b>	<b>–3,051</b>

## Parent Company, AB SKF

AB SKF, corporate identity number 556007-3495, which is the parent company of the SKF Group, is a registered Swedish limited liability company domiciled in Gothenburg. The headquarters' address is AB SKF, SE-415 50 Gothenburg, Sweden.

AB SKF is the Entrepreneur within the Group. The role of Entrepreneur is to make the strategic decisions and pay for research and development in the Group as well as the management services. Subsidiaries in the Group perform tasks decided by the Entrepreneur and thus have a limited commercial liability. Gains and losses arising in the subsidiaries are, after deduction of a reasonable proportion, distributed to the Parent company as residual profit.

Dividend income from consolidated subsidiaries amounted to SEK 2,489 m (4,393).

Net increase in investments in subsidiaries amounted to SEK 1 m (1,449) of which SEK 0 m (361) is related to acquisitions from companies within the SKF Group, SEK 0 m (1 088) to capital

contributions. Shares with a booked value of SEK 5 m (0) where 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 SEK 16,884 m.

## Parent Company income statements

SEKm	Note	Years ended 31 December	
		2017	2016
Revenue	2	6,352	5,061
Cost of revenue	2	-4,387	-4,598
General management and administrative expenses	2	-1,880	-1,448
Other operating income and expenses, net	2	1	-1
<b>Operating profit</b>		<b>86</b>	<b>-986</b>
Financial income and expenses, net	3	2,137	3,814
<b>Profit after financial items</b>		<b>2,223</b>	<b>2,828</b>
Appropriations	4	897	2,140
<b>Profit before tax</b>		<b>3,120</b>	<b>4,968</b>
Income taxes	5	216	-667
<b>Net profit</b>		<b>3,336</b>	<b>4,301</b>

## Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2017	2016
Net profit		3,336	4,301
<b>Items that may be reclassified to the income statement</b>			
Change in fair value of available-for-sale assets	9	-103	-206
<b>Other comprehensive income, net of tax</b>		<b>-103</b>	<b>-206</b>
<b>Total comprehensive income</b>		<b>3,233</b>	<b>4,095</b>

# Parent Company balance sheets

SEKm	Note	As of 31 December	
		2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	6	1,901	1,939
Property, plant and equipment	7	75	67
Investments in subsidiaries	8	22,349	22,403
Long-term receivables from subsidiaries		14,705	18,567
Investments in associated companies		1	1
Investments in equity securities	9	360	459
Other long-term receivables		198	156
Deferred tax assets	5	339	72
		<b>39,928</b>	<b>43,664</b>
<b>Current assets</b>			
Short-term receivables from subsidiaries		6,181	4,683
Other short-term receivables		78	83
Prepaid expenses and accrued income		63	44
Cash and cash equivalents		16	4
		<b>6,338</b>	<b>4,814</b>
<b>Total assets</b>		<b>46,266</b>	<b>48,478</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		338	261
		<b>2,394</b>	<b>2,317</b>
<b>Unrestricted equity</b>			
Fair value reserve		185	288
Retained earnings		13,363	11,526
Net profit		3,336	4,301
		<b>16,884</b>	<b>16,115</b>
		<b>19,278</b>	<b>18,432</b>
<b>Untaxed reserves</b>	4	<b>24</b>	<b>69</b>
<b>Provisions</b>			
Provisions for post-employment benefits	10	309	306
Other provisions		257	238
		<b>566</b>	<b>544</b>
<b>Non-current liabilities</b>			
Long-term loans	11	14,705	18,564
Long-term liabilities to subsidiaries		0	602
		<b>14,705</b>	<b>19,166</b>
<b>Current liabilities</b>			
Short-term loans	11	2,299	1,000
Trade payables		219	204
Short-term liabilities to subsidiaries		8,527	8,579
Other short-term liabilities		189	15
Accrued expenses and deferred income		459	469
		<b>11,693</b>	<b>10,267</b>
<b>Total shareholders' equity and liabilities</b>		<b>46,266</b>	<b>48,478</b>

# Parent Company statements of cash flow

SEKm	January–December	
	2017	2016
<b>Operating activities</b>		
Operating profit	86	–986
<i>Adjustments for</i>		
Depreciation and amortization	172	147
Other non-cash items	273	107
Payments under post-employment defined benefit plans	–32	–33
<i>Changes in working capital</i>		
Trade payables	15	90
Other operating assets and liabilities, net	3,162	2,695
Interest received	396	413
Interest paid	–834	–610
Other financial items	–279	–48
<b>Net cash flow from operating activities</b>	<b>2,959</b>	<b>1,775</b>
<b>Investing activities</b>		
Additions to intangible assets	–127	–323
Additions to property, plant and equipment	–15	–7
Dividends received from subsidiaries	2,489	4,393
Investments in subsidiaries	—	–1,449
Sales of shares in subsidiaries	247	—
Investments in equity securities	–3	–2
<b>Net cash flow used in investing activities</b>	<b>2,591</b>	<b>2,612</b>
<b>Net cash flow after investments before financing</b>	<b>5,550</b>	<b>4,387</b>
<b>Financing activities</b>		
Proceeds from medium- and long-term loans	893	—
Repayment of medium- and long-term loans	–3,927	–1,879
Cash dividends to AB SKF's shareholders	–2,504	–2,504
<b>Net cash flow used in financing activities</b>	<b>–5,538</b>	<b>–4,383</b>
<b>Increase(+)/decrease(–) in cash and cash equivalents</b>	<b>12</b>	<b>4</b>
Cash and cash equivalents at 1 January	4	—
<b>Cash and cash equivalents at 31 December</b>	<b>16</b>	<b>4</b>



# Parent Company statements of changes in equity

SEKm	Restricted equity			Unrestricted equity		Total
	Share capital <sup>1)</sup>	Statutory reserve	Capitalized development reserve	Fair value reserve	Retained earnings	
<b>Opening balance 1 January, 2016</b>	<b>1,138</b>	<b>918</b>	—	<b>494</b>	<b>14,277</b>	<b>16,827</b>
Net profit	—	—	—	—	4,301	4,301
<b>Components of other comprehensive income</b>						
Change in fair value of available-for-sale assets	—	—	—	-206	—	-206
<b>Capitalized development reserve</b>	—	—	261	—	-261	—
<b>Transactions with shareholders</b>						
Cost under Performance Share Programmes <sup>2)</sup>	—	—	—	—	14	14
Dividends	—	—	—	—	-2,504	-2,504
<b>Closing balance 31 December, 2016</b>	<b>1,138</b>	<b>918</b>	<b>261</b>	<b>288</b>	<b>15,827</b>	<b>18,432</b>
Net profit					3,336	3,336
<b>Components of other comprehensive income</b>						
Change in fair value of available-for-sale assets	—	—	—	-103	—	-103
<b>Capitalized development reserve</b>	—	—	77	—	-77	—
<b>Transactions with shareholders</b>						
Cost under Performance Share Programmes <sup>2)</sup>	—	—	—	—	117	117
Dividends	—	—	—	—	-2,504	-2,504
<b>Closing balance 31 December, 2017</b>	<b>1,138</b>	<b>918</b>	<b>338</b>	<b>185</b>	<b>16,699</b>	<b>19,278</b>

1) The distribution of share capital between share types and the quota value is shown in Note 15 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.

## 2 Revenues and operating expenses

AB SKF is since 2012 the entrepreneur within the Group and as such entitled to the residual profits while taking the costs for management and research and development. Consequently the revenues are comprised of residual profits and royalties from

subsidiaries. Cost of revenue include research and development expenses totalling SEK 2,136 m (2,015).

Of the total operating expenses, SEK 3,882 m ( 3,210 ) was invoiced from subsidiaries.

## 3 Financial income and financial expenses

SEKm	2017	2016
<b>Income from participations in Group companies</b>		
Dividends from subsidiaries	2,489	4,393
Other financial income from investments in subsidiaries	242	2
Impairment and disposals of investments in subsidiaries	-102	-334
	<b>2,629</b>	<b>4,061</b>
<b>Financial income</b>		
Interest income from subsidiaries	396	413
Other financial income	1	—
	<b>397</b>	<b>413</b>
<b>Financial expenses</b>		
Interest expenses to subsidiaries	-222	-182
Interest expenses to external parties	-629	-428
Other financial expense	-38	-50
	<b>-889</b>	<b>-660</b>

#### 4 Appropriations

Appropriations (SEKm)	2017	2016
Paid/received group contribution	852	2,030
<b>Untaxed reserves</b>		
Change in accelerated depreciation reserve	45	110
	<b>897</b>	<b>2,140</b>
Untaxed reserves in the balance sheet		
<b>Accelerated depreciation reserve</b>	<b>24</b>	<b>69</b>

#### 5 Taxes

Taxes on profit before tax (SEKm)	2017	2016
Current taxes	-66	-63
Other taxes	21	40
Deferred tax	261	-644
	<b>216</b>	<b>-667</b>
<b>Net deferred assets per type (SEKm)</b>	<b>2017</b>	<b>2016</b>
Provisions for post-employment benefits	72	70
Tax credit carry forwards	265	—
Other	2	2
<b>Deferred tax assets</b>	<b>339</b>	<b>72</b>
<b>Reconciliation of the statutory tax in Sweden and the actual tax (SEKm)</b>	<b>2017</b>	<b>2016</b>
Tax calculated using the statutory tax rate in Sweden	-686	-1,093
Non-taxable dividends and other financial income	600	966
Tax referring to previous years	106	-498
Recognition of deferred tax asset related to other taxes	222	—
Other non-deductible and non-taxable profit items, net	-26	-42
<b>Actual tax</b>	<b>216</b>	<b>-667</b>

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

#### 6 Intangible assets

SEKm	2017 Closing balance	Additions	Impairments	2017 Opening balance
<b>Acquisition cost</b>				
Goodwill	25	3	—	22
Technology and similar items	901	—	—	901
Internally developed software	1,934	124	—	1,810
	<b>2,860</b>	<b>127</b>	<b>—</b>	<b>2,733</b>
<b>Accumulated amortization</b>				
Goodwill	5	4	—	1
Technology and similar items	666	113	—	553
Internally developed software	288	48	—	240
	<b>959</b>	<b>165</b>	<b>—</b>	<b>794</b>
<b>Net book value</b>	<b>1,901</b>			<b>1,939</b>

See Note 10 of 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

SEKm	2017 Closing balance	Additions	Disposals	2017 Opening balance
<b>Acquisition cost</b>				
Buildings	5	—	—	5
Machine toolings and factory fittings	87	3	—	84
Assets under construction including advances	25	12	—	13
	<b>117</b>	<b>15</b>	<b>—</b>	<b>102</b>

SEKm	2017 Closing balance	Depreciation	Disposals	2017 Opening balance
<b>Accumulated depreciation</b>				
Buildings	1	—	—	1
Machine toolings and factory fittings	41	7	—	34
	<b>42</b>	<b>7</b>	<b>—</b>	<b>35</b>
<b>Net book value</b>	<b>75</b>			<b>67</b>

## 8 Investments in subsidiaries

Investments in subsidiaries held by the Parent company on 31 December (SEKm)	2017	Additions	Impairment	Disposals and capital repayments	2016	Additions	Impairment	Disposals and capital repayments	2015
Investments in subsidiaries	22,349	1	-50	-5	22,403	1,449	-326	-37	21,317

The Group is composed of some 220 legal entities (subsidiaries), where AB SKF is the ultimate parent either directly or indirectly via intermediate holding companies. The vast majority of the Group's subsidiaries perform activities related to manufacturing and sales. A limited number are involved in central Group functions such as treasury or reinsurance, or as previously mentioned, act as intermediate holding companies. This legal structure is designed to effectively manage legal requirements, administration, financing and taxes in the countries in which the Group operates. In contrast,

the Group's operational structure described in the Administration report, gives a better overview of how the Group runs its business. See also Note 2 to the Consolidated financial statements.

The tables below list firstly, the subsidiaries owned directly by the Parent company, and secondly, the most significant of the remaining subsidiaries of the Group. Taken together these subsidiaries account for more than 90% of the Group's sales and for more than 90% of the Group's manufacturing facilities.

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value		Main activities <sup>1)</sup>
					2017	2016	
SKF Argentina S.A.	Argentina	—	14,677,299	29.2% <sup>2)</sup>	75	75	M,S
SKF Australia Pty. Ltd.	Australia	—	96,500	100%	—	—	S
SKF Österreich AG	Austria	—	200	100%	176	176	M,S
SKF Belgium NV/SA	Belgium	—	1,778,642	99.9% <sup>2)</sup>	109	109	S
SKF Logistics Services Belgium NV/SA	Belgium	—	29,907,952	99.9% <sup>2)</sup>	28	28	0
SKF do Brasil Ltda.	Brazil	—	517,294,748	99.9% <sup>2)</sup>	1,152	1,152	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100%	183	183	M
SKF Canada Ltd.	Canada	—	130,000	100%	58	58	M,S
SKF Chilena S.A.I.C.	Chile	—	88,191	99.9% <sup>2)</sup>	—	—	S
SKF (China) Co. Ltd.	China	—	133,400	100%	1,135	1,135	0
SKF CZ, a.s.	Czech Republic	—	430	100%	10	10	S

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value		Main activities <sup>1)</sup>
					2017	2016	
<b>Carried Forward</b>					<b>2,926</b>	<b>2,926</b>	
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	0
SKF GmbH	Germany	—	1,000	100%	1,574	1,574	M,S
SKF Maintenance service GmbH	Germany	—	1	100%	6	6	S
SKF Hellas S.A.	Greece	—	2,000	100%	—	—	S
SKF Svéd Golyóscsapágy Zrt	Hungary	—	20	100%	—	—	S
SKF Technologies (India) Private Ltd.	India	—	3,066,500,101	94.65% <sup>2)</sup>	352	402	M,S
SKF India Ltd.	India	—	24,423,776	45.63% <sup>3)</sup>	90	94	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60%	24	24	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	5% <sup>2)</sup>	1	1	S
SKF Industrie S.p.A	Italy	—	465,000	100%	912	912	M,S
SKF Japan Ltd.	Japan	—	32,400	100%	225	225	S
SKF Malaysia Sdn Bhd	Malaysia	—	1,000,000	100%	57	57	M
SKF de México, S.A. de C.V.	Mexico	—	375,630,290	99.9% <sup>2)</sup>	303	303	M,S
Peer Rodamientos de Mexico, S.A. de CV	Mexico	—	3,202,619	99.9% <sup>2)</sup>	2	2	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% <sup>2)</sup>	—	—	S
SKF Polska S.A.	Poland	—	3,701,466	100%	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	—	61,601	95% <sup>2)</sup>	4	4	S
SKF Korea Ltd.	Republic of Korea	—	128,667	100%	74	74	M,S
SKF Sealing Solutions Korea Co., Ltd.	Republic of Korea	—	153,320	51%	15	15	M,S
SKF Treasury Centre Asia & Pacific Pte. Ltd.	Singapore	—	61,500,000	100%	467	467	0
SKF Asia Pacific Pte. Ltd.	Singapore	—	1,000,000	100%	—	—	S
Barseco (PTY) Ltd.	South Africa	—	1,422,480	100%	157	157	S
SKF Española S.A.	Spain	—	3,650,000	100%	383	383	M,S
SKF Förvaltning AB	Sweden	556350-4140	124,500	99.6% <sup>2)</sup>	3,870	3,870	0
SKF International AB	Sweden	556036-8671	20,000	100%	1,320	1,320	0
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100%	125	125	0
Bagaregården 16:7 KB	Sweden	916622-8529	—	99.9% <sup>2)</sup>	60	60	0
SKF Eurotrade AB	Sweden	556206-7610	83,500	100%	12	12	S,0
SKF Motion Technologies AB	Sweden	559035-5356	50,000	100%	—	—	M,S
SKF Lager AB	Sweden	556219-5288	2,000	100%	—	—	0
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100%	—	—	0
SKF Verwaltungs AG	Switzerland	—	500	100%	502	502	0
SKF Actuation System (Liestal) AG	Switzerland	—	1	100%	165	165	M,S
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100%	171	171	S
SKF (Thailand) Ltd.	Thailand	—	1,847,000	92.4% <sup>2)</sup>	37	37	S
SKF B.V	The Netherlands	—	1,450	100%	304	304	M
SKF Holding Maatschappij Holland B.V	The Netherlands	—	60,002	100%	—	—	0
Trelanoak Ltd.	UK	—	6,965,000	100%	120	120	0
PSC SKF Ukraine	Ukraine	—	1,266,122,556	99.9%	205	205	M
SKF Logistics Uruguay S.A.	Uruguay	—	566,886,506	100%	174	174	S,0
SKF USA Inc.	USA	—	1,000	100%	4,155	4,155	M,S,0
SKF Venezolana S.A.	Venezuela	—	20,014,892	100%	—	—	S
					<b>22,349</b>	<b>22,403</b>	

1) M=Manufacturing, S=Sales, 0=Other incl treasury, reinsurance and/or holding activities

2) Parent company together with subsidiaries own 100%.

