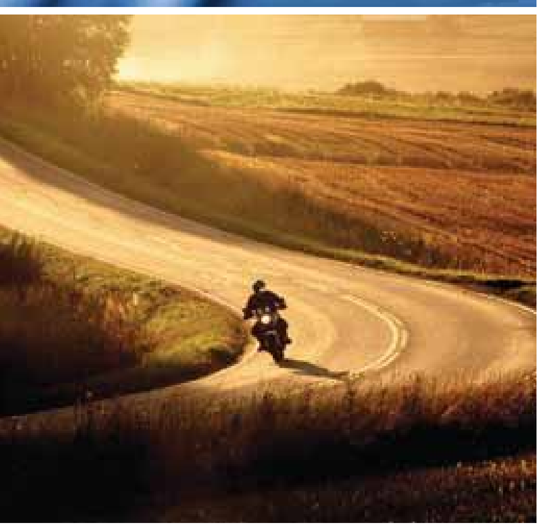








A world of reliable rotation

Annual Report 2016



Contents

"Everything we do begins with our customers."

Alrik Danielson, CEO

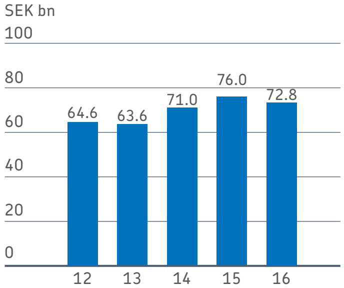
Administration Report

The Administration Report has undergone reasonable assurance engagement by SKF's auditors. See the Auditor's Report on pages 140–142. **Sustainability disclosures** in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **Auditor's Limited Assurance Report** on the **Sustainability Report** on page 143. **The Governance Report** examined by the auditors can be found on pages 144–150. The Auditor's report on the Corporate Governance Report can be found on page 151.

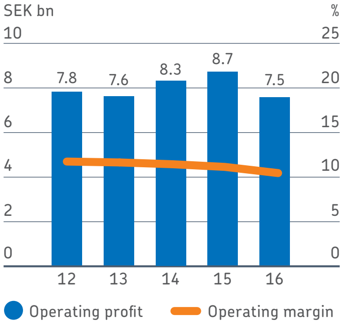
2016 in brief

- A leaner and more customer-focused organizational structure was put into place in the beginning of 2016.
- Continued divestments of non-core businesses, Fly-by-wire and Kaydon Velocity Control.
- Ramped up investments in world-class manufacturing technologies in SKF's factories in Gothenburg, Sweden, Schweinfurt, Germany and Flowery Branch, USA.
- Automotive business activities were delivered according to the Turn Around Plan.
- SKF's climate targets 2016 concluded with 14% absolute energy reduction since 2006 and strong development of BeyondZero customer solutions at the end of the period.

Net sales

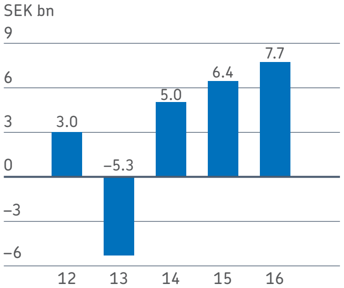


Operating profit*



* Excluding one-time items.

Cash flow**

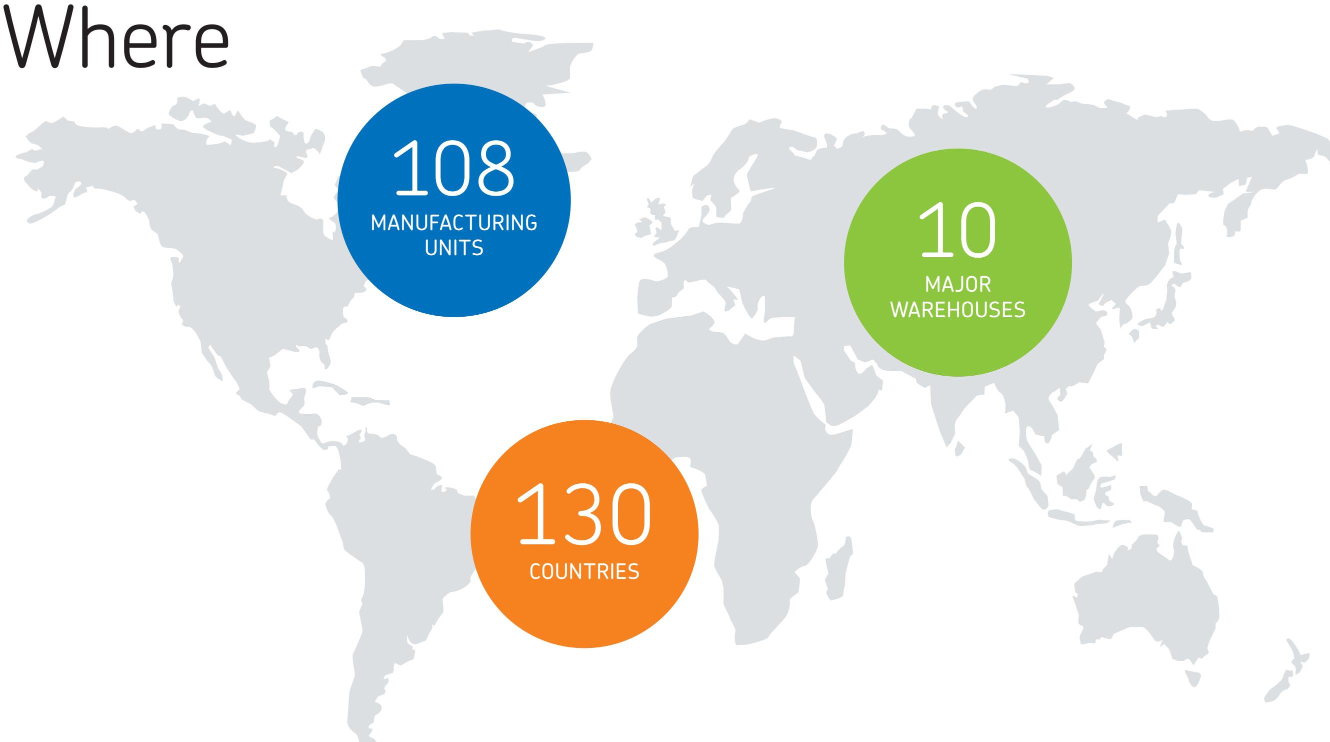


** Net cash flow after investments before financing. 2014 is adjusted for the EU payment.

Why and what

SKF works to reduce friction, make things run faster, longer, cleaner and more safely. Doing this in the most effective, productive and sustainable way contributes to our vision of a world of reliable rotation. SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems.

Where



How

One of the most trusted industrial brands, founded in 1907 • Strong technology and service offers within five technology areas • World-wide distribution coverage with 17,000 distribution outlets • 45,000 knowledgeable employees

To whom

Industrial distribution

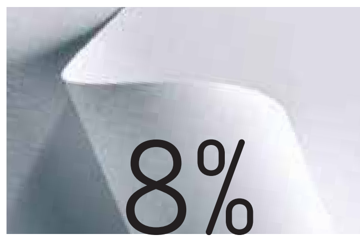
Sales through industrial distributors.

Cars and light trucks

Cars and light truck manufacturers and their sub-suppliers.

Industry, general

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



Industry, heavy and special

Heavy industrial machinery: Metals, mining and cement, pulp and paper. Special machinery: Marine, food and beverage.

Vehicle aftermarket

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

Aerospace

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

Energy

Energy providers, renewable and traditional.

Trucks

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

Railways

Passenger, locomotive and freight car manufacturers.

Off-highway

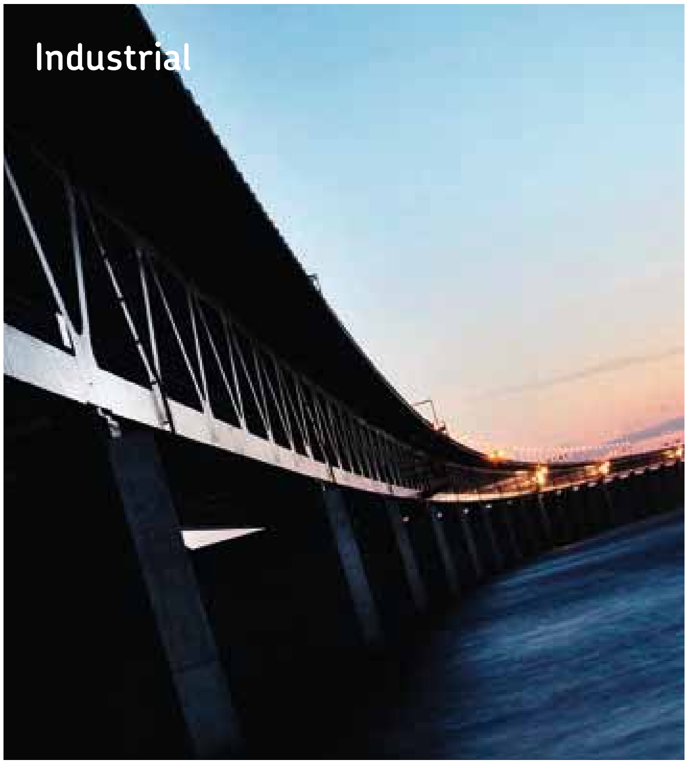
Customers within construction, agriculture and forestry and fork lift trucks.