3) Parent company together with subsidiaries own 52.3%

## Cont. Note 8

Name of indirectly owned subsidiaries	Country	% Ownership	Owned by subsidiary in	Main activities <sup>1)</sup>
ABBA Linear Tech Co. Ltd.	Taiwan	100%	Taiwan	M,S
Alemite LLC	USA	100%	USA	M,S
ATLAS MANAGEMENT INC.	USA	100%	USA	0
Beijing Nankou SKF Railway Bearings Co. Ltd.	China	51%	China	M
Cooper Roller Bearings Co. Ltd.	United Kingdom	100%	The Netherlands	M,S
General Bearing Corporation	USA	100%	USA	M,S
General Bearing Intern Trading Ltd.	China	100%	Barbados	S
Kaydon Corporation	USA	100%	USA	M,S,0
Kaydon Ring & Seals Inc	USA	100%	USA	M,S
Kaydon S de R.L. de C.V.	Mexico	100%	USA	M,S
Lincoln Helios (India) Ltd.	India	100%	Germany	M,S
Lincoln Industrial Corporation	USA	100%	USA	M,S,0
Lincoln Lubrication (SA) Pty Ltd.	South Africa	100%	South Africa	S
Lincoln Lubrication Equipment (Changshu) Co. Ltd.	China	100%	USA	M,S
Ningbo General Bearing Ltd.	China	100%	Barbados	M,S
Peer Bearing Company, Changshan (CPZ1)	China	100%	China	M
RFT S.p.A.	Italy	100%	Italy	M,S
RKS S.A.S	France	100%	France	M
Shanghai General Bearing Ltd.	China	60%	Barbados	M,S
Shanghai Peer Bearing Co. Ltd. Shanghai (SPZ 1)	China	100%	China	S,0
SKF (China) Sales Co. Ltd.	China	100%	China	S
SKF (Dalian) Bearings and Precision Technologies Co. Ltd.	China	100%	China	M
SKF (Jinan) Bearings & Precision Technology Co. Ltd.	China	100%	China	M
SKF (Schweiz) A.G.	Switzerland	100%	Switzerland	S
SKF (Shanghai) Automotive Technologies Co. Ltd.	China	100%	China	M
SKF (Shanghai) Bearings Ltd.	Switzerland	100%	China	M
SKF (Shanghai) Industrial Service Co. Ltd. (BAO)	China	66%	China	S
SKF (U.K.) Ltd.	United Kingdom	100%	United Kingdom	M,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 China Ltd.	China	100%	China	S
SKF Distribution (Shanghai) Co. Ltd.	China	100%	China	S,0
SKF Economos Deutschland GmbH	Germany	100%	Austria	M,S
SKF France S.A.S	France	100%	France	M,S
SKF Latintrade S.A.	Colombia	100%	Spain	S
SKF Linearsysteme GmbH	Germany	100%	Germany	M,S
SKF Lubrication Systems CZ s.r.o	Czech Republic	100%	Germany	M
SKF Lubrication Systems Germany GmbH	Germany	100%	Germany	M,S
SKF Magnetic Mechatronics S.A.S	France	100%	France	M,S
SKF Marine GmbH	Germany	100%	Germany	M,S
SKF Mekan AB	Sweden	100%	Sweden	M
SKF Motion Technologies S.A.S	France	100%	France	M
SKF Sealing Solutions (Wuhu) Co. Ltd.	China	100%	China	M,S
SKF Sealing Solutions Austria GmbH	Austria	100%	Austria	M
SKF Sealing Solutions GmbH	Germany	100%	Germany	M,S
SKF Sealing Solutions S.A. de C.V	Mexico	100%	USA	M
SKF South Africa (Pty) Ltd.	South Africa	70%	South Africa	S
SKF Sverige AB	Sweden	100%	Sweden	M,S
SKF Tver Ltd.	Russia	100%	Sweden	M
SKF Türk Sanayi ve Ticaret Limited Sirketi	Turkey	100%	Belgium	S
SKF ZAO	Russian Federation	100%	Sweden	S
The Cooper Split Roller Bearing Corp	USA	100%	USA	M
Venture Aerobearings LLC.	USA	51%	USA	M,S
Zhejiang Xinchang Peer Bearing Co. Ltd, Xingchang (XPZ1)	China	100%	China	M
Zhejiang Xinchang Peer Mechanical Parts Co. Ltd.	China	75%	USA	M
Zhejiang Illinois Peer Bearing Co. Ltd. Xingchang (XPZ3)	China	100%	China	M

1) M=Manufacturing, S=Sales, 0=Other incl treasury, reinsurance and/or holding activities

## 9 Investments in equity securities

Name and location (SEK m)	Holding in percent	Number of shares	Currency	2017 Book value	2016 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	354	456
Other			SEK	6	3
				<b>360</b>	<b>459</b>

## 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 (SEKm)	2017	2016
Present value of funded pension obligations	371	344
Fair value of plan assets	-250	-236
<b>Net obligation</b>	<b>121</b>	<b>108</b>
Present value of unfunded pension obligations	188	198
<b>Net provisions</b>	<b>309</b>	<b>306</b>

Change in net provision for the year (SEKm)	2017	2016
Opening balance 1 January	306	296
Defined benefit expense	35	43
Pension payments	-32	-33
<b>Closing balance 31 December</b>	<b>309</b>	<b>306</b>

Components of expense (SEKm)	2017	2016
Pension cost	47	51
Interest expense	2	2
Return on plan assets	-14	-10
<b>Defined benefit expense</b>	<b>35</b>	<b>43</b>
Defined contribution expense	90	94
<b>Total post-employment benefit expense</b>	<b>125</b>	<b>137</b>

The calculation of defined benefit pension obligations has been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan was 3.84% (3.84) and for the other defined benefit plan it was 0.6% (0.7). Expected cash outflows for 2018 were SEK 100 m.

**11** Loans

SEKm	Maturity	Interest rate	2017		2016	
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Bonds</b>						
EUR 500 m (Outstanding 234 m)	2018	3.88	2,299	2,385	2,231	2,389
EUR 500 m (Outstanding 266 m)	2019	1.87	2,610	2,695	2,534	2,651
EUR 750 m (Outstanding 450 m)	2020	2.38	4,411	4,646	7,138	7,643
EUR 200 m	2021	0.56	1,968	1,969	1,913	1,914
EUR 500 m	2022	1.63	4,895	5,246	4,748	5,198
USD 100 m	2027	4.06	821	961	—	—
			<b>17,004</b>	<b>17,902</b>	<b>19,564</b>	<b>20,795</b>

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

SEKm	2017	2016
Salaries, wages and other remuneration	760	607
Social charges (whereof post-employment benefit expense)	356 (125)	316 (137)

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

SEKm	2017	2016
General partner	1	2
Other contingent liabilities	18	17
	<b>19</b>	<b>19</b>

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

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



# Proposed distribution of surplus

Fair value reserve	SEK	184,892,341
Retained earnings	SEK	13,363,170,476
Net profit for the year	SEK	3,336,501,232
<b>Total surplus</b>	<b>SEK</b>	<b>16,884,564,049</b>

The Board of Directors and the President recommend to the shareholders, a dividend of SEK 5.50 per share <sup>1)</sup> to be carried forward:	SEK	2,504,430,874 <sup>2)</sup>
Fair value reserve	SEK	184,892,341
Retained earnings	SEK	14,195,240,834
	<b>SEK</b>	<b>16,884,564,049</b>

1) Suggested record day for right to dividend, 29 March, 2018.

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 2017 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, 2 March, 2018

Leif Östling, *Chairman*  
 Peter Grafoner, *Board member*  
 Lars Wedenborn, *Board member*  
 Baba Kalyani, *Board member*  
 Hock Goh, *Board member*  
 Marie Bredberg, *Board member*

Alrik Danielson, *President and CEO, Board member*  
 Nancy Gougarty, *Board member*  
 Ronnie Leten, *Board member*  
 Barb Samardzich, *Board member*  
 Jonny Hilbert, *Board member*  
 Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 2 March, 2018.

PricewaterhouseCoopers AB

Peter Clemedtson  
 Authorized public accountant  
 Auditor in charge

Bo Karlsson  
 Authorized public accountant

# Sustainability statements as defined by GRI Standards

## Contents

### ■ General disclosures

Organizational profile .....	122
Strategy .....	123
Ethics .....	124
Governance .....	124
Stakeholder engagement .....	125
Reporting practices .....	127

### SKF's material topics

#### ■ Economic category

Economic performance .....	129
Anti-corruption .....	130
Anti-competitive behavior .....	130

#### ■ Environmental category

Energy .....	131
Emissions .....	131
Materials .....	133
Water .....	133
Effluents and waste .....	133
Environmental compliance .....	133

#### ■ Social category

Employment .....	135
Labour management relations .....	136
Occupational health and safety .....	136
Training and education .....	137
Diversity and equal opportunity .....	138
Human rights .....	139
Supplier assessments .....	141
Socioeconomic compliance .....	142

## About this report

This report has been prepared in accordance with the GRI Standards: 'Core' option

The reader will find relevant sustainability information in each part of the report. These statements provide SKF's stakeholders with transparent information on the Group's sustainability performance according to GRI Standards.

### Topics related to the Annual Report

In addition to the information provided in this Annual Report, related Topics can be found at [skf.com/ar2017](http://skf.com/ar2017).

- GRI content index<sup>1)</sup>
- Carbon dioxide emission data<sup>1)</sup>
- Environmental performance data<sup>1)</sup>
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2017

1) Documents subject to limited assurance by SKF's auditors.

### Statutory sustainability report

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

- **Business model** page 10,
- **Anti-corruption** page 130,
- **Environment** pages 131–134,
- **Employees** pages 135–139,
- **Human rights and other relevant social topics** pages 139–142.

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 60–63 and on page 123.

# Auditor's report on the statutory Sustainability Report

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

## Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2017 as defined on page 120 and that it has been prepared in accordance with the Annual Accounts Act.

## The scope of the examination

Our examination has been conducted in accordance with ISAE 3000. The auditor's opinion regarding the statutory sustainability report.

This means that our examination of the statutory sustainability report is substantially different and 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 opinion.

## Opinions

A statutory sustainability report has been prepared.

Gothenburg, 2 March, 2018  
PricewaterhouseCoopers AB

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

Bo Karlsson  
*Authorized Public Accountant*

# General disclosures

## Organizational profile

### 102-01 Name of the organization

AB SKF

### 102-02 Activities, brands, products, and services

The SKF Group is a leading global supplier of products, solutions and services within bearings, seals, mechatronics, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimization, engineering consultancy and training. Examples are found in this report on pages 2–5, 14–19 and 56–59. For information on SKF's brands please refer to [skf.com/brands](http://skf.com/brands).

### 102-03 Location of headquarters

SKF Group headquarters is located at Hornsgatan 1 in Gothenburg, Sweden.

### 102-04 Location of operations

SKF operations are global, the Group has manufacturing operations in 24 countries and direct sales channels in 70 countries. The Group is present in 130 countries. A list of SKF operations can be found in Topic related to the Annual Report on [SKF.com/ar2017](http://SKF.com/ar2017). SKF's manufacturing, sales and other operations are also presented on pages 114–116 in this Annual Report.

### 102-05 Ownership and legal form

SKF provides articles of association on [skf.com/ar2017](http://skf.com/ar2017). These are part of Topics related to the Annual Report. In addition, information on shares and shareholder information can be found on pages 36–37.

### 102-06 Markets served

Pages 2–3 provides an overview of geographies and industries served. Information on Industrial and Automotive segments are further described on pages 4–5 and 56–59.

SKF sometimes describes its business as customer industries, more detailed information on these is available at [skf.com/skfs-business](http://skf.com/skfs-business)

### 102-07 Scale of the organization

Information on the SKF Group and its operations are found in various sections in the report. Employee information is found on this page and on page 104.

SKF Manufacturing and other operations are presented on [skf.com/ar2017](http://skf.com/ar2017).

Net sales are presented on page 68 and broken down further in the financial statements on pages 76–78.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 71. SKF has delivered 367,000 tonnes of bearings 2017. In addition, the Group has delivered seals, mechatronics, condition monitoring, lubrication systems and services.

### 102-08 Information on employees and other workers

Registered employees and workers by employment type

2017	Permanent		Temporary		Agency		Total
	White collar	Blue collar	White collar	Blue collar			
Western Europe	9,434	11,261	83	482	1,265	22,525	
Asia and Pacific	3,567	6,815	12	521	2,359	13,274	
North America	1,966	2,893	28	17	205	5,109	
East and Central Europe	884	3,001	27	549	359	4,820	
Latin America	948	2,781	0	0	65	3,794	
Africa and Middle East	318	85	6	0	29	438	
<b>Total</b>	<b>17,117</b>	<b>26,836</b>	<b>156</b>	<b>1,569</b>	<b>4,282</b>	<b>49,960</b>	

Average number of employees by gender

2017	Number		Percentage		Total
	Men	Women	Men	Women	
Western Europe	15,172	3,227	82%	18%	18,399
Asia and Pacific	8,813	2,524	78%	22%	11,337
North America	3,498	1,277	73%	27%	4,775
East and Central Europe	2,904	1,705	63%	37%	4,609
Latin America	3,135	1,060	75%	25%	4,195
Africa and Middle East	379	120	76%	24%	499
<b>Total</b>	<b>33,901</b>	<b>9,913</b>	<b>77%</b>	<b>23%</b>	<b>43,814</b>

### 102-09 Supply chain

SKF's downstream value chain serves some 40 different industries in 130 countries. To serve the diverse customer base in these markets in the best way, SKF owns and operates more than 100 manufacturing plants across the world. SKF directly employs over 28,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. The purchased material consists of metal raw material such as bars, wires, tubes and strips, and steel based components such as rings, balls, rollers, and sheet metal parts, and other direct material as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and in the Americas. About 85–90% of supplies to SKF factories come from local or regional suppliers. The total annual spend of the SKF Group is around SEK 40 billion and roughly around 1,200 suppliers make up 80% of the total spend by volume. Please refer to more information about SKF's supply chain in the section Purchasing on page 50 and page 141.

#### 102-10 Significant changes to the organization and its supply chain

No significant changes affecting the reporting.

#### 102-11 Precautionary principle or approach

As required by the ICC Charter, see below, and referring to the Rio Declaration on Environment and Development, SKF applies a precautionary approach in its development work. Conservative assumptions are also used for any claims made by SKF regarding product or operational performance.

#### 102-12 External initiatives

SKF endorses or subscribes to a number of internationally recognized principles, charters and guidelines which promote sustainable and ethical business practices. This helps to reflect and communicate the importance of SKF Care – the Group's framework for sustainability. 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 SKF Annual Report is also the Group's Communication on progress for the principles of the Global Compact.
- The International Labour Organization (ILO) which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.

- The International Chamber of Commerce (ICC) which is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.
- The Organisation for Economic Co-operation and Development (OECD), which 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 Multi-national Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

#### 102-13 Membership of associations

SKF is an active partner in several industry collaborations and initiatives and holds talks with industrial peers on issues relating to technical and management aspects across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in the UN Global Compact, the World Bearing Association, Transparency International, Teknikföretagen, the Royal Swedish Academy of Engineering Sciences, the Swedish Life-cycle Centre and the International Standardisation Organisation among others. In addition, SKF collaborates formally with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy. A list of memberships is available at [skf.com](http://skf.com).

## Strategy

#### 102-14 Statement from senior decision-maker

The CEO statement is found on pages 6–8. Strategic priorities, trends, targets and achievements and outlook is described throughout the report.

#### 102-15 Key impacts, risks, and opportunities

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on page 9 and SKF's overall risk management approach is described on pages 60–63. With reference to the definitions in the overall risk management section, sustainability risks and opportunities can be related to strategic, operational, compliance and financial risks.

Fraud and Corruption constitutes risks for SKF in terms of litigation, fines, bad-will, loss of business. SKF's anti-corruption activities include risk assessment, internal controls, training, SKF Ethics and Compliance Reporting Line, audits and investigations. In 2017, the Group was granted membership in Transparency International Sweden's Corporate Supporters Forum, a step to further understand the global corruption risks SKF is exposed to and how to mitigate them.

On environmental topics, energy, emissions and resource use stands out as the most significant topics, they can be related to direct business risks and opportunities SKF's solutions create value for customers by helping them to improve resource and energy efficiency. SKF's customer solutions provide significant environmental

benefits regarding for example global warming and resource use. More on customer solutions can be found in the Creating and capturing customer value section on pages 12–13 and Application driven innovation on pages 14–19. The environmental risks directly related to SKF's manufacturing and supply chain are managed by group wide management systems and procedures to mitigate all relevant risks. At the same time, industries served by SKF are expected to experience transformations related to sustainability and digitalization which can impact the demands for SKF services as both risks and opportunities.

Employee recruitment and development has gained increasing attention as technology development accelerates and work roles are becoming more and more complex. This can affect the Group's ability to attract and retain employees with the right skills. This risk is managed through both recruitment and internal development.

In terms of human rights, SKF works since many years according to external principles and charters to integrate human rights risks in its policies and procedures. SKF works according to UN Guiding Principles of Business and Human Rights and reports its work on pages 139–141.

SKF has established Group targets for a number of relevant sustainability topics, progress on these targets are presented under the SKF Care section on pages 42–51 and detailed results and governance mechanisms are presented in these statements on pages 129–142.

## Ethics

### 102-16 Values, principles, standards, and norms of behavior

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptations of the SKF management systems but the SKF Code of Conduct is the superior policy, all other policies are subordinate to it. It is available in 17 languages and publicly available on SKF.com/code. The SKF Group's values, as set out by the Board of Directors, are also mentioned on page 10 with SKF's business model, they are:

- Empowerment
- High ethics
- Openness
- Teamwork

### 102-17 Mechanisms for advice and concerns about ethics

In addition to normal internal reporting possibilities, employees can raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line which is hosted by a third party. The Group also makes use of an internal helpline via email.

SKF's employees are requested to report behaviour that is not in line with SKF's Code of Conduct to their manager, local human resources or escalate to the country management. They can also raise concerns via the Group's reporting mechanism referred to above. As part of this mechanism, SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Locally reported grievances are often managed at local level with the local human resource department or country management. 228 (211) cases have been reported via the Group's Ethics and Compliance Reporting line (whistle blowing system) or to the group functions by other channels during 2017. 144 cases were resolved in 2017. Most cases led to training and policy reviews with people involved. A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved. In addition to the cases reported to the central functions, grievances related to ethics and compliance are managed by local SKF units and not escalated to Group.

## Governance

### 102-18 Governance structure

SKF Care defines the Group's approach to contribute to sustainable 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 delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship. Refer to page 148–149 in the Corporate Governance Report.

### 102-19 Delegating authority

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. SKF is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group People, Communication, Legal and Sustainability. In SKF, the implementation of sustainability programmes 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 for example:

- The Responsible sourcing committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the code of conduct are identified at our suppliers.
- The EHS and Quality board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and associated policies and instructions and coordinates the deployment of the Group's related strategy.

- The Ethics and Compliance committee, who oversees the risk and opportunities related to ethics and compliance topics of sustainability.

Authority is further delegated to the country managers who are appointed by SKF's Group management. The country manager is typically the company manager in the largest SKF company in the country and is also the chairperson or board member in the other SKF companies in the country. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as set out by the SKF Group and as is stated in the SKF Company and Country management policy.

For specific sustainability topics, such as safety and health, environment, quality and code of conduct compliance, SKF uses a systematic and standardized approach which is embedded throughout the organization and decision making processes. Group-wide management systems are used to support and drive continual improvement. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The SKF approach to environmental, health and safety management is based around a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management).

On the individual level, incentives are set following SKF's performance management process. In general, the Group sets ambition and direction of the company and employees and managers then set their personal goals for the year, follow up achievements and discuss priorities. Specific, measurable, attainable, realistic and timely goals are set between employees and their immediate managers which is the basis for the annual performance review. This way, employees can influence their own work activities, performance behaviours and future compensation.

**102-20 Executive-level responsibility for economic, environmental, and social topics**

The Senior Vice President, Group People, Communication, Legal and Sustainability has the task to assure that the principles defined by SKF Care are addressed and integrated into all operations and activities throughout the Group. This means that sustainability performance is the responsibility of the operational parts of the company and this shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management. This responsibility is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. Group Sustainability & Compliance is responsible for establishing policies, strategies and targets related to SKF's overall sustainability performance. These in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

**102-21 Consulting stakeholders on economic, environmental, and social topics**

The Annual General Meeting is the main function for direct consultation between stakeholders and the highest governance body on economic, environmental and social topics. SKF also announces points of contact in this report on page 160.

**102-22 Composition of the highest governance body and its committees**

Refer to pages 148–154 in the Corporate Governance Report.

**102-23 Chair of the highest governance body**

Refer to page 150 in the Corporate Governance Report.

**102-24 Nominating and selecting the highest governance body**

Refer to page 148 in the Corporate Governance Report.

**102-25 Conflicts of interest**

Refer to page 149 in the Corporate Governance Report.

**102-26 Role of highest governance body in setting purpose, values, and strategy**

With reference to the statements under 102-20, this authority is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are acted upon accordingly.

**102-32 Highest governance body's role in sustainability reporting**

The SKF Annual Report 2017 includes SKF's Sustainability Report and is signed by all members of the Board.

**102-36 Process for determining remuneration**

The principles of remuneration for Group Management is submitted by the Remuneration Committee to the Board, which submits a proposal for such remuneration principles to the Annual General Meeting (AGM) for approval.

**102-37 Stakeholders' involvement in remuneration**

Operational stakeholder dialogue is delegated via the SKF Group Management. Stakeholder views on topics such as remuneration are taken into account via the AGM – proposals are sent out beforehand.

## Stakeholder engagement

**102-40 List of stakeholder groups**

As part of the day to day work, and especially for the management of sustainability, a wide range of stakeholders have been approached such as, customers, investors and analysts, employees, unions, civil society, often represented by media and Non-governmental organizations, and suppliers.

**102-41 Collective bargaining agreements**

SKF holds collective bargaining agreements in 20 countries (Argentina, Austria, Brazil, Bulgaria, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, Sweden, UK, USA, China, Ukraine and South Korea, who's members took part of the World Union Council meeting for the first time in 2017). These countries make up over to 95% of all blue-collar workers (around 28,000). If the workers at a site choose not to be unionized, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing of which the biggest countries are, Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

**102-42 Identifying and selecting stakeholders**

SKF defines key stakeholder groups as customers, investors, suppliers, employee representatives and representatives from civil society in general, these groups include entities or individuals who can be significantly affected by SKF's activities. The Group works in different ways to interact with these and other stakeholders as part of the materiality assessment along with input from academic research and industry collaborations. This allows SKF to better understand various perspectives and concerns, and address them quickly.

**102-43 Approach to stakeholder engagement and 102-44 Key topics and concerns raised**

SKF interacts with stakeholder in somewhat different ways depending on the type of relationship, see next page.

## Approach to stakeholder engagement

## Key topics and concerns raised

**Customers**

Customer input is sought and received via the sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also responds to a wide range of customer surveys and reviews scorecards from key accounts and strategic customers.

In addition to the overall interaction, SKF aggregates the requested sustainability information from customers' sourcing departments. In order to get a more nuanced view, this information is completed by direct discussions with key customers. Several customers highlight environmental management, climate change, business ethics, safety and human rights as the most important issues for them and their decisions related to SKF.

**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 markets days are held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via its own questionnaires, feedback collected after investor meetings and continual feedback in discussions.

Similar to that of customers, SKF aggregates the requested sustainability information from investors and analysts via the Group's investor relations department via direct conversations and from benchmark surveys and results. A number of owners have also been asked to rate the importance of sustainability topics through a survey. Several investors highlight the topics of energy and resource efficiency in SKF's own operations, as well as provision of clean technology in customers' applications. They further want to see proactive work to protect human rights, health and safety in the supply chain and some also highlight that SKF could make a better result by focusing on attracting and retaining a diverse workforce.

**Employees and union organizations**

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. This is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 150–154. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.

SKF and the World Union Council have ongoing negotiations related to employment and SKF's overall development continuously. In addition, safety, health, and economic performance has been highlighted in 2017. An emerging topic that has been discussed over the year is also the digital transformation ongoing across the industry and in the Group. The automation this drives can have a significant impact on the definition of jobs in SKF and outside. This topic is likely to become increasingly important over the next years and related to a range of other sustainability topics, such as productivity and eco-efficiency, labour-management relations and education and development.

**Civil society**

The communities in which SKF operates are important stakeholders for the company. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local network collaboration. Local media is also considered to represent civil society.

SKF country or regional communication teams monitor relevant topics for SKF locally. While the topics of concern differ between the communities, anti-corruption, overall environmental impact, energy and emissions, health, safety and training and development stick out as highly relevant for most communities.

**Topic experts, NGOs and business industry associations**

SKF utilizes formal and informal networks to share experiences and ideas with other companies and to develop the company's thinking and approach on many issues. SKF also collaborates with NGOs and welcomes feedback and positions on topics such as climate change and other environmental, social and economic aspects.

SKF has received input from topic experts within economic sustainability, environmental and social impact, resource theory, innovation, life-cycle management and other relevant topics. This input has been used to assess the Group's impact risk and opportunities. In addition, SKF has received input from its peer network. Climate change, resource use, economic prosperity and human rights stick out as highly relevant.

**Suppliers**

Close collaboration and dialogue with suppliers is crucial for assuring the Group's continued success. Local sourcing offices enable close communication on daily operations. On-site audits provide feedback to SKF on suppliers' adherence to the Code of Conduct and on their performance, it also supports competence development of both suppliers and SKF.

The main issues identified at supplier audits related to sustainability are employment practices related to remuneration, work time and occupational health and safety. Inequality remains to be the main root cause for sustainable development in many high risk countries.



## Reporting practices

### 102-45 Entities included in the consolidated financial statements

This information is available in the financial statements on pages 114–116.

### 102-46 Defining report content and topic boundaries

SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance. In order to do this, SKF applies reporting principles of Stakeholder inclusiveness, Sustainability context, Materiality and Completeness.

As part of the report's content definition and the reflection of its materiality, topics and boundaries have been evaluated from internal and external stakeholder perspectives.

The statements on pages 129–142 provide more detailed information in a systematic manner to ensure that information is easily found.

SKF defines its stakeholders as those who can be significantly affected by the Group's activities. In 2017, SKF updated its materiality analysis. The overall approach is to use input provided by stakeholders for two years. This means that the result of the assessment 2017 is based on input from 2016–2017. The approach from the Group is to provide a short-list of potentially material topics based on previous assessments. 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.

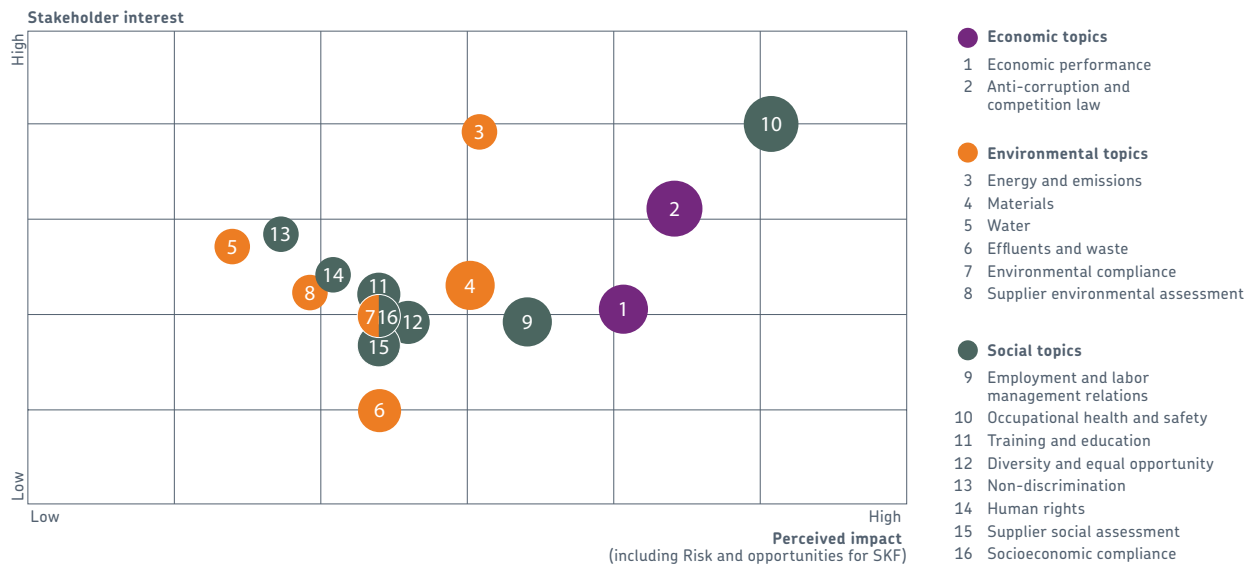
SKF uses this input together with risk assessments, product life-cycle assessments and general impact assessments to define the significant environmental, economic and social impacts.

The context, scope and boundaries are described further in the specific disclosures on pages 129–142 along with the management approach.

### 102-47 List of material topics

Material topics	Boundaries
<b>Economic category</b>	
Economic performance	SKF Group companies.
Anti-corruption	Across the full value chain, but the strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship.
Anti-competitive behavior	Across the full value chain, the strongest focus is within SKF's sales and downstream monitoring of distribution network.
<b>Environmental category</b>	
Energy and emissions	Across the value chain, four main areas in focus: suppliers, SKF's own operations, goods transportation, and customer solutions.
Materials	SKF Group companies.
Effluents and waste	Manufacturing sites within SKF Group.
Water	Manufacturing sites within SKF Group.
Environmental compliance	Manufacturing sites within SKF Group.
<b>Social category</b>	
Employment	SKF Group and its subsidiaries.
Labour management relations	The main priority is the labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice.
Occupational health and safety	SKF Group companies. Focus on both physical and psychological health.
Training and education	Highly relevant over the value chain. The ones closely connected to social impact is that of SKF's employees' development.
Diversity and equal opportunities	Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. First priority is with SKF and its subsidiaries.
Human rights	SKF Group and upstream the supply chain.
Suppliers social and environmental assessment	SKF's upstream supply chain, tier one and tier two suppliers.
Socioeconomic compliance	Operations linked to or operated by SKF Group. Monitoring of compliance is bound to SKF's legal entities.

## Materiality



### 102-48 Restatements of information

Several data points for 2016 have been restated. Some SKF sites extrapolates data for December based on the first eleven months. These sites have updated their results. Some have been restated due to reporting errors. The corrected data is reported on page 133.

As part of SKF new climate objectives for 2025, the Group has updated its emission reporting guidelines. This also resulted in an updated inventory of scope 1 and 2 emissions according to the Greenhouse gas protocol and restated figures from baseline 2015.

### 102-49 Changes in reporting

During 2017, SKF has updated its procedures in the reporting of energy and CO<sub>2</sub> emissions, see above.

SKF has also changed the reporting of avoided emissions and revenues from customer solutions with significant environmental/sustainability benefits, read more on page 132.

SKF does not report on the topics Local community relations. This is a result of the most recent, and previous year's materiality assessment. The relationship with the local community is critical, however, the topics often discussed with community representatives, such as employment, education and environment, are covered by other topics in this report.

### 102-50 Reporting period

SKF Annual Report covers the financial year 1 January to 31 December 2017.

### 102-51 Date of most recent report

The report was published on 5 March, 2018. The most previous report was published on 7 March, 2017.