Two-wheelers and electrical

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

The SKF Group

Industrial



70%

of SKF's net sales

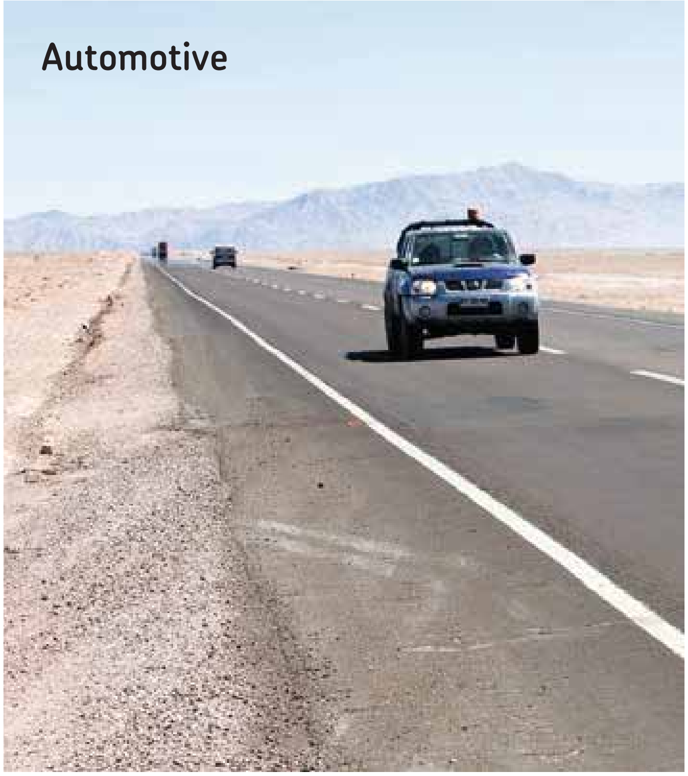
SKF serves the global industrial market directly as well as indirectly through its worldwide distributor network. Key industries are metals, mining, cement, pulp and paper, automation, machine tools, industrial drives, aerospace, railway, marine, energy and off-highway.

Main application areas

SKF develops and manufactures a wide range of products for the industrial market including bearings, seals, lubrication systems, and condition monitoring. It also provides a wide range of services and solutions around the rotating shaft in the areas of machine health, reliability engineering and remanufacturing.

Customers are served both directly as well as indirectly through SKF's network of more than 7,000 distributors.

Automotive



30%

of SKF's net sales

SKF provides a range of products, solutions and services to manufacturers of cars, light- and heavy trucks, trailers, buses and two-wheelers.

The vehicle aftermarket is served directly as well as indirectly through a network of distributors and dealers.

Main application areas

SKF's solutions are customized bearings, seals and related products for wheel-end, driveline, engine, e-powertrain, suspension and steering applications. For the vehicle aftermarket spare parts are provided for cars, trucks and two-wheelers, serving installers through a network of more than 10,000 distributors and dealers.

Total value of accessible bearings market

SEK 200–210 BILLION

Market position

SKF is a market leader in the overall industrial market and has a clear leadership position in many important industries, for example railway and energy. In other industries the leadership position is shared.

In the important industrial distributor industry serving primarily the aftermarket, SKF has a clear leadership position.

SKF market characteristics

The overall industrial OEM market is very fragmented. In some industries, such as renewable energy and railway, a relatively small number of OEMs account for a large part of the market, while in machine tools, for example, there are many large and small companies. The distributor channel structure is globally very fragmented, but to different degrees in individual countries.

Competitors

- Schaeffler Group
- Timken
- NSK
- NTN
- JTEKT
- Rothe Erde
- Watongdiam Bearing Group

Key drivers

The common key driver across the wide span of industries is the need for reliable rotation. The drivers varies from application to application according to the application-specific requirements of the different industries. Examples are low friction, low noise and 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.

Bearings market development 2016

–5 to –7%

Total value of accessible bearings market

SEK 140–150 BILLION

Market position

SKF is a market leader in wheel end solutions eg. wheel bearing units and wheel end seals, as well as suspension bearings. SKF is also strong in application driven powertrain solutions, requiring specific performance in terms of friction, weight and sealing solutions.

SKF pioneered the aftermarket with the kit concept and is strongly positioned around the world with its extensive distribution network.

SKF market characteristics

The Automotive OEM market is made up of a small number of large companies while the vehicle aftermarket has the reverse distribution.

The Automotive OEM business represents about 80% of the total bearing market, while the independent vehicle aftermarket accounts for about 20%.

Competitors

- Schaeffler Group
- Timken
- NSK
- NTN
- JTEK
- Iljin
- C&U
- Luoyang

Key drivers

The cars and light trucks market key drivers are 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.

Bearings market development 2016

2 to 4%

President's letter

Focusing on our two value propositions

Dear shareholders,
In 2016, market conditions gradually improved and SKF is now growing again. During the year we have continued to simplify SKF to make us more customer-focused, innovative and strong. We have increased the momentum of our change journey which has led to many important initiatives and achievements, some of which we share with you in this report. The SKF business spans across 40 different industries with a myriad of customers and applications. Our capabilities include the world's leading range of bearings and bearing units, seals, lubricants and lubrication systems, condition monitoring, services and maintenance tools. We also operate in other areas where our core competences are relevant, like actuation systems, linear guides and stabilizers for ferries and cruise ships to name a few.

Everything starts with a customer requirement

We work hard to be easy to do business with and our employees take ownership of our customer's satisfaction. To illustrate how we add value SKF has two strategically different value propositions. On the one hand SKF provides Products that meet the customer's specific performance requirements, delivered at the requested time, at a competitive cost. Getting involved as early as possible in the customer's development process ensures that they can take full advantage of improved performance and competitiveness.

On the other hand, SKF provides additional solutions to help customers improve their Rotating Equipment Performance. Here the customers see the need to reduce operating costs and to run their machines trouble free, without unexpected downtime and with their equipment reaching its expected operating life.

Product value proposition

Different machinery has different requirements; a lightly loaded fast turning electric motor needs a different bearing than a highly loaded industrial gearbox. To provide the most value to our customers we offer a wide product range fitting a wide range of demands. We have expanded and continue to expand our ability to meet such different performance requirements and grow our business.

We also provide world-class engineering and advanced calculation tools that help customers find and design in exactly what they need. We combine strong local engineering knowledge with global expert teams so that we are fast, close to the customer and capitalize on our global expertise.

Rotating Equipment Performance value proposition – growing market size and creating demand

Many end-user customers operate very expensive machines and they need them to be more productive. SKF has the technology, the data, the experience and the committed work force to meet those needs. SKF does this through joint process analysis, remote monitoring and focused services including machinery upgrades. This improves our customer's financial performance.

In the wake of the 4th industrial revolution new opportunities emanate to provide even more value to end-users, by for example integrating signals from sensors with active lubrication systems. Our condition monitoring IT platform is tailored to the user needs and can be integrated with the customer's planning and maintenance processes. During the year we have strengthened our existing condition monitoring offering with hand-held simple to use devices that connect to a cell phone, for customers that do not have monitoring experts in-house today. It is called SKF Quick Collect.

Going forward we see significant opportunity in growing the size of the market for our Rotating Equipment Performance offer across most of the industrial industries in which we operate.

> **Everything starts with a customer requirement – we work hard to be easy to do business with.**

World-class manufacturing and digitalizing our value chain

A key focus during the last year has been our world-class manufacturing programme where we look at four different perspectives to ensure that we have the best possible setup to serve our customers. We work with our production system, our suppliers, input cost and quality, we optimize our footprint and we accelerate the implementation of world-class manufacturing technologies and the digitalization of our value chain, from suppliers, via SKF, to end users.

A number of announcements have been made during the year and are covered in more detail later in this report. I want to mention our first world-class investment that was approved for our Gothenburg factory. I am very happy to see that we already now serve a broad range of spherical roller bearing customers from this new and highly automated and flexible production.

Automotive business turnaround

The automotive business has been working hard to improve its profitability throughout 2016. A profit improvement initiative was launched in 2015 and these efforts have resulted in a strong margin improvement.

The Turn Around Plan has included savings from significant staff reductions, new sourcing initiatives and the implementation of new manufacturing technologies such as intelligent grinding. The manufacturing footprint has been rationalized through a number of plant closures while simultaneously investing in increased production capacity in other facilities to meet customer demand.

Through an increased focus on core products and applications we have successfully gained market share in new vehicle platforms that started to ramp up during the second half of 2016.

Financial summary

We continue to execute on our strategy to focus on our core business around the rotating shaft. During 2016 we divested two businesses, where the largest one was Kaydon Velocity Control.

In total we have divested five businesses during the last 18 months which all had other customer propositions than Rotating Equipment Performance. Our organic sales performance has gradually improved during the year and in the fourth quarter sales grew organically. We are determined to improve our cost competitiveness and during the year SKF became a leaner organization. Our efforts to meet customer specific requirements also enabled us to reduce the cost of our products.

In 2016, we have increased our ambitions to invest in the future. We have announced a number of strategic investments in new technology and automation of our manufacturing facilities as well as in distribution centers. We continued our investments in a new global ERP system, the Unite program, where we in the beginning of 2017 went live in Sweden and Finland with completely new ways of working across all key business processes. I am pleased to say that the launch went according to plan.

The cash flow from the operations was strong and together with the proceeds from the divestments our balance sheet strengthened further. In the end of the year our net debt/equity ratio is close to our financial target. It is satisfying to reduce our debt without compromising on our direction to invest in a stronger and more competitive SKF.

Our role as a corporate citizen

Since I returned to SKF, I have endeavoured to empower our leaders to become purposeful action takers and to take personal responsibility for developing the business within their direct control, with our customers' and SKF's best interests at heart – always applying the SKF Code of Conduct.

SKF is a positive force and a respected actor where we operate. We are proud of this and we will continue to play this role but it also presents great business opportunities for us. When we enter 2017, we do so with a strong organic growth of our BeyondZero customer solutions and confidence that profitable business and sustainable development go hand in hand. It is with this mindset we continue our support for the UN Global Compact and the Global Goals for 2030. I would like to thank you, our shareholders, for your continued support. I believe that the changes we are making and our straight-forward strategy will make SKF even stronger for the future. I look forward to reporting on our continued progress during 2017.

Alrik Danielson,
President and Chief Executive Office

How SKF creates value

SKF's business model and strategies are designed to maximize value creation for its stakeholders. By developing, producing and selling products and solutions that support its customers' competitiveness, SKF also delivers value to shareholders, suppliers, employees and wider society.

Driving forces and trends

Population growth and increased wealth

The global population is growing and so is the middle class especially in fast developing economies. This puts pressure on scarce or finite resources such as materials, minerals, food, land, energy and water, generating a strong driver for efficiency and productivity in all aspects.

Globalization

Economic power continues to shift, particularly towards the East. This calls for relocation of resources such as manufacturing, sales and technical knowledge to meet local demands.