### 102-52 Reporting cycle

Annual.

### 102-53 Contact point for questions regarding the report

SKF's Annual Report refers to two main contact points, please refer to page 160.

### 102-54 Claims of reporting in accordance with the GRI Standards

With reference to the GRI Standards accordance criteria, SKF Annual Report 2017 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors.

### 102-55 GRI content index

A complete GRI content index is available online together with Topics related to the Annual Report on [skf.com/ar2017](http://skf.com/ar2017)

### 102-56 External assurance

To ensure SKF's stakeholders and readers of the Group's sustainability reporting transparency, credibility and materiality of the information published, SKF has been submitting its sustainability reports for third-party review and verification since the year 2000.

Sustainability disclosures in the SKF Annual Report 2017 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 143.

# SKF's material topics

## Economic Performance

### Material topic: GRI 201 – Economic Performance

#### 103-1 Materiality and boundaries

Economic performance is considered to be material for SKF Group and its subsidiaries. The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control.

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

SKF is a profit driven organization. The financial performance is the overall indicator of the economic impact SKF has on society. All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS. Please refer to page 75 for more information about SKF's financial accounting policies.

#### 201-1 Direct economic value generated and distributed

The data from the financial statements has been used to break down economic value generated and distributed as described below. 2016 is restated according to the new definition.

Economic value generated and distributed, (SEKm)	2017	2016
Net sales	77,938	72,589
Revenue from financial investments and other operating income	156	164
<b>Economic value generated</b>	<b>78,094</b>	<b>72,753</b>
Operating costs	-46,219	-42,808
Employee wages and benefits	-23,540	-22,770
Economic value distributed to providers of capital	-3,181	-2,940
Economic value distributed to government (taxes)	-1,898	-2,530
<b>Economic value distributed</b>	<b>-74,838</b>	<b>-71,048</b>
<b>Economic value retained</b>	<b>3,256</b>	<b>1,705</b>

**Economic value generated** includes net sales, see page 68, interest income, see page 81, and profit on sale of assets and businesses, net, see page 80.

**Operating costs** include the total operating expenses, see page 80, plus the net of other operating income and expenses, see page 80, plus financial net, see page 81, less employee wages and benefits, see page 80, less revenues from financial investments and other operating income, see page 80, less interest expenses, see page 81.

**Employee wages and benefits** includes costs related to wages and salaries including social charges, see page 80.

**Economic value distributed to providers of capital** includes suggested dividends to SKF's shareholders, see page 92 and interest expenses, see page 81.

**Economic value distributed to government** includes income taxes for Group, see page 68.

For the actual payment of taxes during the year, see cash-flow analysis on page 72.

#### 201-2 Financial implications and other risks and opportunities for the organization's activities due to climate change

SKF is organized to be diversified in terms of products and markets, manufacturing and currencies. In general, this diversification reduces SKF's overall exposure to business risks. Please refer to pages 56–59 for an overview of SKF's Areas. Customer industries are further described on [skf.com/skfs-business](http://skf.com/skfs-business).

Within SKF's own operations, an increased cost by SEK 250 per tonne of CO<sub>2</sub> emissions would impact SKF's operating profit by around SEK 150–170 million related to the Group's direct energy spend. Cost increases for raw materials and components have not been included in this calculation.

The costs associated with actions to mitigate climate change risks are embedding in other costs, such as research and development, maintenance and investment budgets etc. and cannot be reported separately.

The motivation for SKF's continued commitment in addressing climate change as part of its risks and opportunities can be summarized in three points:

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it may have catastrophic long-term consequences for both.
- Energy prices are likely to increase in the medium to long term. SKF's ability to run its business activities in a highly energy- and carbon-efficient way will increasingly affect the long-term competitive position.
- SKF is uniquely positioned to significantly contribute to the transition to a low carbon economy and to climate change mitigation through the products and solutions it provides, and in doing so create considerable value for customers and investors.

Please refer to page 47 for an overview of SKF's climate objectives.

#### 201-3 Coverage of the organization's defined benefit plan obligations

SKF reports extensively on the coverage of its provisions of post-employment benefits in the financial statements on pages 93–96.

## Anti-corruption and Anti-competitive behavior

**Material topics: GRI 205 – Anti-corruption and GRI 206 – Anti-Competitive behavior**

### **103-1 Materiality and boundaries**

SKF addresses anti-corruption and competition law as part of the Group's ethics and compliance programmes across the full value chain. The strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship.

SKF operates on markets across the world where corruption indexes indicate high risks. SKF has over many years had a strong focus on business ethics in its corporate values and works continuously to institutionalize these. In several regions, SKF has received very positive feedback from customers on the Group's rigorous work to fight corruption. Nevertheless, when it comes to both corruption and anti-trust, SKF has recorded cases in recent years and there is a strong demand from all stakeholders that SKF works hard and proactively to avoid non-compliances.

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

SKF's ethics and compliance programmes cover a wide range of areas, of which several relate to the SKF Code of Conduct. SKF's ethics and compliance programmes rely on Group policies and instructions related to each issue, setting out the expectations on how to act, tools to use for compliance and where to turn for guidance.

The SKF Group ethics and compliance programme address these risks in a coherent and consolidated approach for SKF, and include the following risk aspects; anti-fraud, anti-trust, anti-corruption, anti-money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights.

A key element of the programmes is the yearly Group compliance risk assessment, in which all relevant internal stakeholders participate. SKF Group staff functions of Internal Auditing, Human Resources, Environment, Health and Safety, Purchasing and Sustainability & Compliance are acting risk owners of their respective area of responsibility. These functions identify, plan and act on risks together with the business and operational units.

In 2017, SKF published a new policy on Anti-corruption. Employees and managers receive training and awareness on a regular basis. SKF's Anti-Fraud and Anti-Corruption policy is available for all employees on the Groups internal webpages. Anti-corruption is also included in the SKF Code of Conduct which is available in its full format on SKF.com/code.

Preventative training, in combination with investigations, is believed to have led to increased awareness on both anti-corruption and competition law.

### **205-1 Operations assessed for risks related to corruption**

All SKF units are screened for compliance issues, this includes corruption. Risk based reviews are carried out and the main purpose of these reviews is to assist units in their work to identify and address their ethics and compliance risks. In 2017, reviews on ethical leadership have been held at 54 SKF sites around the world.

### **205-3 Confirmed incidents of corruption and actions taken**

SKF's internal audit department has investigated 21 cases related to fraud and/or corruption during 2017, compared to 16 during 2016. Four remaining cases from 2016 have been closed and all were unsubstantiated. 13 cases from 2017 have been closed whereof one was substantiated, investigations on eight cases are still ongoing. One person had to leave SKF as result of the investigations.

The impersonation fraud attempts (also called Fake President fraud) remain at high levels. The attempts are getting more sophisticated. Information and alerts are sent out to maintain awareness of this risk.

### **206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices**

For any ongoing investigations, please refer to Risk management on page 60.

## Energy and emissions

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

#### 103-1 Materiality and boundaries

Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy- and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions.

The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

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

The Group's climate objectives are described in pages 33 and 47. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO<sub>2</sub> emissions from manufacturing per tonne of sold products and
- 40% reduction of CO<sub>2</sub> emissions from goods transportation per tonne of shipped products to end customer.

The baseline for these objectives is 2015 and scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015).

In this statement, the management approach along the value chain and total energy and emissions are disclosed.

#### Raw material and components

SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. Suppliers of raw material and metal components are generally considered to be energy intensive and there are synergies to reduce both energy use, emissions, costs and risks.

#### SKF's own operations

Energy data and related GHG emissions are reported monthly. Data includes all significant manufacturing sites, technical and engineering centres and logistics centres. Joint ventures are included where SKF has management control. SKF's management approach is decentralized to SKF's sites and integrated in the environmental management system. Energy efficiency work at sites is often closely linked to local maintenance strategies. In addition to ISO 14001 for environmental management, SKF has an energy management system certified according to ISO 50001 at its own operations, which covers around 50 energy intensive operations making up about 90% 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 carbon intensity.

#### Goods transportation

SKF is directly managing the majority of goods transportation downstream and parts of the transportation upstream. The Group works to reduce CO<sub>2</sub> emissions from transports in four main ways: optimize transport network and routing, use energy-efficient transport modes with low CO<sub>2</sub> intensity (e.g. ocean and rail instead of air where feasible), procure transport with high fuel efficiency and low-carbon fuels and minimize mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint).

As of 2017, the Group changed efficiency measure to CO<sub>2</sub> emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.

#### Customer solutions

SKF can help to mitigate climate change through the products and solutions provided, and in so doing create value for customers, investors and society. SKF's products and solutions can enable resource efficiency, energy and fuel savings, improved reliability and safety in numerous industrial applications and segments. SKF's solutions help to make the wind, ocean and other renewable energy technologies more commercially viable. As part of the climate targets follow-up, SKF has previously reported aggregated avoided emissions (Scope 4) for several verified and measured customer solutions. From 2017, SKF will not provide such aggregated data.

SKF continuously evaluates its management approach, taking into account internal performance development and capabilities, as well as external inputs for long-term improvement and reduction of both energy use and emissions.

#### Energy use

GWh	2017	2016	2015
<b>GRI 302-1 Energy within the organization</b>	1,817	1,745 <sup>1)</sup>	1,733 <sup>1)</sup>
of which from renewable sources	168	103	140
<b>GWh per SEKbn</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>GRI 302-3 Energy intensity</b>	23.31	24.04	22.87

1) All energy and emissions data has been restated previous years as a result of new reporting systems and recalculation of baseline related to the new climate targets. See additional information on the next page related to greenhouse gas emissions reporting.

**GRI 302-4 Reduction of energy use**

Absolute energy increased by 4% in 2017 compared to 2016. This is explained by a significant increase in net sales and production output. Organic net sales increased by 8%.

**Greenhouse gas emissions, scope 1 and 2**

During the year, a full restatement of the greenhouse gas emission data from 2015 has been made in line with the updated GHG Protocol guidance for Scope 2 emissions.

As of 2017, SKF further expands its reporting scope by including greenhouse gas other than CO<sub>2</sub> where relevant, in line with the GHG protocol. Due to the nature of SKF's operation, only three greenhouse gases are likely to be released in significant quantities for tracking, including CO<sub>2</sub>, CH<sub>4</sub>, and N<sub>2</sub>O, where CO<sub>2</sub> is by far the biggest contributor to SKF's emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.

Tonnes	2017	2016	2015
<b>305-1 Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> emissions scope 1	62,269	59,982	60,317
<b>305-2 Energy indirect (Scope 2) GHG emissions</b>			
CO <sub>2</sub> emissions Scope 2, Market based	544,923	528,037	527,513
CO <sub>2</sub> emissions Scope 2, Location based	605,771	576,851	583,525
<b>Total CO<sub>2</sub> emissions (Market based)</b>	<b>607,192</b>	<b>588,019</b>	<b>587,830</b>
<b>Total CO<sub>2</sub> emissions (Location based)</b>	<b>668,040</b>	<b>636,833</b>	<b>643,842</b>
<b>Intensity</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
CO <sub>2</sub> -emissions – bearing & units factories (tonnes)	496,256	480,496	481,383
Weight bearings and units sold (tonnes)	367,336	335,240	334,554
<b>305-4 GHG emissions intensity</b>			
CO <sub>2</sub> -emissions/tonnes sold products	1.35	1.43	1.44
% Change vs 2015	-6%	0%	—

**GRI 305-5 Reduction of GHG emissions scope 1 and 2**

Absolute CO<sub>2</sub> emissions followed the increase of energy use, see table above. Emissions increased driven by higher output, but the percent increase in production output was significantly higher, which resulted in reduced emissions relative to net sales and tonnes sold bearings.

**Greenhouse gas emissions, scope 3**

Under scope 3 emissions, SKF reports CO<sub>2</sub> emissions from goods transportation and business travel.

**Goods transportation data and related CO<sub>2</sub> emissions**

	2017	2016	2015
<b>305-3 Other indirect GHG emissions</b>			
CO <sub>2</sub> emissions from transport Scope 3, (tonnes)	114,970	99,079	107,995
Transport works (tonnes shipped)	361,989	369,810	352,641
<b>305-4 GHG emissions intensity</b>			
CO <sub>2</sub> emissions per tonnes shipped goods to end customer	318	268	306
% Change vs 2015	+4	-13	—

Shipped volumes and emissions per transport mode 2017	Road	Sea	Air	Express
Transport works, tonnes shipped				
% of total	76	22	0.7	0.4
CO <sub>2</sub> emissions, % of total	29	35	30	6

**Business travel**

SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the US and China. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult.

	2017	2016	2015
<b>305-3 Other indirect (Scope 3) GHG emissions</b>			
CO <sub>2</sub> emissions from air travel	21,612	20,604	21,703

**GRI 305-5 Reduction of GHG emissions scope 3**

For goods transportation, SKF emissions have increase slightly between 2015 and 2017. The emission intensity has increased relative to the transports works. The main reason for the increase is increased demand from customers leading to longer lead times, which has resulted in significantly increased use of express shipments in 2017.

**Customer solutions and reduced climate impact**

As part of the new climate objectives, SKF provides yearly aggregated revenue data from the following key areas: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenues of these areas amounted to almost SEK 4.5 billion in 2017. This data has not been reported previously.

SEKm	2017
Total revenues from renewable energy, electric vehicles, recycling industry and bearings remanufacturing.	4,452

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.

Since many years, SKF has intensified efforts on developing customer solutions that reduce environmental impacts and help customers meet their requirements to reduce emissions, increase energy efficiency, reduce water use, etc.

Building on what the Group has learnt from the focus on environmental impacts, SKF decided in 2017 to broaden the scope of the efforts to cover all relevant sustainability aspects for the Group's customers. Going forward, SKF will make sure that the sustainability needs of its customers are understood and integrated into all products, services and solutions which SKF develops and offers to the market.

## Material, Water, Effluents and waste, Environmental compliance

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

### 103-1 Materiality and boundaries

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

**Material** is highly relevant as the Group sourced about 600,000 tonnes of metal components in 2017, the main impact from this lies within the value chain and is associated to energy and emissions. However, in SKF the work focuses on material efficiency in the machining processes.

**Water** is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due its close correlation to energy generation. (Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient, this will not be reported in this section).

**Effluents and wastes** are relevant from SKF's manufacturing operations.

**Compliance** is followed up in relation to SKF's manufacturing operations and those of its suppliers.

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

SKF has deployed an environmental management system certified according to ISO 14001. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. In terms of environmental impact, the systems included close to 100 percent of operations. New or recently acquired subsidiaries are provided a time frame for inclusion. This is typically on to two years but can be extended if the company acquired is of significant proportion.

The overall coordination of the work is managed by a central staff function and the responsibility to drive improvements is with SKF's functional areas in the line organization. Roles and responsibilities have been established in accordance to the demands of SKF's environmental management system. The management system refers to SKF's minimum requirements and local legislation, whichever is the more stringent. Country managers are responsible for ensuring compliance with local laws. The local line organization manager is responsible for ensuring compliance with SKF's standards. The SKF Group function provides the overall structure and follow-up. 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/ar2017](http://skf.com/ar2017).

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits. Environmental performance at suppliers is further reported on page 141.

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

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

During 2017, SKF has developed new objectives to reduce environmental impact. The Group will start reporting on these in 2018. For the time being SKF has extended the previous targets. Progress is reported below next to the indicators.

All data was compiled either quarterly or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control. Data from sites can be included in the compilation even if the site is not yet fully integrated in the management systems. Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. For site by site data, please refer to the Environmental performance data available at [skf.com/ar2017](http://skf.com/ar2017).

### Performance

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

### Restatement from previous year

Several sites have restated their results for 2016. The restatements are associated with previous errors in reporting and corrections of extrapolated data. All restatements for 2016 and are marked with an asterisk\*.

### 301-1 Materials used by weight or volume

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favourable material properties and is widely available.

SKF does not report any renewable materials or recycled input material. The most significant part of the material used comes from components which has been machined and refined along the value chain. This means SKF does not have direct influence over the source of the material but only the specified quality, and so the data cannot be confirmed. In general, bearing steel is made out of a significant proportion of scrap steel, however an exact percentage cannot be provided.

### Non-renewable material

Tonnes	2017	2016	2015
Metal as raw material from external suppliers	591,138	477,131*	431,523
Rubber as raw material from external suppliers	5,616	5,505*	5,485

\* Restated

	2017	2016	2015
Solvents (tonnes)	1,155	916*	902

\* Restated

**Group target – halve the use of solvents from 2007**

Solvents, referred to as volatile organic compounds, form vapours that can be damaging to health and the environment. SKF set a target in 2007 to halve the consumption of solvents from 1,600 tonnes per year. In 2016 a 42% reduction had been achieved. In 2017, two newly acquired sites in China were included in the reporting. These sites have not yet commenced any projects to reduce or substitute use of solvents. SKF will continue to reduce and report usage of solvents in future environmental targets.

	2017	2016	2015
Alcohols (tonnes)	2,094	1,922*	1,890
Hydraulic Oil (tonnes)	2,091	1,712*	1,885
Grease (tonnes)	2,651	2,065*	1,876
PCB (Sites with)	0	0	0
Other oils (tonnes)	2,929	2,231*	2,242
Lubrication Oils (tonnes)	1,155	791*	707
Cutting Oils (tonnes)	2,745	2,420*	2,412

\* Restated

	2017	2016	2015
ODS-Class I Manufacturing (kilogram)	0	0	0
ODS-Class II Manufacturing (kilogram)	0	0	0
ODS-Class III Manufacturing (kilogram)	96	102	209
ODS-Class I Non-Manufacturing (kilogram)	0	0	0
ODS-Class II Non-Manufacturing (kilogram)	0	0	0
ODS-Class III Non-Manufacturing (kilogram)	481	437	638

SKF concludes its focus to eliminate ozone-depleting substances as successful. (ODS) SKF has been monitoring its consumption of ODS, referring to the Montreal Protocol, for many years. Consumption has steadily fallen over the years, supported by local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been eliminated due to process changes in manufacturing. In 2018, SKF will not report ODS.

**303-1 Water withdrawal by source**

**Omission:** As the clear majority of SKF's factories are located in industrial zones, water is supplied by municipalities. Other sources have not been considered material. Therefore, SKF monitors total water consumption at operating units and not per withdrawal by source. As the reporting is based on actual measurements from water suppliers or at SKF sites, no specific assumptions are referred to. During 2017–2018, work is on-going to refine the Group's water reporting.

	2017	2016	2015
Water use (1,000 N Cubic Meters)	4,682	4,921*	5,558

\* Restated

**306-2 Waste by type and disposal method**

**Omission:** The main fractions used by SKF is recycling, recovery (incl heat/energy recovery), incineration and landfill. All details on these and other fractions cannot be reported for 2017 as SKF does not have data from all sites, but SKF aims to report this for 2018.

Like the case of water, SKF has been reviewing the reporting of waste and disposal methods during 2017. An updated approach environmental reporting has been established and will be presented from 2018 along with progress on new targets.

The amounts of residual material and recycling rate are disclosed below and in more detail in Environmental data spreadsheet available at [skf.com/AR2017](http://skf.com/AR2017). SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. All SKF's units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. Practically all scrap metal from SKF's operations is recycled.

	2017	2016	2015
Grinding swarf (tonnes)	22,839	20,522*	20,110
Grinding swarf Recycled (%)	67	76*	80

\* Restated

**Group target – 80% recycling of grinding swarf**

Grinding swarf is a common waste product from SKF's manufacturing processes and a particularly difficult one to handle. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf. This target was achieved in 2013 and since then the result has fluctuated around 80 percent. Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target. In 2017, the rate was 67%. This is mainly a result of changing regulation in India, making it more difficult to recycle grinding swarf. The target for grinding swarf has been extended to end of year when new targets will be established.

	2017	2016	2015
Turning Chips (tonnes)	50,418	43,010*	42,885
Turning Chips Recycled (%)	100	98	100
Other metal scrap (tonnes)	6,745	6,383*	7,537
Other metal scrap recycled (%)	100	100	100
Rubber scrap (tonnes)	2,117	1,755*	1,631
Rubber scrap recycled (%)	90	88	86
Used oils (tonnes)	3,684	3,771*	3,701
Used oils recycled (%)	98	97	91
Paper and carton (tonnes)	4,484	4,502*	4,630
Paper and carton recycled (%)	97	99	96
Waste sent to landfill (tonnes)	11,593	9,774*	9,043

\* Restated

**307-1 Non-compliance with environmental laws and regulations**

SKF received no significant fines or directives from the environmental authorities in 2017. One less significant spill was recorded. This has been communicated and resolved with local environmental authorities.



## Employment

### Material topic: GRI 401 – Employment

#### 103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives as set out by the Group. The work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage succession planning.

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

SKF has a long established human resources function (Group People) that is integrated in the staff function Group People, Communication, Legal and Sustainability. There are specific Human Resources personnel and responsibilities at Group, Area, Country and site level. Group People works to ensure that the company has the right people, in the right place at the right time and that these people are competent, motivated and able to create and capture value for our

customers. The staff function Group People, manages labour affairs and the formal dialogue with the SKF World Union Council. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local unions and the World Union Council. SKF has employee representatives at the Board – the highest governance body. Among other things, this means that employee representatives have direct insight on board level issues and strategic outlook for the Group.

SKF's operations are diverse both in terms of industries and geographies served and this has been reflected in the workforce planning and strategy, where SKF has relied on a decentralized approach to human capital development and planning. An expected transformation of business and employment related to digitalization and the increased demand in agility has initiated a centralizing of parts of the workforce planning and strategy. Uniform people management systems and processes are put in place to facilitate this work. As these common systems are not yet fully operational, SKF can report retention rate and turnover by gender and region, but not by age group or other fraction.

### 401-1 New employee hires and employee turnover

#### Employee retention rate by region (excluding lay-offs)

%	2017			2016	2015
	Women	Men	Total		
Asia and Pacific	81	90	88	92	90
Middle East and Africa	91	90	90	93	91
North America	91	91	91	92	90
Latin America	91	93	93	95	95
Eastern and Central Europe	89	91	90	90	94
Western Europe	95	97	96	96	96
<b>Group</b>	<b>89</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>93</b>

Retention rate as reported above is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

#### Employee turnover and new hires by region

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
Employee turnover 2017, women %	13.7	20.6	9.4	19.0	18.4	12.4	6.3
Employee turnover 2017, men %	9.4	11.2	11.6	17.0	19.7	10.3	4.3
<b>Employee turnover 2017, total %</b>	<b>10.3</b>	<b>13.4</b>	<b>11.1</b>	<b>17.5</b>	<b>19.5</b>	<b>11.1</b>	<b>4.7</b>
Employee turnover 2016, total %	9.1	9.3	8.2	14.5	17.2	9.7	5.6
<b>New hires 2017</b>	<b>4.875</b>	<b>1.804</b>	<b>56</b>	<b>395</b>	<b>798</b>	<b>747</b>	<b>1.075</b>
Women (Number)	1.281	550	16	89	148	236	242
(Women as share of total)	26%	21%	20%	27%	17%	35%	25%
Men (Number)	3.594	1.254	40	306	650	511	833

## Labour management relations

**Material topic: GRI 402 – Labour management relations**

### 103-1 Materiality and boundaries

The main priority of the relationship between labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice. This is based on the SKF Code of Conduct and the work focuses on labour management relations between SKF Group and workers within SKF Group and its subsidiaries.

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

Issues relating to significant changes at SKF, for example in acquiring or divesting operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council. The precise approach must be adapted to the specific conditions of each acquisition. SKF makes it clear in its Code of Conduct that all employees have the

right to join a union and to bargain collectively. Continual dialogue is on-going to ensure that it works for both SKF and the Union members.

The Council, which includes all 20 countries referred to on page 125, meets every year to discuss labour issues in an open format and share what is currently happening in the Group. All countries with major operations have the right to send union officials or observers to the World Union Council. In addition, representatives of SKF World Union Council are invited to speak about specific issues such as; collective bargaining, health and safety, diversity and other issues.

### 402-1 Minimum notice periods regarding operational changes

SKF cannot overrule the centrally agreed collective bargain agreements. Notice regarding operational changes is always defined on a case-by-case basis but always with the local unions involved, and/or reviewed at the World Works Council. At year-end 2017 90% of employees were covered by trade union agreements.

## Occupational health and safety

**Material topic: GRI 403 – Occupational health and safety**

### 103-1 Materiality and boundaries

Health and safety is a material issue in different aspects of SKF's direct operations as well as activities occurring along the value chain. SKF employs around 28,000 people in blue-collar work roles and the focus here is on physical health and safety. This is also relevant upstream as part of SKF's responsible sourcing approaches, as well as for work carried out by sub-contractors. Downstream, the main relevant health and safety aspects relate to products and customer solutions.

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

SKF deploys a Group-wide health and safety management system according to OHSAS 18001. The high-level requirements on health and safety are defined in the Group's EHS policy and the detailed instructions and procedures are integrated within the environment, health and safety management system.

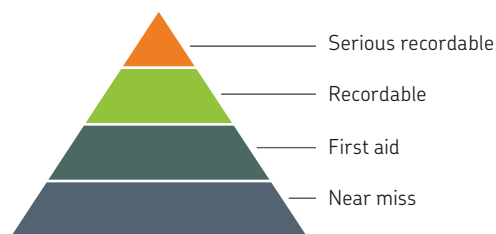
Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates. The scope of accident reporting covers all significant SKF sites. Together these sites cover over 90% of SKF's employees.

Recently acquired companies are given a timeframe for implementing the management systems and reporting. The accident rate data also includes contractors and agency workers on SKF's sites but this is not separately reported.

SKF's accident rate has steadily improved over the last two decades but the rate of improvement has slowed down in recent years. SKF has taken a more proactive approach and continuously tries out new ways to create safe workplaces, increase awareness, improve risk assessment and increase commitment to put safety first. Still, just under one person (0.85) out of 100 full time employees had a recordable accident in 2017, which should not have to be the case.

As the majority of workers (employees at SKF or its suppliers, or agency employees under SKF's supervision), work in a factory or workshop environment, physical safety has been and still is a main priority. However, SKF anticipates that employees will increasingly work in office environments and has taken steps to raise awareness on social and organizational health on Group level. The exact approach on e.g. work and life-balance will differ from one country to another. In Sweden, one of the initial focus areas is connectivity and the fact that most people carry the work with them in mobile devices, whereas in China, SKF has spent more focus on employee commuting time.

Over the last years governance and follow up on performance and reporting has been transferred to the line organisation as an ongoing gradual process. This process has been fully implemented for the majority of the manufacturing sites in SKF. In other parts of the organisation this process is still in the implementation stage. As part of this change, more parameters have been included in the reporting and follow up process. In addition to recordable accidents, it now also encompasses first aid and near miss incidents, and severity rate for recordable accidents. All details in the near miss and unsafe condition reporting is not reported on a Group level, due to the large amount of incidents. However, SKF works to increase the reporting of incidents to prevent accidents waiting to happen. Ideally, the base of the pyramid would be as flat as possible.



#### 403-1 Workers representation in formal joint management-worker health and safety committees

%	2017	2016	2015
Asia and Pacific	88	89	85
Middle East and Africa	88	77	93
North America	95	99	99
Latin America	85	97	96
Eastern and Central Europe	84	94	94
Western Europe	91	94	97
<b>Group</b>	<b>90</b>	<b>94</b>	<b>94</b>

Typically, these committees operate at factory management level.

#### 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

	2017	2016	2015	2014	2013	2012	2011	2010
Accident rate for the Group	0.85 <sup>1)</sup>	0.87 <sup>1)</sup>	0.99	1.13	0.99	1.06	1.05	1.18

1) SKF has included recordable accidents from one or two sites which were at the time being integrated in common systems, but not been able to include all worked hours. The actual accident rate 2016 and 2017 is therefore slightly lower than reported.

	2017
Work related fatalities	0
Serious recordable accidents	5
Recordable accidents	325
First aid incidents	3,054
Near miss incidents	5,153
Severity rate (lost time per accident)	20.68
Total lost days	6,823

The severity rate per accident is measured as lost time. One challenge with this metric on Group level is that time lost for one specific type of accident can differ from one country to another depending on the specific regulations and praxis for sick leave. This data has not been reported previously.

#### 403-4 Health and safety topics covered in formal agreements with trade unions

SKF's global framework agreement with the World Union Council is based on the SKF Code of Conduct – including health and safety. These aspects are included in both global and local formal agreements; a percentage cannot be given.

## Training and Education

### Material topic: GRI 404 – Training and Education

#### 103-1 Materiality and boundaries

SKF has a wide range of competence development activities such as trainings and educational programmes available aimed at Group's employees, distributors and customers. The ones closely connected to social impact is that of employee development.

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

All SKF employees are entitled to an individual development plan (IDP) and this is where specific training or development needs are identified and agreed between the employee and his or her manager. The IDP is also used to follow up on the completion of training and development activities. Training defined within an IDP can range from mandatory e-learning, which all employees must complete (Code of Conduct e-learning for example) to very specific technical training on a wide range of subjects such as project management or application engineering.

Managers involvement and support are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available. The recent working climate analysis shows that SKF employees are motivated to take such responsibility as competence development is a key priority for SKF going forward.

To have an effective competence development in place is increasingly important for SKF to succeed in the competitive market. The Group's human resources function coordinates the overall strategy, methods and tools for enhanced learning in SKF. The SKF Academies are in place to ensure that competence development activities are implemented to support the strategic business agenda. Major recent initiatives include the Sales Excellence Programme, Business Acumen, SAP and Industry 4.0-related initiatives.

Local centres of learning and learning experts are in place in the main SKF operations to support implementation and local adaption of SKF's global curriculum as well as driving development programmes and initiatives meeting the local needs.

Utilizing the joint knowledge and resources of the central human resources function, SKF Academies and local learning experts, SKF has a solid foundation for development and implementation of effective competence enhancing activities. Tools and methods such as web-conferencing, e-learning, SKF's social medias platforms and collaborative communities are supporting these efforts.

To support customer's success, SKF also provides training for distributors and end-users of SKF's products and services. This includes training on mounting and servicing SKF's products for example. For distributors, SKF's training includes aspects such as technical specifications of SKF's products, value selling, SKF's Code of Conduct and profitable business management. More information on distributor training is available on [skf.com](http://skf.com).

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

SKF offers internal programmes and funding for external education. The exact approach differs from country to country. In Sweden, employees can seek scholarship from SKF employee development foundations. These are open for all SKF employees and some also to children of employees.

Training and skill upgrading is also done at varying depth or degrees in different parts of the organisation. As stated under the topic Employment, SKF has identified a potential need to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business.

SKF has a long tradition of training and developing people. In Katrineholm in Sweden, SKF has experienced challenges to recruit the right competence for the heavy industrial operations. One of the solutions has been to not go for an exact skill profile, but to attract people of the right attitude and mindset and then train them with the skills they need to perform the task.

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

**Omission:** Breakdown per employee category cannot be provided. The data is collected from SKF's people and learning management system and the percentages provided are defined as employees receiving formal documented performance reviews which have been signed off by the manager.

The scope of this survey covers around 13,000 staff workers included in the people and learning management system (LMS).

%	2017		2016	
	Women	Men	Women	Men
% of LMS users with documented performance reviews	94	96	95	97
% of assigned LMS users with active individual development plans <sup>1)</sup>	58		52	

1) Individual development plans can only be reported as a total, and not by gender or category.

## Diversity and Equal Opportunity

### Material topic: GRI 405 Diversity and Equal Opportunity

#### 103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF that all employees compete on the same level in order to attract for the most suitable people on the market. In the ever increasing competition for talent, SKF cannot afford to attract only a certain type of people. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity in all senses as a means to competitive advantage.