Environmental impact

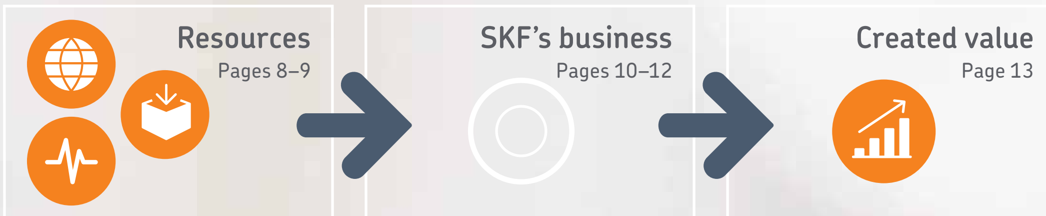
Increasing global concern about the negative impacts of climate change and environmental degradation calls for action to reduce or avoid these impacts, through legal or other stakeholder means.

Urbanization

An increasing part of the global population lives in cities. This creates demand for associated infrastructure such as energy, water and transportation.

Digitalization

The rise of big data and smart systems creates huge potential to better address many of the challenges described above.



Resources

Business relations

Customer relations within over 40 industries

17,000 distributor locations

17,000

Financial capital

Assets

Equity

Receivables

SKF sites

108 manufacturing units

28 Solution Factory

10 major warehouses

108 MANUFACTURING UNITS

Natural resources

1,683 GWh energy

446,000 tonnes of metal

Intellectual capital

45,000 employees

2.2 billion R&D investment

45,000

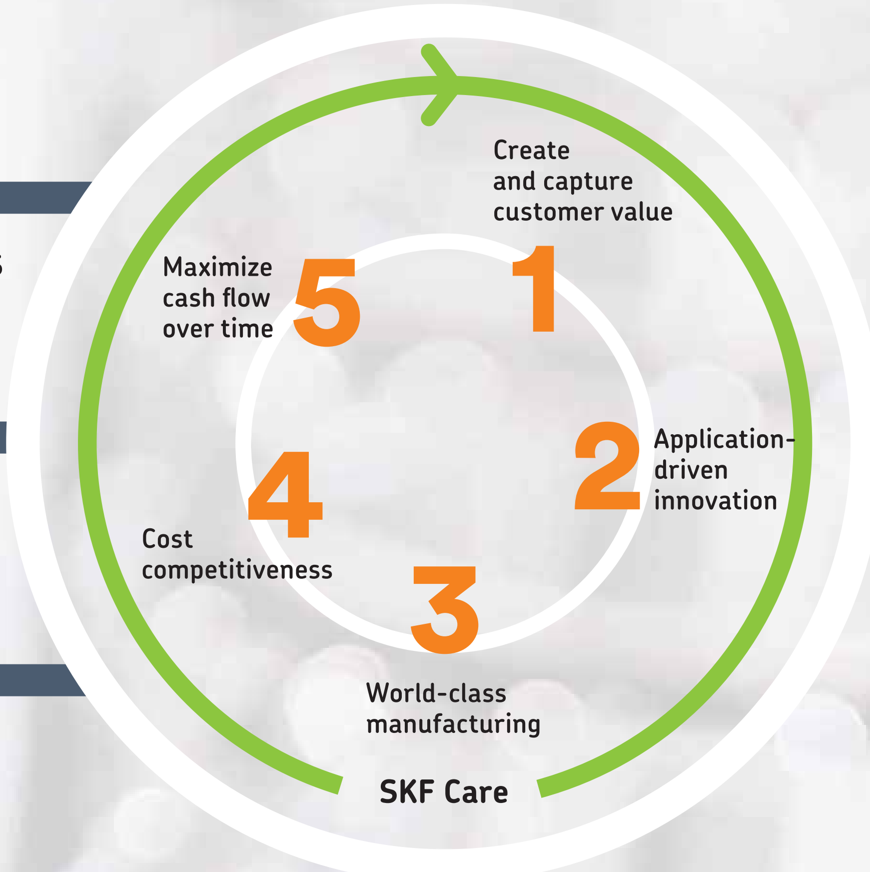
Important issues

External forces and trends together with SKF's activities adds up to a range of short and long-term issues that SKF needs to manage, and these can be summarized in a number of areas:

- Customer expectations
- Business ethics
- Financial performance
- Health and safety
- Application-driven innovations and new business models
- Attract, retain and engage a diverse and effective workforce
- Equality, human and labour rights
- Environmental impact along the value chain
- Create additional value in the communities around SKF

Read more about materiality on page 120–122.

Strategic priorities



Driving forces and trends

Resources

Important issues

Vision

A world of reliable rotation

Mission

The undisputed leader in the bearing business

Values

Empowerment • High ethics • Openness • Teamwork

Strategic priorities

1 **Create and capture customer value**
SKF helps customers to become more competitive. SKF will identify and help customers provide value through new solutions and innovations.
Read more on page 14.

2 **Application-driven innovation**
SKF supports its customers with application-driven innovation and develops new technologies and solutions based on customers' application needs. These solutions will provide customers with a direct competitive advantage.
Read more on page 20.

3 **World-class manufacturing**
SKF has manufacturing at the top of its agenda, developing the latest manufacturing technologies and ensuring a global manufacturing footprint.
Read more on page 24.

4 **Cost competitiveness**
SKF lowers its cost to achieve a lean and purposeful organization with high productivity.
Read more on page 30.

5 **Maximize cash flow over time**
With success in the prior four areas SKF will maximize cash flow over time, a key prerequisite for continuing to develop SKF for the future.
Read more on page 34.

SKF Care

SKF Care is the Group's framework on sustainability with four dimensions; Business Care, Environmental Care, Employee Care and Community Care. The BeyondZero strategy drives actions to maximize the positive impact from industry.

Example of activities 2016

Customer focused organization
Implemented a new simplified and customer focused organization to further drive organic sales growth and improve profitability.

Optimized bearing for wind turbines
Developed a new SKF spherical roller bearing for wind turbine main shafts, optimized for reliability and required service life.

Investments in world-class manufacturing
Ramped up investments in world-class manufacturing technologies totalling half a billion SEK, in Schweinfurt, Germany, Flowery Branch, United States, and Gothenburg, Sweden.

Cost savings in North America
To achieve further efficiency and cost savings, the consolidation of manufacturing units in North America was initiated.

Continued divestment
Continued divestment of non-core businesses, Fly-by-wire, and Kaydon Velocity Control, which generated a positive cash flow of SEK 2.8 billion.

Example of planned activities 2017

- Leverage the geographic sales organization, identifying and helping customers provide value through new solutions and innovations.
- Focus on digitalization to help our customers deploy Industry 4.0 solutions.
- Drive e-commerce initiatives for the aftermarket.
- Technology upgrade in manufacturing and continued roll out of SKF Production System.
- Continued focus on cost competitiveness and throughout the value chain.

Objectives and attainment

Financial targets

SKF's financial targets were introduced in 2016 and are to be achieved over a business cycle:

Organic growth of 5% in local currencies
In 2016, organic sales declined by 1.6%. Sales growth in Europe was offset by lower sales volumes primarily in North America and in Asia.

Operating margin of 12%
The 2016 operating margin was 10.3% which was below the 12% target but an improvement of more than 1 percentage point compared with 2015. In 2016, reduced costs improved the operating margin while lower sales volumes, higher costs for the Unite IT project and general cost inflation had a negative effect.

Return on capital employed of 16%
In 2016, the return on capital employed was 11.9% which was an improvement of 1 percentage point compared with 2015.

Net working capital of 25%
At the end of 2016, net working capital was 29.9% of sales, which was higher than both the target of 25% and last year's level of 27.1%.

Net debt/equity of 80%
At the end of 2016, net debt/equity had improved to 84% which was higher than the target but a significant improvement compared with the 100% at year-end 2015.

Achieved 2016

ORGANIC GROWTH
–1.6%
Target 5%

OPERATING MARGIN
10.3%
Target 12%

RETURN ON CAPITAL EMPLOYED
11.9%
Target 16%

NET WORKING CAPITAL
29.9%
Target 25%

NET DEBT/ EQUITY
84%
Target ≤80%

Environmental and Social targets[1]

SKF launches new climate targets for 2025. Read more on page 45. The Group's previous targets expiring in 2016 are concluded on pages 42 and 127.

SKF BeyondZero customer solutions
Increase revenues of SKF BeyondZero customer solutions. Target SEK 10 bn from 2.5 in 2011. Achieved SEK 6.8 bn.

Increase recycling rate
Increase recycling rate of grinding swarf to 80% by 2016. Target 80%. Achieved 74%.

Reduce use of solvents
Reduce use of solvents in SKF operations by 50% by 2016. Target –50%. Achieved –49%.

Reduce energy use
Reduce energy use in operations by 5% under 2006 year's level, regardless of business growth. Target –5%. Achieved –14%.

Social target – Zero accidents
The Zero Accidents programme aims to eliminate work-related accidents and illnesses. Target Zero. Rate 2016 0.87. See page 132.

1) Environmental and Social targets are part of the sustainability disclosures, which have been subject to limited assurance by SKF's auditors.