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

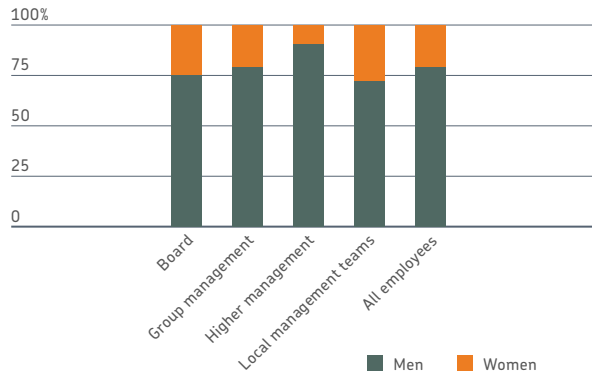
According to the International Labour Organization (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality, and make sure that everyone in SKF has a fair chance to develop, compete for jobs and that competition should be based on the professionalism. The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles is based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

On remuneration, SKF aggregates basic salaries for significant operations in its eight biggest countries by employee headcount, these are presented in the table on the next page. In total, these operations cover 25,000 employees, including both office- and shop floor workers. The salary mapping breaks down per job category, job family, and maturity level.

Even though women in junior management positions and local management teams have increased over time, one of the main challenges is to first of all attract more women into SKF and to simultaneously balance the ratio of women and men at senior management level.

#### 405-1 Diversity of governance bodies and employees

The table provides % of women and men at different categories within the organization.



**Omission:** Information on age groups and minorities is not available.

### Definitions

**The Board** refers to the SKF Board of Directors which makes up the highest governance body for the organization, please refer to page 150.

**Group Management** is the operational management team of the SKF Group, please refer to page 157.

**Higher management** refers to the around top 500 managers in the SKF Group. The actual number in this population is changes over time.

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

**Total employees** refers to the average number of employees in SKF during the last year.

### Geographic diversity

SKF also tracks diversity in terms of geographic origin. SKF has 70 country managers representing 66 nationalities.

In higher management all regions are represented. In the table below, the proportion of individuals by regions are compared to where SKF does business (net sales).

Region	Proportion of people from region in higher management	Net sales
Europe excl. Sweden	51%	38%
Sweden	26%	3%
Asia/Pacific	10%	26%
North America	10%	23%
Latin America	3%	8%
Middle East and Africa	<1%	2%

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

	Female/Male ratio %	Employees in scope
Germany	94%	5,873
USA	79%	4,099
Italy	91%	3,536
China	107%	3,472
Sweden	104%	3,111
France	101%	2,893
India	161%	2,563
United Kingdom	89%	1,003
<b>Group</b>	<b>95%</b>	<b>26,550</b>

### Comment on result

In SKF, salaries are set per individual position class, performance and responsibilities. The Group uses an internationally well-known position class system (IPE) for defining positions. Structural errors are managed locally as part of the annual salary review.

The complexity of the categorization between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF only discloses the overall salary ratio between women and men aggregated per country.

Within the different categories there are greater differences, the average remuneration is heavily skewed by the different levels on the job roles, job categories and position class. E.g. at SKF in India, women on average earn 61% more than men. This is explained by the very small proportion of women in blue-collar work roles. Most women working at SKF in India work in office or managerial positions. Sweden is a similar example, where the share of women in management position is relatively high, but not as well represented in blue-collar roles.

The details in the mapping 2017 indicates an overall gap when it comes to average salaries per country, but no conclusion can be made that these are related to structural errors or irregularity.

## Human rights

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

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

### 103-1 Materiality and boundaries

The human rights perspective has been part of SKF's work for decades and was formulated in the first issues of the SKF Code of Conduct, which was originally based on the SA8000 standard. As with other aspects, SKF initial response to human rights was to start in its own back yard – looking at the Group's internal operations and processes and then the supply chain with the responsible sourcing programme which was initiated in 2005. SKF owns and operates over 100 manufacturing plants across the world, employing around 28,000 people in different types of production. These facilities have local and global supply of material and components and raw material.

Since the first assessment on risk to people, the salient issues for SKF have been related to people at work, first and foremost at suppliers and sub-contractors.

The work is continually evolving as risk assessment and due diligence processes are maturing and as more knowledge is gained of how the Group's activities can have impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and service.

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

#### Background and policy commitment

Initially back in 2002, the SKF Code of Conduct was established based on a number of international external principles and charters, such as ILO conventions and the International Chambers of Commerce Business Charter for Sustainable Development and later the UN Global Compact when the Group joined in 2006. The SKF Code of Conduct has since been used to develop many related policies on specific topics, and addressing business partners along the value chain.

When the UN Guiding Principles was first launched, SKF's Code of Conduct was updated to fulfil the demands of the policy commitment.

The Code is available on SKF.com/code and is part of commercial agreements with suppliers, subcontractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, there are versions of it specifically addressing SKF owned companies, suppliers, subcontractors and distributors but are all based on the same principles.

SKF works to integrated human rights in all processes where SKF sees a risk that people could be adversely affected. This means that in screening and audit activities, such as internal ethics reviews and audits, supplier screening and audits etc., human rights shall be considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated from the Group's ethics and compliance board to the audit committee at board level. SKF Group management are continually being updated on specific issues, such as health and safety for SKF's employees and serious incidents.

**Salient and relevant human rights**

As explained in the introduction, SKF perceives the salient human rights being related to *freedom of association and collective bargaining, compensation, work hours, health, safety and wellbeing and discrimination*. So far, the most salient risks are associated to the supply chain and the rationale is that the further upstream in the value chain, the less transparent and the higher risk of human rights issues.

Other human rights that SKF is following closely, although not deemed salient, is 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. In this work, SKF focuses on geographies where risks are higher, where rule of law and social inequality is weaker. SKF works with a third party to assess the overall risks on human rights as reported in global statistics.

**Stakeholder collaboration**

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to

**Modern Slavery Act 2015**

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

manage such risks. The primary stakeholder group with whom SKF has direct relationship with the rights-holder is the employees, and so formal social dialogue is held between local management and annually between the SKF Group and the World Union Council. SKF also keeps close dialogues with peers and NGOs via networks and roundtables such as via UN Global Compact, Railsponsible (specific to the railway industry), at the end of 2017, SKF also joined RSPO (Roundtable on Sustainable Palm Oil) as a supplier of bearings and solutions into that industry.

**Trends and patterns 2017**

In 2017, much of the focus on human rights in SKF's external environment has been related to the #metoo movement. This movement has gained a lot of attention during the autumn of 2017, and related to this, SKF took the opportunity to underlined its commitment to non-discrimination and harassments.

On labour related human rights, SKF World Union Council grew to include representatives from South Korea and the clear majority of blue collar workers now are represented during the annual council meeting, see more on page 125.

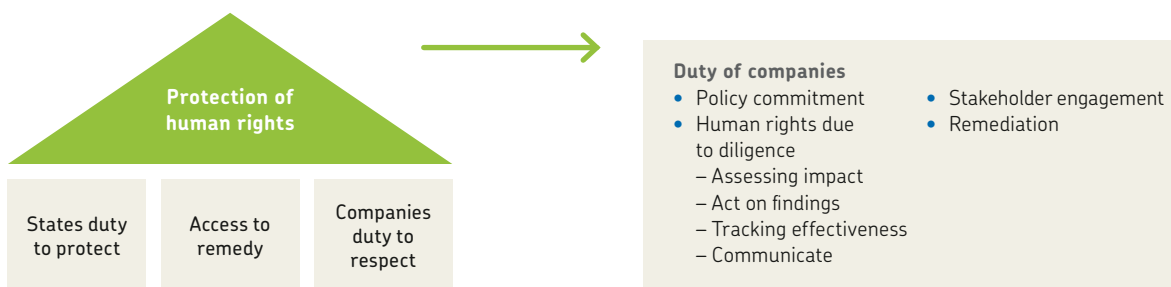
A new company wide business policy was adopted in 2017, underlining that during business trip for SKF, the employee must adhere to SKF Code of Conduct and other Group Policies at all times during business travel.

SKF's responsible sourcing strategy was updated. The approach was based on human rights and the deeper understanding of salient issues at the Group's tier two suppliers and increased focus on indirect material. The number of suppliers in high risk countries that cannot live up to SKF's minimum demands has decreases, see details on the supplier assessments and audits on the next page.

**Integrating finding and taking action**

The SKF Code of Conduct states 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 encouraged to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routines is not an option, SKF has implemented an externally hosted Ethics and compliance reporting mechanism. All significant cases reported are disclosed on page 124.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues is related to freedom of association and collective bargaining as SKF has operations in countries where such is not existing. The Group works together with the World Union Council still see to it than collective bargaining can exist in some way, in line with the Global framework agreement.



**Tracking performance**

SKF continuously addresses salient human rights at audits, both internally and in the supply chain. SKF has established that: if the Group finds cases, and then set up action plans with business partners to reduce risks or initiate remediation activities, this is considered effective management. SKF internal ethics and compliance reviews are summarized on page 124.

**Downstream impact via SKF's business and products**

SKF works to continually reduce any negative impacts of its products or solutions. Given the nature of SKF's business. Negative impact to people from the Group's products could be related to environmental performance and SKF works to ensure compliance to laws and regulation and phase out material and substance hazardous to people and the natural environment. One example is the hexavalent chromium which has been phased out from SKF's lubrication system offerings. The work put into was awarded with an internal SKF Excellence Award 2017.

Looking at the business that SKF makes, the purpose of SKF's products and solution is to make thing work better, run faster, longer, cleaner or more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time. SKF's linkage to human rights infringements downstream in the value chain is so far considered weak. The work so far that may be related to human rights focuses on adhering to export control regulation. 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 actual cases of human rights linked to SKF risks have been identified.

**Omission:** SKF has chosen to report on human rights from the overall perspective according to UN Guiding Principle Reporting Framework. Hence, specific operations, suppliers or countries are not listed in the disclosures. SKF's work is prioritized based on general human rights risk assessed from reliable and unbiased external sources.

## Supplier assessments

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

**103-1 Materiality and boundaries**

SKF addresses supplier impact on the environment, human rights, labor practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers but uses a risk based approach focusing auditing on tier one and sometimes tier two suppliers.

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

SKF's responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of Supplier development, which covers areas of delivery, quality, product compliance and Code of Conduct.

All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier.

**406-1 Incidents of discrimination and corrective actions taken**

A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved.

**407-1 Operations and suppliers in which the freedom of association and collective bargaining may be at risk**

The overall approach from the state towards union membership, and level of independence of trade unions in certain countries where SKF has operations, creates challenges in this aspect. SKF works pragmatically with the World Union Council and the appointed union representatives to try and address these challenges. Please refer to page 125 for a description on SKF World Union Council's work related to collective bargaining agreements.

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

The issue of child labour is included in both SKF's internal and supplier audits. In 2017, SKF has found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible Sourcing Programme, as explained below on this page.

**409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour**

The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2017, no cases of forced or bonded labour have been identified.

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

All SKF's units are subject to human rights reviews as part of the SKF Code of Conduct review. These reviews include the full range of the Code of Conduct. All SKF's units are subject to review within a three-year interval using a risk-based approach. In 2017, 54 such reviews were carried out. In addition, sites undergo risk based in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers.

In 2017, SKF's responsible sourcing strategy was updated. Using a risk based approach, direct material suppliers making up 90% spend are still automatically subject to audits if they are located in high risk regions, these can be both tier one and two suppliers.

In addition to these, when risks to people or the environment 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 are done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as at a quality review. The Code of Conduct audit procedure is based around a checklist with 45 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment and other Code of Conduct issues.

Most noncompliance cases are managed by SKF's regional purchasing offices in alignment with global category managers until resolved. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee to decide ways of resolving

complex issues. First and foremost, the work focuses on establishing a strong partnership and develop targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2017, over 127 audits have been carried out. These include first audits, follow-up audits and third party audits. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, and pollution and waste control. The data reported in these statements are consolidating SKF's finding into GRI's designations.

#### **414-1, 308-1 New suppliers that were screened using social and environmental criteria**

All new suppliers are screened using these criteria. In 2017, 2 out of 35 potential suppliers to SKF did not pass SKF's criteria to become a supplier, directly related to social or environmental risks.

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

In 2017, 59 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations. The most common deviations are related to occupational health and safety, work hours, compensation and employment contracts procedures. 2 deviations have been escalated to the Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency.

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

In 2017, 33 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to remediate these.

## Socioeconomic compliance

### **Material topic: GRI 419 – Socioeconomic compliance**

#### **103-1 Materiality and boundaries**

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance programmes across the full value chain. Within this report, the focus is with SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, and treaties, and local regulation is one of the most important tasks a multinational enterprise can manage to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

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

In 2017, SKF has prepared for stricter data privacy rules to meet the demands of the GDPR (General data protection regulation), which puts clearer responsibility and higher accountability for companies handling personal data and is entering into force in the European Union in 2018. As SKF shares information globally, these rules affect SKF also outside the European Union.

SKF is prepared to meet this increased responsibility; and has for example established a data privacy policy, appointed data protection officers, assessed and registered IT applications and reviewed supplier contracts.

SKF also follows the development on OECDs tax transparency requirements. The Swedish government has included country by country reporting of tax to be filed to the national tax authority. SKF has filed such information but does not report publicly due to sensitive competitive information.

In addition to the above topics and other socioeconomic areas reported within these statements, SKF works closely to ensure compliance to topics such as anti-money laundering, export control and human rights.

#### **419-1 Non-compliance with laws and regulations in the social and economic area**

No cases of non-compliances related to these topics have been identified.



# Independent auditor's limited assurance report on the Sustainability Report

To AB SKF (publ)

## Introduction

We have been engaged by the Group Management of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2017 in the sections "SKF Care" and "Sustainability Statements", as well as documents on SKF's website in "Topics related to Annual Report" marked with \*. We refer to these disclosures collectively as the "Sustainability Report".

## Responsibilities of the Board and Management for the Sustainability Report

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained in the "Sustainability Statements" section of the Annual Report, and are the parts of the *GRI Sustainability Reporting Standards* which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material 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.

We conducted our limited assurance engagement in accordance with *ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by IAASB. 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. A summary of the assurance procedures performed is presented in the appendix.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

The audit firm applies ISQC 1 (*International Standard on Quality Control*) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our procedures are based on the criteria defined by the Board of Directors and the Group 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 Group Management.

Gothenburg, 2 March, 2018  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Authorized Public Accountant*

Fredrik Ljungdahl  
*Expert Member of FAR*

## Appendix

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

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

# Auditor's report

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

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 10–29, 36–37 and 55–119 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2017 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 2017 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.

### Our audit approach

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also

addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

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

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

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

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

### Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

#### Key audit matter

#### How our audit addressed the Key audit matter

##### Valuation of intangible assets

###### Refer to note 10 of the consolidated accounts for the related disclosures

As of 31 December 2017 intangible assets amount to SEK 17,360 million for the group. Out of this total, an amount of SEK 9,995 million relate to goodwill and SEK 2,210 million to tradenames and trademark with an indefinite life.

According to IFRS, the company is required, at least annually, to test these assets for impairment.

Impairment testing involves assumptions with a significant degree of judgment, in particular for those assumptions that relate to the company's applied discount rates and expectations on market development and the future cash flow generation of the business.

Valuation of intangible assets and impairment testing represent a key audit matter for our audit in light of the significant values of the group's intangible assets and the inherent uncertainties of assumptions and estimates involved.

Our audit procedures and testing of the valuation and impairment tests of intangible assets include areas and tests described below, however are not limited to these.

We have evaluated models for impairment testing used by the company together with valuation and accounting specialists and have assessed these to be in line with common valuation techniques used.

We have assessed assumptions used in the calculations and that are further described in note 10. Our procedures to assess assumptions used included to compare company's future cash flow forecasts to available business plans and other information relevant for the estimated development of the business.

We have assessed the group's sensitivity analyses of impairment tests to changes in significant assumptions and the risk that negative changes could lead to an impairment.

We have further performed independent sensitivity analyses and performed back testing to prior year assumptions to under build the quality of forecasting process and assess assumptions for reasonableness and consistency.

##### Recognition of provisions and contingent liabilities for lawsuits and claims

###### Refer to Risk management at SKF page 60 and note 18 of the consolidated accounts for the related disclosures

SKF together with other companies in the bearing industry are part of investigations from competition authorities in different territories. During 2016 and 2017, lawsuits have been initiated from purchases of bearing to SKF together with the other companies affected by the EU ruling and fine for violation of EU competition rules in 2014. There is a risk for further civil claims from direct and indirect purchasers of bearings.

Risks and uncertainties from such investigations and potential claims need to be carefully assessed and analyzed. The assessment of outcome from legal proceedings and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. These considerations make the area one of the key audit matters in our audit.

Our independent evaluation of management's descriptions and assessments of legal proceedings and claims included inquiries to local management as well as to group management and parent company.

Our procedures further involve reading of minutes and the group's internal documentation of legal proceedings and claims to assess the accuracy and completeness of the disclosures in the consolidated accounts.

In specific cases, we have collected statements from external legal advisors to risks and assessments made.

### **Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–9, 30–35, 38–54, 120–142 and 156–160. Other information further includes those documents listed in "Topics related to SKF's annual report". Beyond other information in this document the company publishes a yearly report "SKF in brief 2017" that we expect to have access to after the date of the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information that we have had access to prior the date of this auditor's report, 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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's 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 responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### **Report on other legal and regulatory requirements**

#### **Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of 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 responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

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

Gothenburg 2 March, 2018  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Auditor in Charge*  
*Authorized Public Accountant*

Bo Karlsson  
*Authorized Public Accountant*

# Corporate Governance Report

## Introduction

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and clear rules for delegation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship.

The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act and the Swedish Annual Accounts Act, and the regulatory system of NASDAQ Stockholm AB (Stockholm Stock Exchange).

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–4, are found at the following pages of the Administration Report for the Group in the Annual Report 2017:

- Annual Accounts Act Chapter 6, § 6, section 3 » see page 37.
- Annual Accounts Act Chapter 6, § 6, section 4 » see page 36.

## Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July, 2005. The Code has been revised several times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2017 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.

## 1 Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2017, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2017 would determine which shareholders are the largest with regard to the number of votes held. The names of the four shareholder representatives were to be published as soon as they had been elected, however not later than six months before the Annual General Meeting 2018. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

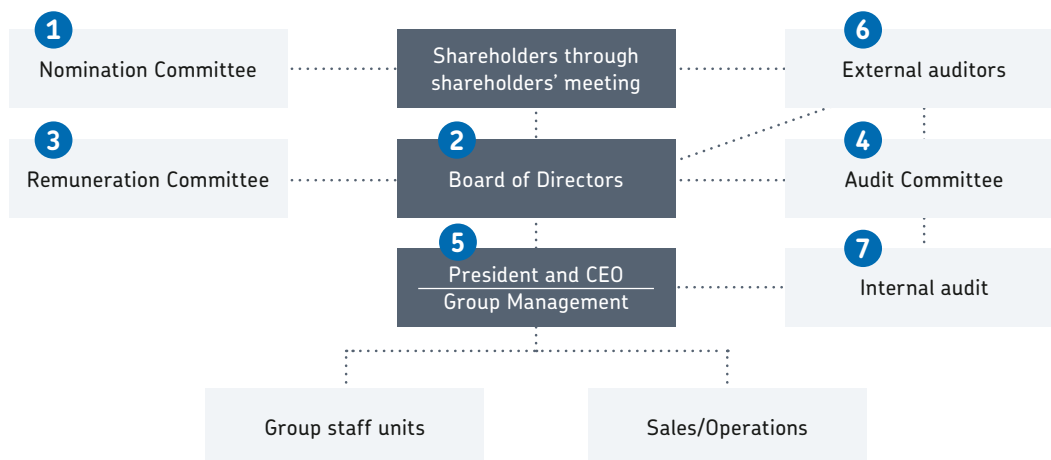
In a press release on 14 September, 2017, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2018:

- Marcus Wallenberg, FAM
- Ramsay Brufer, Alecta
- Anders Jonsson, Skandia
- Johan Strandberg, SEB Investment Management

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2018:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2019

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2018.



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

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

SKF is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group People, Communication, Legal & Sustainability, see pages 156–157 in the Annual Report 2017. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area.

Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.

## 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 2017, the Nomination Committee has applied the provisions in the Code as diversity policy. The objectives of the diversity policy is for the Board to have a composition appropriate to the company's operations, phase of development and other relevant circumstances; that the Board members elected by the shareholders' meeting collectively are to exhibit diversity and breadth of qualifications, experience and background; and that the company is to strive for gender balance on the Board. The Annual General Meeting resolved to appoint Board members in accordance with the Nomination Committee's proposal.

Ten Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2017. 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 2017 can be found in the Annual Report 2017, Consolidated Financial Statements, Note 23.

### Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Code. The table below shows the Board member's independence according to the requirements of the Code in relation to (i) the company and (ii) 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
Leif Östling	•	•
Lena Treschow Torell (resigned March 2017)	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey (resigned March 2017)	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•
Alrik Danielson		•
Nancy Gougarty	•	•
Ronnie Leten (elected March 2017)	•	
Barb Samardzich (elected March 2017)	•	•

# The Board of Directors as of 31 December, 2017

## 1 Leif Östling

Chairman, Board member since 2005  
Born 1945

**Education and job experience**  
Master of Engineering (Chalmers University of Technology, Gothenburg), Bachelor of Economics (School of Business, Economics and Law, University of Gothenburg), various management positions at Scania since 1972, President and CEO of Scania AB between 1994–2012, Vice Chairman of Scania AB 2013–2015, member of the Board of Management of Volkswagen AG, responsible for Commercial Vehicles, 2012–2015.

**Other assignments**  
Board member of EQT Holding AB and Supervisory Board of Volkswagen Truck/Bus GmbH.

**Shareholding** (own and/or held by related parties) 500,000 SKF B

## 2 Peter Grafoner

Board member since 2008  
Born 1949

**Education and job experience**  
Doctor's degree in Engineering (University of Dortmund). Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996–2000 and vice Chairman of the Management Board of Linde AG during 2000–2001.

**Other assignments**  
Chairman of the Board of Coperion GmbH.

**Shareholding** (own and/or held by related parties) 6,700 SKF B

## 3 Lars Wedenborn

Board member since 2008  
Born 1958

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

**Other assignments**  
Chairman of NASDAQ Nordic Ltd., and board member of NASDAQ Group Inc., Höganäs AB, Nefab AB, F Intressenter 3 AB and FAM AB.

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

## 4 Baba Kalyani

Board member since 2011  
Born 1949

**Education and job experience**  
Master of Science (Massachusetts Institute of Technology, USA) and a Bachelor of Mechanical Engineering (Birla Institute of Technology, India). Managing Director of Bharat Forge Ltd since 1993 and before that several senior positions in Bharat Forge Ltd since 1972.

**Other assignments**  
Chairman of the Kalyani Group, Bharat Forge Ltd and a number of companies in the Kalyani Group. Member of the World Economic Forum, the Confederation of Indian Industries and Founder Chairman of Pratham Pune Education Foundation, an NGO engaged in providing primary education to underprivileged children in the local community.

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

## 5 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. Has held 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**  
Chairman of the Board of MEC Resources since 2005. Member of the Board of Stora Enso Oyj since 2012, Santos Australia since 2012, Vesuvius PLC since 2015 and Harbour Energy since 2015.

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

## 6 Marie Bredberg

Board member since 2014  
Born 1957

**Education and job experience**  
Master of Science in Industrial Engineering and Management from the Institute of Technology at Linköping University. Vice President of AerotechTelub AB, 2004–2006 and CFO, 2000–2004. CEO of Combitech AB 2006–2015. Experience from several board assignments within the SAAB-Group.

**Other assignments**  
Vice President Business development and Financial control in Business Area Industrial Products and Services of the SAAB Group since 2015. Board member in Combitech AB, Science Park Mjärdevi AB and Vricon Systems AB.

**Shareholding** (own and/or held by related parties) 1,000 SKF B

## 7 Alrik Danielson

President and Chief Executive Officer of AB SKF

For more details, see page 157.

## 8 Nancy Gougarty

Board member since 2015  
Born 1955

**Education and job experience**  
MBA from Case Western Reserve University and a Bachelor of Science in Industrial Management from the University of Cincinnati. Experience from several leading positions within TRW Automotive, 2005–2012, General Motors Corporation and Delphi Corporation from 1978–2005. President and Chief Operating Officer for Westport Innovations from 2013–2016.

**Other assignments**  
CEO and member of the Board of Westport Fuel Systems Inc. since 2016 and Board member of Trimas Corporation since 2013.

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

## 9 Ronnie Leten

Board member since 2017.  
Born 1956

**Education and job experience**  
Master of Science in Applied Economics (University of Hasselt, Belgium). CEO and Board member of Atlas Copco AB between 2009 and 2017.

**Other assignments**  
Chairman of AB Electrolux.

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

## 10 Barb Samardzich

Board member since 2017.  
Born 1958

**Education and job experience**  
Bachelor of Science in Mechanical Engineering (University of Florida), Master of Science in Mechanical Engineering (Carnegie Mellon University), Master of Science in Engineering Management (Wayne State University). Various management positions at Ford Motor Company, 1990–2016, the latest as Chief Operating Officer of Ford Europe, 2013–2016. Engineer in the Commercial Nuclear Fuel Division at Westinghouse Electric Corporation, 1981–1990.

**Other assignments**  
Board member of Adient plc, Velodyne LidAR and Bombardier Recreational Products. Board of Trustee member of Lawrence Technological University.

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

## Auditors

### Peter Clemedtson

Authorized Public Accountant  
Auditor in charge  
PricewaterhouseCoopers AB

### Bo Karlsson

Authorized Public Accountant  
PricewaterhouseCoopers AB





## Employee representatives

### 11 Jonny Hilbert

Board member since 2015  
Born 1981

**Education and job experience**  
Employed in the SKF Group since 2005

**Other assignments**  
Chairman Unionen, SKF, Gothenburg

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

### 12 Zarko Djurovic

Board member since 2015  
Born 1977

**Education and job experience**  
Employed in the SKF Group since 2006

**Other assignments**  
Chairman Metalworker's Union, SKF, Gothenburg

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

### 13 Kennet Carlsson

Deputy Board member since 2015  
Born 1962

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

**Other assignments**  
Chairman SKF World Union Committee

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

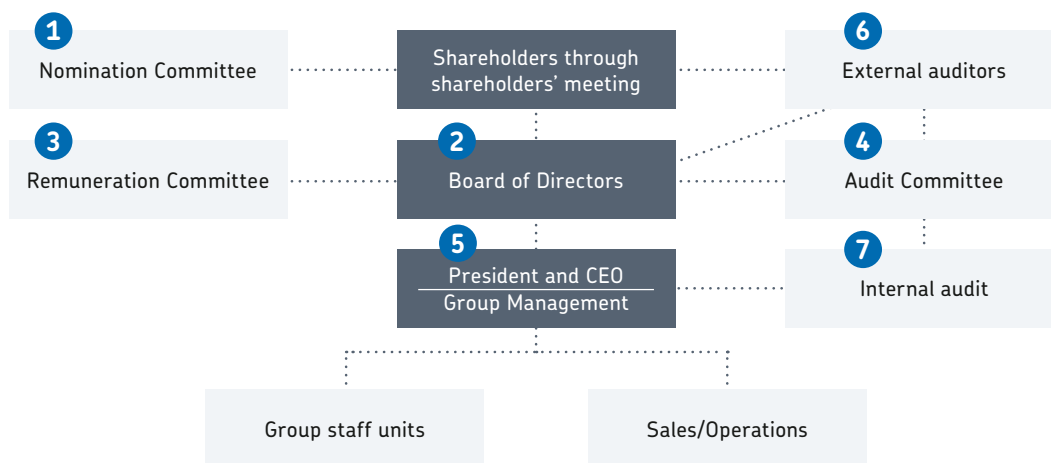
### 14 Claes Palm

Deputy Board member since 2016  
Born 1971

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

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

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



**Activities of the Board of Directors**

The Board held eight meetings in 2017. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	8/8
Lena Treschow Torell (resigned March 2017)	2/8
Peter Grafoner	8/8
Lars Wedenborn	8/8
Joe Loughrey (resigned March 2017)	2/8
Baba Kalyani	6/8
Hock Goh	8/8
Marie Bredberg	7/8
Alrik Danielson	8/8
Nancy Gougarty	8/8
Ronnie Leten (elected March 2017)	6/8
Barb Samardzich (elected March 2017)	7/8
Jonny Hilbert	8/8
Zarko Djurovic	8/8
Kennet Carlsson	8/8
Claes Palm	8/8

The Board adopts written rules of procedure annually for its internal work. These rules prescribe i.a.:

- the number of Board meetings and when they are to be held
- the items normally included in the Board agenda
- 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
- the allocation of the tasks between the Board and the President.

Issues dealt with by the Board in 2017 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, antitrust investigations, the strategic direction and business plan of the Group and management issues.

The Board continuously evaluates economic, environmental and social aspects for the Group's performance and reviews specific issues such as accident rates, greenhouse gas emissions and Code of Conduct adherence.

Each new Board member has to go through a general introduction training about the SKF Group and the Board visits on a regular basis different SKF sites in order to enhance knowledge about the SKF Group.

**3 Remuneration Committee**

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Leif Östling as chairman, and the Board members Peter Grafoner, Lars Wedenborn and Ronnie Leten.

The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President. The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval. The employment conditions for the President shall be approved by the Board.

The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than three weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held two meetings in 2017. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	2/2
Peter Grafoner	2/2
Lars Wedenborn	2/2
Ronnie Leten (elected March 2017)	1/2

#### 4 Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Leif Östling and the Board members Marie Bredberg and Ronnie Leten.

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

The Audit Committee held six meetings in 2017. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	6/6
Lars Wedenborn	6/6
Marie Bredberg	6/6
Ronnie Leten (elected March 2017)	5/6

#### Assessment

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

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

Board member of AB SKF's Board since 2015  
Born 1962

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

**Other assignments** President and CEO of AB SKF since 2015. Board member of Association of Swedish Engineering Industries since 2015.

**Shareholding** (own and/or held by related parties): 26,000 SKF B

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

#### 6 The auditor of the company

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

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2017, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2021. Peter Clemedtson is the auditor in charge and Bo Karlsson is co-signing auditor. Peter Clemedtson is the auditor in charge at a number of other listed companies, such as Nordea Bank AB (publ), AB Volvo and Ratos AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as ASSA ABLOY AB, Investment AB Latour and unlisted companies such as Scania AB. The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF. PwC has during 2017 been involved in matters besides the audit and audit services other than the audit assignment for 2017. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2017 amount to SEK 10 million.

#### Financial reporting

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

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

The Board of Directors had one meeting with the auditor in 2017 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 five 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.

## 7 Internal control and risk management regarding financial reporting

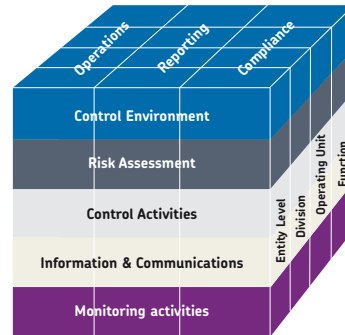
SKF applies the Internal Control – Integrated Framework launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. SKF annually updates the review of the internal control framework to ensure alignment with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:

The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year.