Achieved 2016

REVENUES, SKF BEYOND ZERO CUSTOMER SOLUTIONS
6.8
Target SEK 10 bn

GRINDING SWARF
74%
Target 80% recycling rate

SOLVENTS USE
–49%
Target –50%

ENERGY USE
–14%
Target –5% compared with 2006

ACCIDENT RATE
0.87
Target Zero

Value created

Customers

SEK 4 billion in savings approved by customers

SEK 4 bn

Financial

Operating profit SEK 7.5 billion

Cash flow after investments before financing SEK 7.7 billion

Dividend SEK 2.6 billion

Employees

Benefits including social charges

Safe and respectful workplace

Positive and engaging workplace

SEK 22.8 bn

Innovation

Invention disclosures: 229

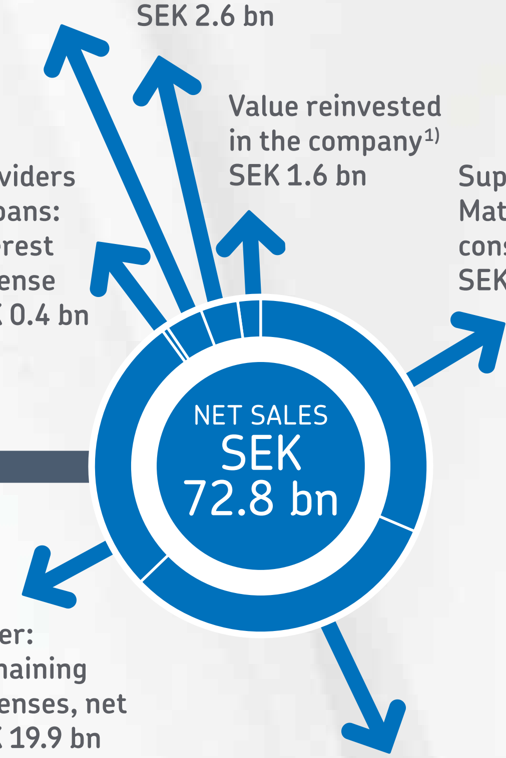
First filings of patents: 191

New products and solutions: 15

Society

2.5 billion corporate income taxes

400,000 tonnes avoided CO_2 emissions enabled by SKF customer solutions



1) Net profit, less proposed dividend.

Strategic priority

Create and capture customer value

Everything SKF does begins with its customers. By providing first-class products and solutions, with the right performance requirements, at the right time and cost, SKF helps customers in 40 different industries across the globe.

Increased globalization, tougher competition from Asia, increasing concerns about climate change and digitalization of the industry put pressure on industrial companies to achieve greater productivity and efficiency along the entire value chain.

Today, there is a greater demand for application-specific value propositions based on functionality and uptime, since customers need to maximize the performance of their equipment. There is also greater competition from product offerings focused on cost and performance. The growing main market calls for solutions and components that are fit-for-application. These products and solutions work to the customers' specific requirements for performance and reliability.

Two value propositions in focus

SKF's main business involves all offers that support the rotating equipment performance. The core is the bearing, but for a bearing to function well it needs to be well lubricated and protected from the surrounding environment. To further enhance the performance of the bearing, it is important to have the right monitoring in place to avoid and detect potential problems. The OEM customer needs a competitive, reliable and robust application, often with an attached service offer. To address the change in market demand and the different industry needs, SKF has two main value propositions: Products and Rotating Equipment Performance.

The two value propositions

1. Products

The product proposition meets performance requirements on specific parameters such as speed, load, noise or physical environment. These products work according to the customers' needs, meeting their specific requirements for performance and reliability.

Customer focus

✔ **Right Product** ✔ **Right Cost** ✔ **Right Time**

2. Rotating Equipment Performance

The rotating equipment performance proposition meets the needs of customers who operate critical machinery, by maximizing the performance. Functionality and machine availability is more important than component price. SKF offers tailored solutions including the appropriate SKF technologies.

Customer focus

✔ **Total cost of ownership**

Understanding customer value

SKF aims to deliver the products and solutions best suited to help customers achieve their targets. Fully understanding how to reach them is crucial to building strong customer relationships.

Delivering customer value is not just about delivering a product with the right performance at the right cost and at the right time, it is also about addressing issues such as machine uptime, production efficiency, reliability, energy use and total cost of ownership. Read more on pages 20–23.

Expertise in industry specific solutions

SKF's customers can be found in most industries around the world. The driving forces and needs within each industry and geography vary and need to be addressed with distinct solutions.

SKF combines its offering within bearing technology, sealing solutions, lubrication systems, services and condition monitoring to achieve the equipment's best performance. This results in specific solutions for various customer industries.

One example is the food and beverage industry where food safety regulations are growing more complex. Continued high pressure to reduce operational costs while keeping environmental performance under control creates a challenging environment. SKF helps improve overall plant efficiency and supports customers in meeting environmental targets on carbon emissions, water use, waste reduction and zero landfill. SKF combines process and assets expertise with a range of food safety compliant technologies including re-lubrication free bearings, automatic lubrication systems, industry approved lubricants and seals.

Test centre for large-size bearings

SKF is building the world's most powerful test centre for large-size bearings in Schweinfurt, Germany.

It will have unique capabilities to improve simulation tools that support development and customization of solutions for a variety of industries such as wind, marine and mining. It will allow testing of bearings with an outer ring diameter of up to six metres, with extreme bending moments and dynamic loading conditions.

As the test centre will help save energy and material resources in the production of large-size bearings, SKF was granted public funding by the Bavarian Ministry of Economic Affairs and Media, Energy and Technology as well as by Germany's Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety.

In the automotive industry fuel consumption and CO_2 emission reduction, electrification and alternative fuels, are key drivers. Standardization of platforms and modules for more flexibility and cost efficient vehicle production is also crucial, as well as the growth of compact affordable cars. To meet requirements, SKF is an early development partner to key vehicle manufacturers, providing bearings and seals that enhance efficiency by reducing friction, weight and size, integrating sensors and customizing solutions to fit the performance requirements and vehicle type.

Digitalization enables reliable rotation

To help ensure long bearing service life, it is important to determine the condition of machinery and bearings while in operation. Good predictive maintenance will help reduce machine downtime and decrease overall maintenance costs.

SKF offers a full range of solutions including services, condition monitoring and smart bearings which allow SKF to transform data into accessible information. Today SKF monitors over a million bearings in multiple industries and collects the data which is analyzed. The customers receive recommendations on what kind of maintenance is needed, and when.

Customer focused organization

SKF is committed to making it easy to do business with, either directly, through distributors or online.

It works directly with major customers through dedicated strategic account management at both a global and local level. This way, SKF gains a deep understanding of its customers' processes and requirements enabling development of products and solutions that help support the customers' business. It also helps identify where customers can replicate their use of SKF's solutions in other parts of their organizations.

SKF has the largest industrial distributor network in its industry. Around 40% of SKF's industrial business goes through distributors, providing customers with punctual and reliable deliveries, easy access to a wide range of products and advanced technical expertise and services provided 24/7. Through a strong network of more than 10,000 distributors within the vehicle aftermarket, spare parts for cars, trucks and two-wheelers reach workshops all over the world. With over 20,000 variations, SKF offers parts and kits to carry out complete repairs for virtually every automotive brand and model in the world.

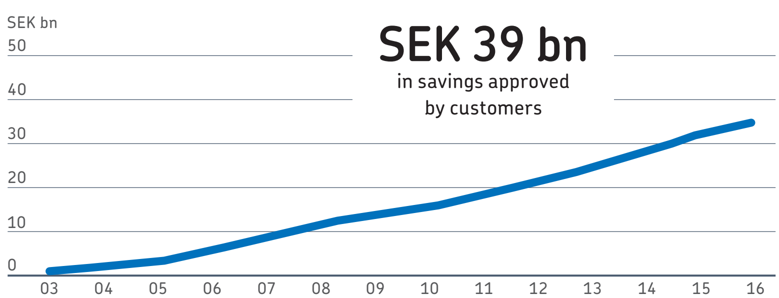
SKF's distributors and large OEMs can purchase SKF's products through Electronic Data Interchange or webshops, which increases the speed and accuracy of business communication and improves overall efficiency on both sides. Digital business has become one of the most important and modern ways of doing business with customers, with over 80% of all distributor business managed electronically.

SKF has an extensive logistics network and through its global transportation network and local and regional warehouses, it reaches over 50,000 customer sites with short lead times. Expertise within areas such as customs, warehousing, packaging and delivery/return processes is a key competitive advantage for SKF.

Measuring customer value

Showing the financial and environmental benefits that SKF's solutions can bring and predicting and measuring the total actual savings for the customer is important. By working together with the customer and populating the SKF Documented Solutions Programme with data, an SKF sales representative can generate a bottom-line figure predicting the total estimated savings that can be achieved by using SKF solutions. The customer provides his own plant's running information, for example materials, labour, downtime, and the forecast savings are based on that information.

SKF has also developed a methodology to measure environmental benefits during the customer use phase. This method calculates avoided emissions from SKF's customers using SKF's solutions compared with baseline – defined as the most common alternative on the market. A product or service that provides significant environmental benefit is defined as an SKF BeyondZero customer solution.



SKF Documented Solutions Programme

SKF has collected 71,000 approved cases that show proven, quantifiable value in over 25 industries. From 2003 to 2016, SKF provided SEK 39 billion in savings approved by customers. In 2016, the figure was more than SEK 4 billion.

One of the most trusted industrial brands

The SKF brand is one of the most trusted and well-known global industrial brands. SKF's offer has evolved over many years from primarily being based on bearings, to include products and services from all five technology areas. A key driver of SKF's technology development is to improve efficiency and reduce energy losses, thereby helping to reduce the environmental impact both in its operations and for its customers.

Protecting the brand

In markets where there is good availability of genuine parts, there has been a sharp decrease in counterfeit thanks to SKF's awareness-raising efforts. The situation in markets where availability of genuine products is lower, the existence of counterfeit as a percentage remains in double digits. SKF is increasing its support to law enforcement in these markets and combining this with awareness raising activities. Taking back sales from counterfeiters is not only a good business for SKF, but also helps end customers avoid costly damage to their operations.

> “SKF brings the know-how and core expertise, while GE Oil & Gas brings the scale, process and service capabilities in order to better serve oil and gas operators.

Luca Maria Rossi,
General Manager for Turbomachinery Solutions Product Management,
GE Oil & Gas

Active magnetic bearing technology

For demanding conditions

SKF active magnetic bearings operate with no surface contact, eliminating bearing friction and wear.

Their extreme reliability and stability makes them suitable for a diversity of demanding applications such as natural gas pipeline compressors, high energy efficiency chillers and water treatment air blowers.

In 2016, SKF and GE Oil & Gas signed a non-exclusive collaboration agreement, aimed at further developing the use of active magnetic bearing technologies within the oil and gas sector.

As part of the agreement, GE Oil & Gas will make use of SKF's leading magnetic bearing technologies from front-end engineering design to installation, testing and service to customers.

Strategic priority

Application-driven innovation

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

R&D expenditure in 2016, excluding developing IT solutions, amounted to over SEK 2 billion, equivalent to about 3% of annual sales.