COSO website, © 2013 Internal Control-Integrated Framework Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

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

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

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

Gothenburg, 2 March, 2018  
The Board of Directors

# Auditor's report on the Corporate Governance Report

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

## **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance report for the year 2017 on pages 148–154 and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the examination**

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

## **Opinions**

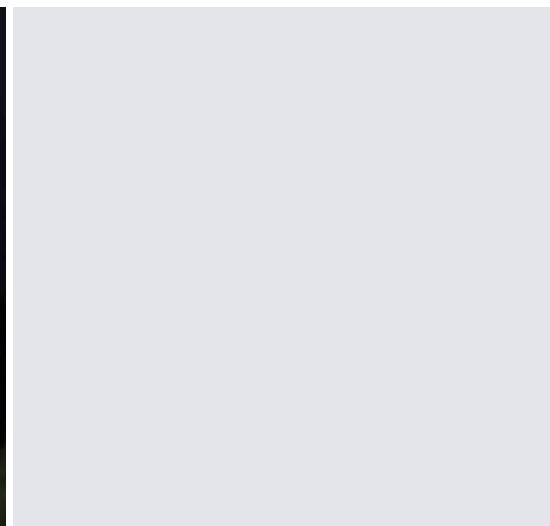
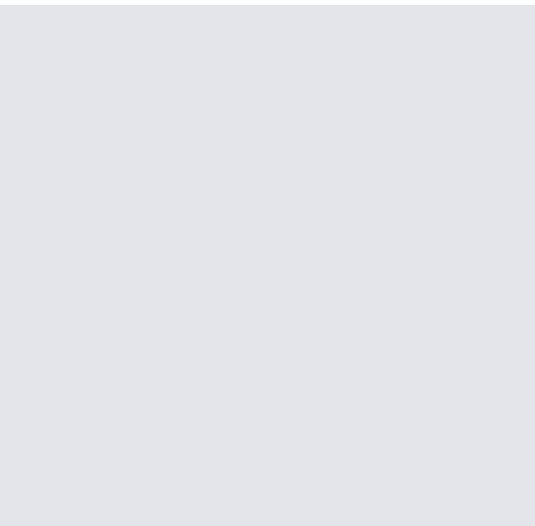
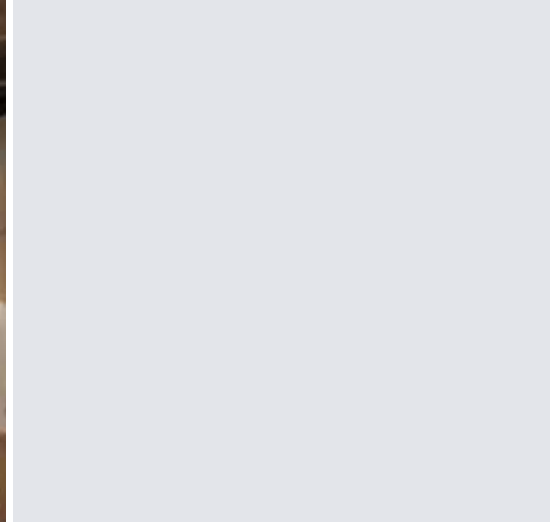
A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, 2 March, 2018  
PricewaterhouseCoopers AB

*Signature on Swedish original*

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

Bo Karlsson  
*Authorized Public Accountant*



# Group Management as of 31 December, 2017

## 1 Alrik Danielson

President and CEO, SKF Group  
Born 1962

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

### Previous positions

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

### Board member

Association of Swedish Engineering Industries

### Shareholding in SKF

26,000 SKF B

## 2 Christian Johansson

Chief Financial Officer and Senior Vice President  
Born 1963

Bachelor of Science in Business Administration, Stockholm University INSEAD (Fontainebleau, France).  
Employed since 2015

### Previous positions

CFO and CIO Gunnebo AB, CFO Volvo Trucks, Regional manager Central East Europe ABB Industrial Service and several other senior positions at Volvo Group, ABB and Alfa Laval.

**Board member** Advisory board, University of Gothenburg, School of Business, Economics and Law.

### Shareholding in SKF

4,000 SKF B

## 3 Bernd Stephan

President, Automotive and Aerospace  
Born 1956

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

### Previous positions

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

**Board member** SKF India Ltd.

### Shareholding in SKF

1,914 SKF B

## 4 John Schmidt

President, Industrial Sales Americas  
Born 1969

Bachelor of Science, Mechanical Engineering from the Pennsylvania State University.  
Employed since 2001 and 1993–1998

### Previous positions

President and CEO SKF USA Inc, Vice President Industrial Market NAM and several other positions within SKF.

### Shareholding in SKF

97 SKF B

## 5 Erik Nelander

President, Industrial Sales Europe and Middle East and Africa  
Born 1963

Master of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg.  
Employed since 1987

### Previous positions

Vice President SKF Industrial Market, President SKF China, Business Unit Director SKF Aerospace, and several other positions within SKF.

### Shareholding in SKF

4,684 SKF B

## 6 Patrick Tong

President, Industrial Sales Asia  
Born 1962

Executive Master Degree of Business Administration, Hong Kong University of Science and Technology.  
Employed since 1989

### Previous positions

President Specialty Business, President SKF Second Brands Bearings, as well as several other positions within SKF.

### Shareholding in SKF

2,487 SKF B

## 7 Kent Viitanen

President, Bearing Operations  
Born 1965

Business and Economics, School of Business, Economics and Law, University of Gothenburg.  
Employed since 1988

### Previous positions

Senior Vice President People, Communication and Quality, Director Renewable Energy and several other positions within SKF.

### Board member

Chalmers University of Technology and Gothenburg University School of Executive Education.

### Shareholding in SKF

140 SKF A and 3,154 SKF B

## 8 Victoria Van Camp

CTO and President, Innovation and Business Development  
Born 1966

Master of Science in Mechanical Engineering, PhD in Machine Elements; Luleå University of Technology, Sweden.  
Employed since 1996

### Previous positions

President Business and Product Development, Director Industrial Market Technology and Solutions, Director of Product Innovation Lubrication BU, as well as several other positions within SKF.

**Board member** BillerudKorsnäs AB

### Shareholding in SKF

64 SKF B

## 9 Carina Bergfelt

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

Master of Law, Lund University.  
Employed since 1990

### Previous position

Legal Counsel

### Board member

The Association of Exchange listed Companies.

### Shareholding in SKF

4,047 SKF B

# Seven-year review, SKF Group

SEKm unless otherwise stated	2017	2016	2015	2014	2013	2012 <sup>2)</sup>	2011
<b>Income statements</b>							
Net sales <sup>3)</sup>	77,938	72,589	75,788	70,778	63,423	64,395	66,216
Operating expenses incl. associated comp. <sup>3)</sup>	-69,346	-65,062	-68,820	-62,977	-59,730	-57,081	-56,604
Operating profit	8,592	7,527	6,968	7,801	3,693	7,314	9,612
Items affecting comparability	-504	-17	-1,687	-490	-3,875	-440	-100
Adjusted operating profit	9,096	7,544	8,655	8,291	7,568	7,754	9,712
Financial income and expense, net	-934	-788	-1,134	-1,133	-872	-906	-680
Profit before taxes	7,658	6,739	5,834	6,668	2,821	6,408	8,932
Taxes	-1,898	-2,530	-1,760	-1,918	-1,777	-1,592	-2,708
Net profit	5,760	4,209	4,074	4,750	1,044	4,816	6,224
<b>Balance sheets</b>							
Intangible assets	17,360	19,568	21,485	22,138	19,023	9,800	10,157
Deferred tax assets	3,633	3,806	3,185	3,350	2,015	1,835	1,299
Property, plant and equipment	15,762	15,746	15,303	15,482	14,095	13,086	13,076
Non-current financial and other assets	1,627	1,688	1,607	1,862	1,276	1,188	1,494
Inventories	17,122	15,418	14,519	15,066	13,700	12,856	14,191
Trade receivables	13,416	13,462	11,777	12,595	11,189	10,084	10,713
Other current assets	12,283	14,219	11,857	11,146	9,693	11,908	8,444
<b>Total assets</b>	<b>81,203</b>	<b>83,907</b>	<b>79,733</b>	<b>81,639</b>	<b>70,991</b>	<b>60,757</b>	<b>59,374</b>
Equity	29,823	27,683	26,282	24,404	21,152	22,468	22,455
Provisions for post employment benefits	12,309	13,945	13,062	13,978	9,902	9,881	8,634
Deferred tax provisions	1,100	1,380	1,373	1,717	2,207	481	938
Other provisions	2,275	2,224	2,095	2,083	5,011	1,676	1,836
Financial liabilities	18,508	23,650	23,825	26,105	21,344	15,675	13,613
Trade payables	7,899	7,100	5,671	5,938	4,740	4,189	4,698
Other liabilities	9,289	7,925	7,425	7,414	6,635	6,387	7,200
<b>Total equity and liabilities</b>	<b>81,203</b>	<b>83,907</b>	<b>79,733</b>	<b>81,639</b>	<b>70,991</b>	<b>60,757</b>	<b>59,374</b>
<b>Key figures<sup>2)</sup> (in percentages unless otherwise stated)</b>							
Operating margin <sup>3)</sup>	11.0	10.4	9.2	11.0	5.8	11.3	14.5
Adjusted operating margin <sup>3)</sup>	11.7	10.4	11.4	11.7	11.9	12.0	14.7
EBITA, SEKm	9,064	8,016	7,522	8,289	3,998	7,552	9,860
EBITDA, SEKm	10,916	9,895	9,826	10,192	5,586	9,145	11,402
Return on capital employed	14.2	11.9	10.9	13.9	7.5	16.2	23.6
Return on equity	20.4	16.5	15.7	21.4	4.6	21.6	29.7
Net working capital, % of sales <sup>3)</sup>	29.0	30.0	27.2	30.7	31.8	29.1	30.5
Net debt/equity	71.3	84.4	99.9	126.6	117.3	72.5	72.3
Turnover of total assets, times	0.96	0.89	0.92	0.95	0.97	1.07	1.16
Gearing	49.9	55.3	56.7	60.5	59.2	52.8	48.9
Equity/assets	36.7	33.0	33.0	29.9	29.8	37.0	37.8
Net cash flow after investments before financing, SEKm	4,753	7,717	6,416	2,137	-5,390	3,045	3,974
<b>Investments, and employees</b>							
Additions to property, plant and equipment, SEKm	2,243	1,869	2,063	1,852	1,746	1,968	1,839
Research and development expenses, SEKm	2,395	2,246	2,372	2,078	1,840	1,607	1,481
Patents – number of first filings, SEKm	192	191	461	488	468	421	325
Average number of employees	43,814	43,508	44,305	46,509	45,220	44,168	42,886
Number of employees registered at 31 December	45,678	44,868	46,635	48,593	48,401	46,775	46,039

1) See page 156 for definitions. SKF has applied the guidelines issued by ESMA (European Securities and Markets Authority) on APMs (Alternative Performance Measures). These key figures are not defined or specified in IFRS but provides complementary information to investors and other stakeholders on the company's performance. 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/](http://skf.com/group/investors/).

2) 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules.

3) Cash discounts are from 1 January classified as a reduction of Net sales. Previously published figures, except for 2011, have been restated accordingly.



# Three-year review

SEKm unless otherwise stated	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015
<b>Industrial</b>			
Net sales	53,972	50,588	54,132
Operating profit	7,271	6,108	6,229
Operating margin, %	13.5	12.1	11.5
Assets and liabilities, net	37,659	39,356	40,987
Registered number of employees	36,855	36,334	37,659
<b>Automotive,</b>			
Net sales	23,966	22,001	21,842
Operating profit	1,321	1,419	739
Operating margin, %	5.5	6.4	3.4
Assets and liabilities, net	9,265	9,341	8,977
Registered number of employees	7,329	7,060	7,506

1) Previously published amounts have been restated to conform to the current Group structure. For more information refer to Note 2 in the consolidated financial statements

## Per-share data<sup>1)</sup>

SEK per share unless otherwise stated	2017	2016	2015	2014	2013	2012 <sup>3)</sup>	2011
Earnings per share	12.02	8.75	8.52	10.10	2.0	10.23	13.29
Dividend per A and B share	5.50 <sup>2)</sup>	5.50	5.50	5.50	5.50	5.50	5.50
Total dividends, SEKm	2,504	2,504	2,504	2,504	2,504	2,504	2,277
Purchase price of B shares at year-end on NASDAQ Stockholm	182.2	167.6	137.2	164.9	168.7	163.2	145.60
Equity per share	62	57	54	51	44	47	47
Yield in percent (B)	3.0 <sup>2)</sup>	3.3	4.0	3.3	3.3	3.4	3.8
P/E ratio, B (share price/earnings per share)	15.2	19.2	16.1	16.3	84.2	16.0	11.0
Cash flow from operations, per share	14.1	15.7	17.0	10.5	11.6	12.5	12.4
Cash flow, after investments and before financing, per share	10.44	16.95	14.09	4.69	-11.84	6.69	8.73

1) See page 160 for definitions.

2) According to the Board's proposal for the year 2017.

3) 2012 restated for amended IAS 19. All years prior to 2011 continue to use the old IAS 19 rules.

## Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1-1,000	53,412	84.8	14,829,640	3.3
1,001-10,000	8,661	13.7	23,345,677	5.0
10,001-100,000	707	1.1	19,338,959	4.3
100,001-	218	0.4	397,836,792	87.4
	<b>62,998</b>	<b>100</b>	<b>455,351,068</b>	<b>100</b>

Source: Monitor, Modular Finance as of 31 December, 2017.

# 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 excluding items affecting comparability, as a percentage of net sales.

## **Adjusted profit before taxes**

Profit before taxes excluding items affecting comparability.

## **Basic earnings per share**

Profit 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 compared to the corresponding period last year.

## **Debt**

Loans plus provisions for post-employment benefits, net.

## **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.

## **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.

## **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.

## **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.

## **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.

## **P/E ratio**

Share price at year end divided by basic earnings per share.

## **Registered number of employees**

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

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

Operating profit plus interest income, as a percentage of twelve months rolling average of total assets less the average of non-interest bearing liabilities.

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

Profit 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.

## **Turnover of total assets**

Net sales in relation to 12-month rolling average of total assets.

## **Total value added (TVA)**

TVA is the operating profit, less the pre-tax cost of capital. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 6% above the risk-free interest rate.

# Contact persons

Patrik Stenberg  
Head of Investor Relations  
email: patrik.stenberg@skf.com  
www.skf.com/investors

Theo Kjellberg  
Director, Corporate Communication  
and Head of Media Relations  
email: theo.kjellberg@skf.com

SKF Group Headquarters  
SE-415 50 Gothenburg  
Sweden  
Telephone: +46 31 337 10 00  
www.skf.com  
Company reg.no 556007-3495

# General information

## Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 11.00 on Tuesday, 27 March, 2018. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Wednesday, 21 March, 2018, and must notify the company at the latest by Wednesday, 21 March, 2018 via the internet, [www.skf.com](http://www.skf.com), or by letter to:

AB SKF  
c/o Computershare AB, "AB SKFs årsstämma 2018"  
Box 610  
SE-182 16 Danderyd  
Sweden

or by telephone +46 31 337 25 50  
(between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and number of advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place so that the shareholder is recorded in the shareholders' register by Wednesday, 21 March, 2018. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee well in advance before that date.

## Payment of dividend

The Board of Directors proposes a dividend of SEK 5.50 per share for 2017. Thursday, 29 March, 2018 is proposed as the record date for shareholders to be entitled to receive dividends for 2017. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 5 April, 2018.

## Financial information and reporting

Publishing dates for financial reports in 2018:

Annual Report 2017	5 March
First-quarter report 2018	26 April
Half-year report 2018	19 July
Nine-month report 2018	25 October

The reports are available in Swedish and English on

[skf.com/Investors](http://skf.com/Investors) and in the Investor Relations app. A subscription service for press releases and interim reports, sent via e-mail or SMS, is available on the website.



## Cautionary statement

This report contains forward-looking statements that are based on the current expectations of the management of SKF. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in the Administration Report in this Annual Report.

© SKF, @ptitude, ALEMITE, BeyondZero, BAKER, Black Design, Blohm + Voss, BlueMon, CARB, COOPER, DUOFLEX, DURATEMP, ECOPUR, GBC, GENERAL BEARING COMPANY, HYATT, infinite, INSOCOAT, KAYDON, Lincoln, LUBRILEAN, magnetic, MICROLOG, MULTILOG, NAUTILUS, PEER, Reali-Slim, ROTOSTAT, SCOTSEAL, SEAL JET, SEEDXTREME, SNFA, Simplex-Compact, SCOTSEAL, Slew-infinite, SKF ENCOMPASS, SKF EXPLORER, S2M, SKF INSIGHT, Thinfinite, THE GENERAL, TILLXTREME, X-TRACKER are registered trademarks of the SKF Group.

© SKF Group 2017

The contents of this publication are the copyright of the publisher and may not be reproduced (even extracts) unless prior written permission is granted. Every care has been taken to ensure the accuracy of the information contained in this publication but no liability can be accepted for any loss or damage whether direct, indirect or consequential arising out of the use of the information contained herein. The report is originally written in English and translated to Swedish.

**PUB GCR/R1 17832 EN** · March, 2018

SKF Annual Report 2017 was published on 5 March, 2018.

AB SKF and Solberg

Photo: SKF Group and Anna Hult

Certain images used under license from Shutterstock.com

AB SKF  
SE-415 50 Gothenburg, Sweden  
Telephone +46 31 337 10 00  
[www.skf.com](http://www.skf.com)