The key to application-driven innovation is to fully understand and design for customer needs. It also means bringing solutions to the market that really matter to the customers. In some cases, SKF can meet these needs with catalogue products, while in other cases SKF needs to innovate solutions specifically targeted to the application. Needs differ between industries and customers.

Within the automotive and aerospace industries, innovation is customized. All offers are engineered to order and developed in close cooperation with the customer according to the agreed specification.

In the wheel end applications, SKF has continuously developed features and solutions to reduce friction and weight to reduce fuel consumption and emissions. This is done by optimizing for example the grease, the seal and internal geometries.

Leveraging on digitalization

SKF's Asset Efficiency Optimization technologies, processes and services have been delivering rotating equipment performance to customers since the mid-80s. Today SKF has hundreds of service contracts deployed globally and several hundreds of service professionals in areas such as predictive maintenance, and lubrication. With this knowledge and experience, SKF has a solid foundation for moving further into the area of Industry 4.0, developing solutions that are even more valuable and efficient for customers. Today SKF monitors over a million bearings in multiple industries and collects the data. Analysis of the data makes it possible to give recommendations on how to prevent machine failures or when to carry out maintenance.

SKF is also ensuring it serves customers in a faster, better and more cost-efficient way by applying Industry 4.0 technologies to its own manufacturing and supply chain process. Read more on pages 26–27 and 30–32.

SKF Insight sensor technology is one example of how SKF is using digitalization to meet customer needs. It has been customized for wind, railway and heavy industry applications. By using this technology, SKF customers can easily transfer data from machines to the data handling and analysis system SKF Enlight. SKF Enlight contains analytics tools, enabling the customer to detect anomalies, make prognostics and to take proactive actions to extend the component lifespan, reduce total cost of ownership and increase asset reliability.

Helping customers stay on track

Today, the railway industry typically uses a time-based maintenance approach, where maintenance manuals dictate when to replace bearings. This means that a train is taken out of service for maintenance of bearings after it has run a certain mileage or time. Striving to reduce life cycle costs and to improve maintenance planning, railway operators and their maintenance partners are looking for effective methods to detect critical damage to axle box bearings, wheelsets and other rotating components at an early stage, and thereby move from a time-based to a condition-based maintenance approach.

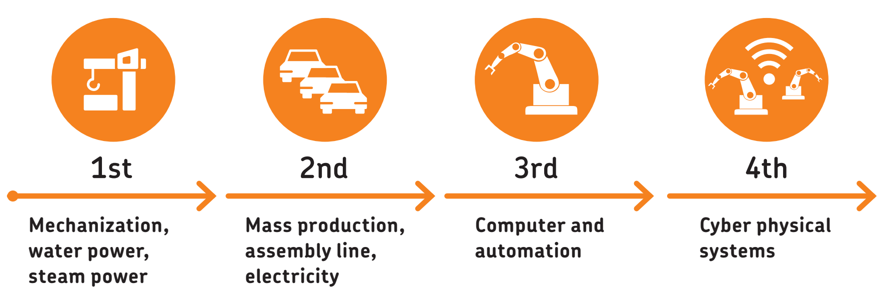
The condition monitoring systems currently available on the market typically require cabling and are complex to install on existing fleets. The data provided is not always easy to interpret, and required actions might not be obvious to define. SKF Insight is a significant step forward in changing this situation. During 2017, SKF will launch SKF Insight Rail, a solution

Industry 4.0 – the 4th industrial revolution

Industry 4.0, or the 4th industrial revolution, is a collective term embracing a number of contemporary automation, data exchange and manufacturing technologies. Essentially it focuses on the connectivity between people and “things”, gathering and making good use of digitalized information, enabling better decision making and machine-to-machine interaction. It affects both SKF’s and its customers’ operations.

At the end of the road, Industry 4.0 is all about reliability, productivity, safety and ultimately; bottom line maximization. However it goes even beyond that, it also enables elimination of process silos and the possibility to connect the whole value chain.

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



Reducing friction

For transmissions, friction reduction is a key enabler for reducing fuel consumption and emissions. By replacing axially preloaded tapered roller bearings by a located/non-located bearing arrangement SKF could help a customer significantly improve the efficiency rate of the gearbox. By using in-house modelling and simulation tools, component calculations were carried out, and by considering service life, stiffness rates and power loss, SKF identified suitable internal geometries of the bearings. Friction torque results enabled calculating CO_2 savings on a car level. The results were also verified by customer measurements. All in all the CO_2 emission reduction was 2.5 g/km.

targeting passenger retrofit applications. It consists of lightweight, compact, highly capable sensors that directly communicate to a dedicated cloud-based analysis service over the mobile network. If an anomaly is detected, an alert is sent to the maintenance department with a recommended action. Each sensor node can be remotely configured to meet an individual customer's specific monitoring needs and operating schedules. More advanced analyses can be done by the customer, or by the experts at SKF.

Time-savings with Cooper split roller bearings

Split-to-the-shaft roller bearing units has been one of SKF's offers since the acquisition of Cooper in 2013. This solution is exceptionally time-saving when rebuilding or repairing machine equipment. In typical cases repair time drops from five days to six hours, thanks to the split design which allows bearing replacement without the need to dismantle surrounding equipment. The swivelling cartridge housing design gives good alignment not only of the bearing but also of the seals, which gives great reliability in contaminated areas. During 2016, Cooper launched a range of Angled Pedestal housings, which makes it even easier to slide the base of the pedestal housing under the shaft without having to lift or jack the shaft at all – a new and even more time saving feature from Cooper that can benefit SKF customers everywhere.

Weight is key in the air

In the aerospace industry reducing weight is key and this is being addressed primarily by changing and optimizing materials. Using composites has been standard in the industry for over ten years and SKF is developing a unique and patented solution, called Black Design, for designing high-performance composite parts. It brings weight savings of up to 50% compared with metallic parts while also avoiding issues of corrosion.

Light and strong hybrid bearing technology

Understanding the challenges facing aerospace customers, SKF developed hybrid bearings, combining rings made of aerospace conventional steel and rolling elements made of aerospace grade silicon nitride. 60% weight savings are achieved on the rolling elements (corresponding to some 15% on a typical main shaft aero-engine bearing). Furthermore, the ceramic material provides additional benefits such as lifespan improvement, better resistance (to wear, oil-off conditions and contamination) and lower power loss and heat generation. Over the last few years, the technology has also helped customer innovations in many industries and in applications such as machine tool spindles, railway traction motors and compressors.

Simulation and testing increase trust

As part of SKF's efforts to enhance service to customers, a test centre for large-size bearings in Schweinfurt, Germany, is being built, to serve customers in the wind, marine and mining industries. The large test rigs enable real full dynamic application tests for SKF. The centre will be inaugurated in 2017.

As part of SKF's technical footprint, SKF has tech centres spread across the globe – in China, India, Japan, the USA, the Netherlands, Sweden, Germany, Italy, France and Austria.

The centres serve the global and local customers, allowing SKF to increase its agility in supporting its customers.

Collaboration for mutual benefits

SKF currently funds four University Technology Centres around the world. Here, SKF works closely with leading researchers in business-driven projects, creating understanding and proof of concepts in parallel. SKF also supports PhD and post Doctorate research at many academic institutes globally. SKF's unique network in the academic world serves as a source of innovative knowledge.

SKF is involved in various Horizon 2020 funding projects, the European Commission's largest research and innovation programme. SKF's industry-leading technology and design-engineering support is helping to illustrate how advanced ocean energy systems can provide sustainable, reliable, low-cost and high-value energy to the European power supply.

An innovative culture and customer-oriented organization

During 2016, the SKF organization was reshaped to better serve customers, creating a stronger focus on the two main markets – industrial and automotive. Within the industrial market, a new area focused on business and product development dedicated to application-driven innovation was established.

SKF's approach to application-driven innovation has implied new ways of working. Learning from the software development teams, the development teams have adopted the Agile/SCRUM approach to product development. SKF has also created an application competence centre with unique and highly specialized competence in the products' key application areas. This enables SKF to understand how products influence customers' applications. To ensure progress of digitalization within the business, a global team, mainly located in Gothenburg, Sweden, was created, to be closer to customers, manufacturing, sales and traditional product development. The software development centre in San Diego, USA, was closed.

To further strengthen an innovative culture, SKF initiated an innovation management programme in a few selected parts of the organization in 2015. The project proved successful, and the scope was expanded to the entire Group during 2016.

New global software centre

SKF is now gathering its expertise in condition monitoring by creating global development centres for hard- and software in Europe, located in Gothenburg and Luleå in Sweden, and Aberdeen and Livingston in Scotland. The largest unit is in Gothenburg, and is responsible for software development of next generation technology from SKF.

SKF has been a leader in the development of services and products in state control since the 90s and conducts the research in the field along with Luleå University of Technology.

Strategic priority
World-class manufacturing

The 4th industrial revolution is here – new technologies emerge and more innovations are being developed. SKF is harnessing these opportunities and investing for world-class manufacturing.

To be the undisputed leader in the bearing business, SKF invests to have the leanest, safest, most cost-efficient and most flexible manufacturing processes. The strategy behind world-class manufacturing applies to the full value chain, from sourcing to final product, delivered flawlessly to the customer. It means to have zero defect delivery at the right time and at the lowest possible cost.

To deliver on this strategic priority, the Bearing Operations organization was formed in the early part of 2016 to benefit from synergies with an end-to-end focused setup. SKF's purchasing and logistics operations now work together with a worldwide network of manufacturing units clustered by global product lines. A global manufacturing and process development team was also formed to drive the strategic priorities and activities in terms of technology development and footprint.

The programmes established last year have been strengthened and adapted to include the end-to-end perspective. The four programmes are SKF Production System, Input cost reduction, Technology step-up and Manufacturing and logistics footprint.

1 SKF Production System
SKF Production System strives for a well described process of continuous improvements in all operational units and is based on the lean principles for a cost-effective flow. Safety, Quality, Delivery, Cost, Working climate and Environment have been set out as priorities to maximize customer value and minimize waste. The lean fundamental concepts of the production system are:

- **Value:** The customer defines the value of a product or service, and SKF must take account of this in all processes.
- **Value stream:** The chain of processes required to fulfil every customer requirement defines the value stream. By visualizing the stream of materials and information, and analyzing the processes, it is possible to identify opportunities for waste reduction.
- **Flow:** Information and materials should flow without disturbances in the value stream. Flow stoppers generating defects, delays and increased costs are gradually eliminated by using defined, agreed and standardized working methods.
- **Pull:** The flow of products, services or information is triggered by customer demand.
- **Strive for perfection:** SKF is continuously working at identifying and addressing improvement opportunities through deployment of the core lean tools.

The ambition is that by the end of 2018, all major bearing factories should be working according to this system.

Certification ensures consistency
SKF holds global certification on quality management, according to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). On environment, health and safety, highly material issues in SKF's manufacturing and associated operations, the Group is certified to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management). All relevant units are included in this single Group-wide certificate, and recently acquired companies are given a timeframe for implementing the management system, working towards inclusion in the Group's certification scope. The SKF Group-wide certificate for environment, health and safety covered 112 sites in 35 countries at the end of 2016. The schedule for recently acquired companies can be found at skf.com/14001.

1

SKF Production System
Improving the processes continuously.

2

Input cost reduction
Optimizing direct material costs, with integrated cost reduction teams.

3

Technology step-up
Setting a global standard for machines, equipment and processes.

4

Manufacturing and logistics footprint
Serving customers in the most cost-effective way at the right time.

Implementing Industry 4.0

SKF made the final implementation steps of its first fully-automated assembly of spherical roller bearings in its factory in Gothenburg in early 2017.

It is a consolidation of four channels into two, reducing manning from 130 to 30 employees, while raising productivity. Previous reset time of up to four hours has been greately reduced which allows for more custom-made orders and reduced lead times.

Automated guided vehicles serve to fill the channel with the parts needed and pick up the final product for further distribution.

SKF's own standards aim higher

SKF launched the Zero Accidents target in 2000 with the aim to eliminate work-related accidents. The belief that accidents are preventable and that an accident-free work environment is achievable has led to substantial progress over the years. 2016's accident rate was 0.87 (0.99). See page 40 for more on occupational health and safety and pages 42–45 for more on environmental targets.

To standardize competence development, a Manufacturing Academy was formed. The global structure with locally adapted materials is being implemented in each factory in a learning centre. The centres enable hands-on introduction for new employees to be operational with the necessary information and skills as fast as possible. They also provide training for employees to acquire new skills including the latest installed technology.

2 Input cost reduction

Input cost reduction is aimed at optimizing costs of direct materials. One of the focus areas is integrated cost reduction, which is about setting the right specifications for the design of SKF products and processes, combined with sourcing of components and materials.

SKF's purchasing of goods and services is dependent on the total cost. By looking at the end-to-end supply chain, SKF can identify cost and waste drivers and exclude non-value-added processes from the supply chain. This is done in close collaboration with suppliers, ensuring that the components SKF sources are optimized from a design and specification standpoint to maximize customer value.

The purchased materials consist of steel raw materials such as bars, wires, tubes and strips, and steel-based components such as rings, balls, rollers and sheet metal parts, and other direct materials, as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment and various types of services. Read more on pages 30–32, Cost competitiveness.

3 Technology step-up

A global standard for machines, equipment and processes is important in order to ensure cost-efficiency. Taking the step to world-class manufacturing requires the right equipment and processes to enable higher efficiency with a flexible output in one smooth trouble-free operation. To continuously take steps to advance and improve, the focused areas are:

- **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 used in specific machines.
- **Maintenance Excellence** aims at increasing machine uptime by the targeted implementation of SKF reliability solutions within the Group's manufacturing operations. Increasing uptime and avoiding breakdowns ensures that machines are available to produce the right quality and speed according to customer demand. At the same time, the capital-intensive nature of bearing manufacturing operations means that even small improvements in this area can make a significant contribution to the operating result.
- **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 the super flexible setup, producing individual pieces for a specific customer demand and a range of solutions in-between. The different setups require very different approaches, such as how machines are re-set when moving from producing one sort of item to another.

The Machine Centre of Excellence (MCE) units, set up in recent years, have a key role to play in the technology step-up. The MCE acts as an interface between manufacturing development and the factories, ensuring fast and cost-effective industrialization of new and innovative technologies. Before any new machines are installed, they will be thoroughly tested and adapted to the needs of the factory. The MCEs are also responsible for the refurbishment and upgrade of current machines to new standards.

The newest MCE unit, in Gothenburg, Sweden, was established in 2016 to complement the existing MCE units in Airasca, Italy, St Cyr, France, and Shanghai, China. More MCE's are expected to be created in the coming years.

4 Manufacturing and logistics footprint

The manufacturing and logistics footprint is constantly optimized to serve customers in the most cost-effective way. To maintain a sustainable structure, SKF targets production, sourcing and logistics with a region-by-region approach, closer to customers.

In 2015, SKF announced its first investment for world-class manufacturing in the Gothenburg spherical roller bearing factory in Sweden. This project was completed in the first quarter 2017. In 2016, SKF continued its efforts by announcing investments of SEK 150 million in upgrading machines and processes in Flowery Branch and Hanover, USA, and an investment of SEK 295 million in cylindrical roller bearings and large size bearings factories in Schweinfurt, Germany. These projects will start up in 2017, with a target of finalization by the end of 2018.

Consolidation of bearing manufacturing was initiated in the USA and China, and an announcement was made for an investment in roller production in Dalian, China.

The Y-Bearing and Units production channels in Puebla, Mexico, which serve North American customers within the agriculture industry was closed, with production transferred to other SKF sites. To read more about footprint and cost-competitiveness, see pages 30–32.

To support SKF's global manufacturing footprint and close supplier collaboration, SKF has sourcing offices at various locations around the world. By developing a local supplier base, SKF can increase its supply chain flexibility and agility. Today most supplies to SKF's factories in each region come from local or regional suppliers.

Always there for the customer

SKF reaches over 50,000 customer sites, with short lead-times, through its global transportation network and local and regional warehouses. Logistics and Demand Chain effectively manages the flow of components and goods from suppliers to SKF and from SKF to its customers.

During 2016, SKF has invested in a number of efficiency improvements within the logistics area, such as the agile warehouse solution SateLight and a new miniload system based on a warehouse operating model called Goods-to-Man. Another improvement initiative was conducted in India, aimed at revitalizing the logistics setup by consolidation of several stocking points, creating an optimized transport network and implementing global processes and systems. See Logistics on page 32 for further explanations. These investments complement our efforts in the area of modernizing and digitalizing our factories. With a more flexible digitalized manufacturing, logistics base and warehouses, SKF and its customers will increase their competitive advantage.

Scania Trucks

Tailored for customer needs

SKF is supplying a range of bearings, seals and linear actuation technologies for Scania's new generation of trucks. This is the result of over 10 years of development, during which time SKF has worked closely with Scania on developing tailored solutions. These trucks lower fuel consumption and significantly improve driver comfort.

Scania's new generation of trucks create a comfortable and safe workplace for drivers, whilst offering haulage companies greater reliability and improved fuel efficiency.

The front- and rear-wheel truck hub units reduce friction by up to 30% compared with standard wheel bearing sets. The tailor-made wind deflector is equipped with SKF linear actuation technology to allow ease of adjustment.

> Scania and SKF have a long history of collaboration and putting the drivers' needs in focus.

Stéphane Le Mounier,
President, Automotive and Aerospace

Strategic priority

Cost competitiveness

Cost competitiveness is key for SKF in its mission to be the undisputed leader in the bearing business. It encompasses the entire value-chain from product and service development to purchasing, manufacturing, sales and distribution, making sure SKF's organization, operations and processes are as efficient as possible.

Cost-reduction programme

The cost-reduction programme was completed in 2015, with a total reduction of 2,089 employees (target 1,500) and an annualized cost saving of SEK 1,187 million. The associated costs amounted to SEK 1.2 billion, compared with the expected SEK 1.4 billion.

In 2016, the total restructuring cost amounted to around SEK 580 million, and includes the cost of consolidating three factories in North America. In 2016 a total of 1,087 employees, adjusted for acquired/divested businesses, left the company.

New processes and IT infrastructure

SKF is implementing a new ERP system (Unite) to create and deploy improved, aligned processes and solutions across the SKF Group and leverage from new system technology. It includes the establishment of best practice processes to enable business efficiency and growth.

Both development and implementation are led by a dedicated programme organization, working in close cooperation with the business. The Unite programme spans all key process areas – sales and customer relationship management, purchasing and supplier relationship management, finance, demand chain and manufacturing. The implementation will take place in a stepwise approach until fully implemented in 2022. A pilot version was released in Sweden and Finland in January 2017.

The expenses in 2016 were SEK 940 million of which SEK 620 million were expensed and SEK 320 million were capitilized as an investment.

Organizational structure

At the beginning of 2016, SKF adjusted its organizational structure to simplify operations within sales, manufacturing and technology development.

Sales

Three geographical sales areas within the industrial business were formed (Industrial Sales Americas, Industrial Sales Europe, Middle East and Africa, and Industrial Sales Asia) with the purpose of strengthening the regional businesses, creating a lean sales support structure and driving optimization within pricing, distribution and customer service.

Automotive and Aerospace

One organization was formed to fully capture the strong commonalities of the Automotive and Aerospace businesses, managed by strictly defined processes to generate value propositions on fully customized solutions.

Purchasing, manufacturing and logistics

Responsibility for end-to-end procurement, manufacturing and logistics was combined into one organization: Bearing Operations. The purpose is to deliver the best quality and service at the lowest possible cost, maximizing the use of SKF's factories and resources.

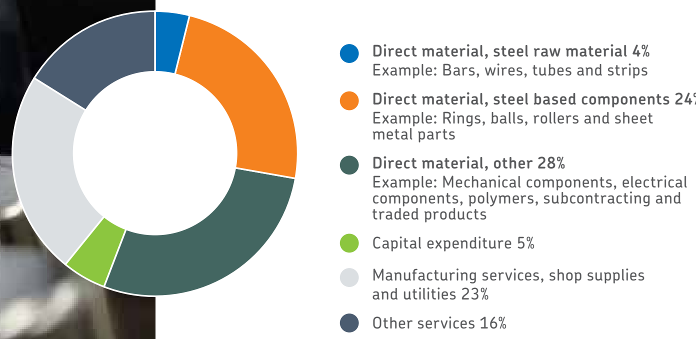
Business and product development

One organization for business and product development was formed with the main purpose of providing the business with a competitive and relevant offer portfolio that facilitates growth in market share and expansion of market size. This involves ensuring that SKF has the right product and service offer and that these can be replicated and deployed locally.

Product development

By developing new innovative solutions with the customer need in focus, SKF helps customers to be more competitive. Setting the right specifications on SKF solutions for processes, components and materials used is key for SKF to deliver

Purchasing 2016



fit-for-application solutions. By challenging technical solutions, optimizing sourcing and challenging product specifications, SKF finds the right solution for the customer at the right cost without over-engineering. The application-specific requirements drive the engineering solution to meet the exact needs, whether this is a standard or a premium product/solution.

One example is SKF's recent re-entry into the metals industry with the four-row cylindrical roller bearings used in steel and aluminium rolling mills. Over the last 15 years, SKF lost market share due to cost competitiveness and performance issues. With new design and process specifications and manufacturing technologies, SKF is now able to deliver four-row cylindrical roller bearings in accordance with specific customer needs, with upgraded performance and significant production cost reductions of up to 50%.

Purchasing

SKF has continued to develop business with its strategic suppliers across all categories and about 1,300 suppliers currently account for 80% of the global spend volume. More than 600 of the suppliers have been removed during 2016 and volumes have been given to future strategic suppliers, fulfilling SKF's Quality, Cost, Delivery, Innovation and Management (QCDIM) performance targets.

Suppliers of steel products represent an important part of SKF's supply chain. SKF has close cooperation with key partner suppliers in the steel sourcing area. The combined expertise from SKF and its key steel suppliers represents an important asset, contributing to application knowledge for SKF's products. Together with key steel suppliers, SKF is currently running initiatives to ensure that the steel products are fit for their application and the environment in which SKF's products are being used.

SKF closely monitors the market price trend for steel from its different purchasing offices around the world. As a part of safeguarding the competitiveness of its products, SKF continually conducts sourcing studies and runs sourcing programmes in the steel sector.

The new eProcurement system SAP-Ariba is now fully implemented with both direct and indirect material in Sweden and has been rolled out in Germany. This system will help the continuous work of driving down total sourcing costs through improved spend and data management, contract and process compliance, better supply chain transparency and supplier performance monitoring.

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. For more information on the governance and management approach, see Sustainability statements on page 139.

In 2012, SKF set a target to push or facilitate all major energy-intensive suppliers, including steel suppliers, forging and casting companies to be certified according to the ISO 50001 Energy Management Standard by 2016. At year end, SKF concludes that 83% of the suppliers in scope have achieved this target, with the rest being in progress, which is considered a success. Not only will it drive energy efficiency improvements and CO_2 reductions related to the material purchased by SKF, but it will also reduce and avoid future increased costs. Looking ahead, SKF will continue to follow up on ISO 50001 certification for energy intensive suppliers as part of the Group's climate targets 2025, read more on page 45.

Manufacturing

In June 2016, SKF announced the consolidation of factories in USA by closing Baltimore and consolidating it with Hanover. Spherical roller bearings and large size roller bearings from the Hanover factory will be moved to Flowery Branch.

The Y-bearings and units production channel in the Ping Hu factory in China was transferred to the factory in Xinchang, Zhejiang, China. This factory is already making similar products, which will ensure a more cost efficient manufacturing base and enable better support in the Asian market for the Y-bearings and units product line.

The super precision bearing channel in the Ping Hu factory was transferred to other factories. A customization workshop will be established within the Solution Factory in Shanghai with the aim to capture business with short-term delivery, together with a volume and cost advantage of larger scale production in Italy.

Logistics

Cost competitiveness within logistics goes hand-in-hand with being an efficient business partner and finding smarter ways of working. The new agile smaller warehouses established in Iberia and in the Nordic region, called SateLights, aims to fulfill time sensitive demands for dedicated regions with a fast, highly flexible and cost-efficient setup.

To achieve greater efficiency and reduce costs, SKF has consolidated warehouses in the USA, moving the vehicle aftermarket warehouse in Hebron to the regional warehouse in Crossville.

SKF's European Distribution Centre in Tongeren, Belgium, was upgraded during the first half of 2016 with a mini-load system based on a Goods-to-Man workflow approach. It uses automated retrieval systems and improved handling mechanisms. This results in a more efficient and ergonomically correct working environment and reduces the time needed to pick, pack and ship customer orders. The Goods-to-Man approach is planned to be implemented in Airasca and more warehouses will follow this model in the coming years. The step up of efficiency in the warehouse operations will be accompanied by more economical and safer handling for the operators.

In India, a special project was launched with the objective of revitalizing the logistics setup by consolidation of stocking points, creating an optimized transport network and implementing global processes and systems. A new modern warehouse in Pune was inaugurated in December 2016. The purpose-built facility allows for the closure of 15 of 27 stocking locations across India, whilst improving product availability for customers and distributors.

Sales and marketing

The sales organization continued to focus on cost optimization through organizational efficiency. In 2016, the evaluation of the fixed cost structure continued, which resulted in consolidations and closures of offices, rationalization of overhead organizational structures and a review of market activities.

A more competitive operation

SKF are consolidating its manufacturing units in North America to create a more competitive operation with an increased level of efficiency and growth, without any restrictions on the product range.

The consolidation is expected to generate full-year cost savings of around SEK 220 million from 2019, whereof around SEK 70 million is expected to be achieved in 2018.

Railway industry

Reducing life cycle costs

For railway customers, the bearing is typically the bottleneck dictating the bogie maintenance interval. The wheels nowadays can often last for more than 1.5 million km before replacement is required, while wheel bearings are typically specified to run 1 million km before maintenance.

Thanks to an intensive R&D project, SKF's latest railway wheel bearing has been designed to operate for 1.7 million km between overhauls.

SKF achieved this by focusing on the key factors within the bearing that affect grease life. That is, smoother and tougher surfaces and optimized internal geometry for minimized wear, reduced friction, cooler running and thereby increased fatigue life.

Strategic priority

Maximizing cash flow over time

A strong balance sheet and the ability to generate consistent high levels of cash flow over time is key. This allows SKF to continue to reinvest in the core business and future growth, as well as delivering returns to shareholders.

Working capital

A key component in a strong cash flow generation is the efficient use of working capital. One of SKF's financial targets is to improve net working capital to 25% of sales. The target is to be achieved by reducing the number of inventory days and trade receivable days and increasing the number of trade payable days.

Inventories

SKF uses an integrated approach to reduce inventories. In the beginning of 2016, SKF's purchasing, manufacturing and logistics operations were combined into one new organization – Bearing Operations, targeting world-class performance across the value chain. The change promotes end-to-end visibility, faster reaction time and increased flexibility, all with the purpose of lowering costs, improving service and reducing the capital tied up.

Trade receivables

SKF works in a focused way to reduce the number of outstanding receivable days and reduce overdues. An example of these efforts is the implementation of a common collection process. The process is handled by an external party using appropriate system support for effective handling.

Trade payables

For trade payables, SKF has introduced a supply chain financing programme with an external partner with the aim of reducing working capital. Since the introduction of the programme in November 2014, around SEK 1 billion of capital has been released.

Investments

Investing for increased automation

In recent years, SKF has focused investments on increased efficiency and automation. In 2016, a total of SEK 1.9 billion was invested. One of the key investment projects was the new production channel for spherical roller bearings in Gothenburg, Sweden. Read more on pages 26 and 27.

Divestments

In 2016, the Fly-by-wire and Kaydon Velocity Control businesses were divested, which generated a positive cash flow of SEK 2,763 million after payment of taxes.

Financing

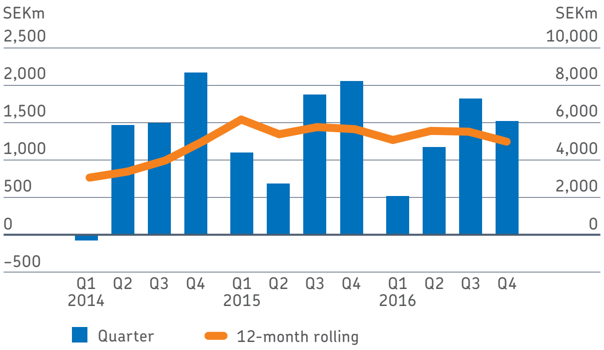
Loans

SEK 2,086 million of the generated cash flow was used to reduce SKF's outstanding loans, thereby strengthening SKF's financial position. At year-end 2016, the net debt to equity ratio had improved to 84.4% (99.9).

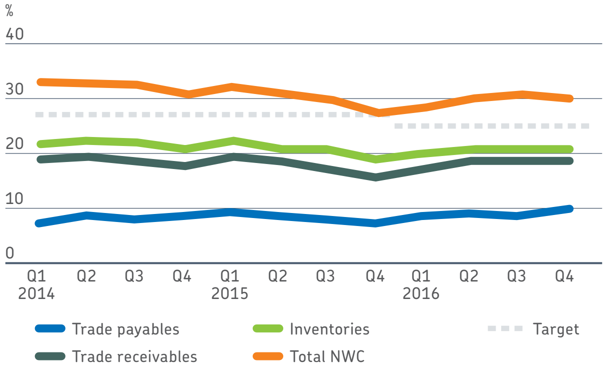
Dividend

In 2016, a dividend of SEK 5.50 per share was approved by the Annual General Meeting and a total of SEK 2,504 million was distributed to the shareholders in April 2016, representing 61% of net income in 2015.

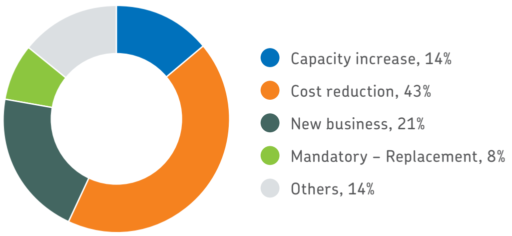
Cash flow after investments before financing excluding acquisitions/divestments



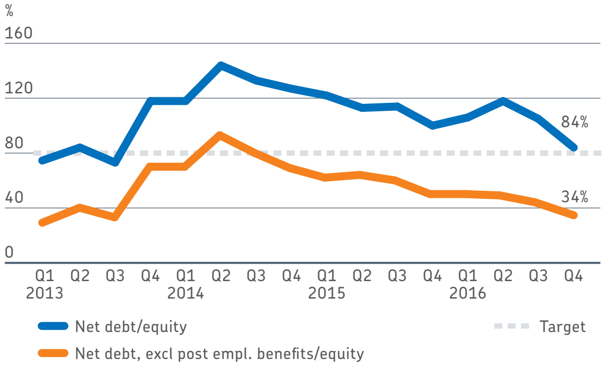
Net working capital in % of annual sales



Ongoing investments in 2016



Net debt/equity



SKF Care

SKF Care defines the Group's approach to sustainability with four dimensions; Business Care, Environmental Care, Employee Care and Community Care. These principles guide how the Group works and runs its operations.

SKF's decision to make sustainability one of its strategic drivers stems from the belief that the company is responsible, not only for the economic results of its activities, but also for wider social and environmental impacts. SKF Care helps to enact this driver by defining what sustainability means to the Group.

Business Care is built on a clear and dedicated customer focus and on delivering a good return to shareholders. Results should be achieved in accordance with the highest standards of ethical behavior.

Employee Care assures a safe working environment and promotes the health, education and wellbeing of SKF's employees.

Environmental Care focuses on continually reducing the environmental impact from the Group's operations, as well as actions to significantly improve customers' environmental performance through the products, solutions and services that SKF supplies.

Community Care defines the Group's activities that make positive contributions to the communities in which it operates.

Proper management of quality, environment, health and safety is fundamental to SKF Care and critical for the success of the Group. SKF uses a systematic and standardized approach which is embedded throughout the organization, its people and its processes.

This requires;

- Policies and procedures across the organization which are clear, practical and easy to understand and follow.
- Measures to assure that employees are aware of the requirements and have the competence and understanding to make use of them in their day-to-day work.
- Processes for every business activity which integrate risk-based thinking, continuous improvement and effective controls.

SKF BeyondZero is the Group's overall strategy for addressing environmental and business performance over the value chain. It includes actions to reduce the impact resulting from SKF's operations and those of its suppliers, while at the same time providing customers with solutions to reduce the environmental impact of their products or operations.

Over the years and in order to reflect and communicate the importance of sustainability and SKF Care, 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 UN Global Compact, ILO, ICC Charter and OECD. Read more about this on page 120.

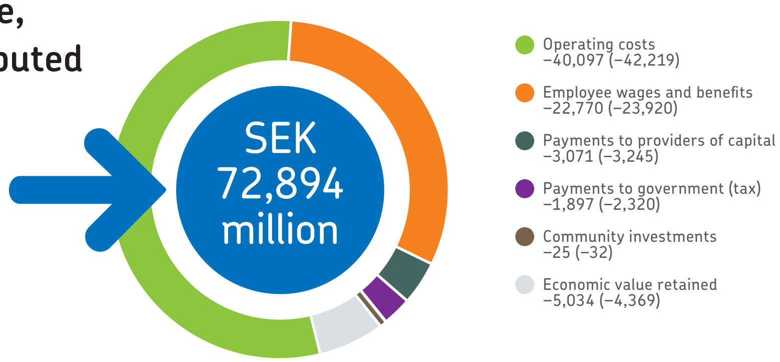
The SKF Care framework is aligned with the United Nations' Sustainable Development Goals for 2030. As with these global goals, the different dimensions of SKF Care are highly interconnected and the impact from the Group's activites are presented on the following pages.

Direct economic value, generated and distributed

Generated economic value, SEKm

Net sales 72,787 (75,997)

Revenue, financial investments and other operating income 107 (108)



Please refer to page 126 in the sustainability statements for G4-EC1 definitions.

Business Care

For SKF, Business Care means value creation, innovation and strong financial performance achieved through ethical and compliant behaviour and business practices.

SKF's activities and performance to create and capture customer value, support customers with application driven innovation and develop world-class manufacturing have been described earlier in this report. Business Care also requires the highest standards of ethical behaviour, described hereafter.

SKF's ethics and compliance programmes

SKF's ethics and compliance programmes (the "programmes") cover the full scope of the SKF Code of Conduct, including issues such as fraud, corruption, conflicts of interest, antitrust, working ethics, export control, data privacy, money laundering, human rights, environment, health and safety and ethical leadership. The programmes describe how these aspects are governed, monitored and audited. A key element of the programmes is the yearly Group risk assessment in which all relevant stakeholders participate.

SKF addresses the issues set out in the UK Modern Slavery Act 2015 through the Code of Conduct and related activities, more details can be found in the specific statement found in the SKF Care section on SKF.com.

Main activities 2016

In order to prepare for the new data privacy rules in EU which will apply from May 2018, SKF has initiated a number of activities such as the appointment and training of a network of data privacy officers in EU, identification of IT systems which are considered high risk from a data privacy perspective and the establishment of a group data breach incident procedure.
In the antitrust area SKF has had face to face training and assessed the business practices in 26 countries. The export control community has had a strong focus on ensuring that technical data is stored and managed in a compliant manner in SKF. SKF continues to focus on ethical leadership and during 2016 this has been manifested through increased focus on ethical behavior in the recruitment process and in SKF's leadership programmes.

Audits and reviews

SKF's ethics and compliance yearly audit plan is mainly based on the risks identified in the Group risk assessment. The main purpose of the audits is to assist units in their work to identify and addressing its ethics and compliance risks.

In 2016, reviews on ethical leadership have been held at 75 SKF sites around the world. These reviews are held at sites in relation to in-depth Code of Conduct audits. The focus of the in-depth audits depend on the type of operations at the site using a risk based approach. 43 in-depth audits focused on environment, health and safety and the rest focused on business ethics and other Code of Conduct issues.

Audits within Environment, Health and Safety are based on the external certification requirements as defined in ISO 14001, ISO 50001 and OHSAS 18001 standards.

Reporting of ethical concerns

SKF employees are requested to report or ask about their ethical concerns. An employee who feels that he or she cannot report a concern to his or her direct manager, 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 be made anonymously in all countries where this is allowed by local legislation. During 2016 the work to create awareness of SKF's ethics and compliance reporting line has continued. Cases filed and closed are disclosed in the sustainability statements on page 138.

Risk prevention through training

SKF uses many types of methods to create awareness and reduce risk of noncompliance to legal and ethical standards. One of the methods SKF uses to create awareness and commitment to ethics and compliance is e-learning. During the year, and in addition to Code of Conduct training, SKF has trained over 16,000 employees on anti-corruption. On antitrust, SKF has trained over 17,000 employees since 2014. Antitrust awareness is also held in face to face training as mentioned under Main activities.

Investigations and disciplinary actions

During 2016, 17 investigations related to fraud and corruption were conducted. Disciplinary consequences have been

The SKF Code of Conduct

The SKF Code of Conduct is the fundament for all activities in SKF. It is based on a number of internationally proclaimed principles and charters, including the ILO conventions, the UN Global Compact and UN Guiding Principles on Business and Human Rights. The SKF Code of Conduct has been used as reference to also establish other documents such as the SKF Code of Conduct for Suppliers and Sub-contractors, and the SKF Code of Conduct for Distributors, demanding a similar commitment from business partners. Read more on skf.com/code.

Human Rights Impact Assessment and Management in India

In accordance with the UN Guiding Principles on Business and Human Rights, SKF has been working to incorporate a Human Rights Impact Assessment and Management (HRIAM) approach. This is complementary to the Groups established processes related to the Code of Conduct – which address human rights and other issues within SKF as well as up and down stream.

During 2016 a number of Human Rights Impact Assessments were carried out in India – looking at the issues from the country perspective as well as site level. These assessments were made with the full collaboration of the different management teams involved and mapped the different value chains, potential risks and improvement measures.

taken for ten confirmed cases. Two employees received warning letters and nine employees left the company as a result of the investigations.

Responsible sourcing

As part of Supplier development, Responsible sourcing focuses on the effective deployment of SKF Code of Conduct in the supply chain. The work includes risk mapping audit and follow up on human rights, labour standards, business ethics and environmental management. For more information about management approach and results, see page 139.

Product material and substance compliance of SKF's products

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 conflict minerals.

SKF is predominately a downstream user (as opposed to a producer) of compounds targeted in the REACH and RoHS regulations and legislation. As defined by the regulations, the Group complies by communicating both up and down the supply chain. This is 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 as part of the overall responsible sourcing activity. Although SKF is not directly affected by this act, the Group supports the ethical motives behind it and has a significant number of customers who are directly affected by it. SKF carries out due diligence and works with suppliers and sub-contractors to help customers meet the requirements. The Group will not knowingly procure products or materials containing conflict minerals from the DRC region, or other conflict areas, unless they are certified as "conflict free", please read more at skf.com/responsible-sourcing.

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact lies in the customer use phase of the Group's solutions. SKF BeyondZero customer solutions defines and verifies products or solutions that realize significant environmental benefits for SKF's customers, read more on page 44.

Employee Care

Employee Care is about promoting a safe working environment, health, education and the wellbeing of SKF's employees whilst ensuring employees' rights are respected. SKF's ability to attract, retain and develop its employees is critical for maintaining its leading position.

Safe workplace – Zero Accidents and OHSAS 18001

The very foundation of Employee Care is that employees, and the people working for SKF, shall be safe at work.

Tragically, SKF had two fatal accidents during 2016. One was a traffic accident on the way from a customer meeting, and the other was a fork-lift truck accident. Please read more in these on page 132.

The belief is that accidents can be prevented. Significant progress has been made since the launch of the Zero Accidents programme, and today, SKF has below one accident per 100 people working full time per year, compared with around 14 in the 1990's. Some of these recordable accidents are not significant, but among the ones that are, SKF has concluded that many are hand and finger accidents related to machine work. Going forward, Machine safety is an absolute prioritized area.

SKF also follows up on lost time, long term health index and psycho-social work related health to uphold a safe work environment, whilst giving an insight on employee wellbeing at work. SKF's health and safety management system is integrated with the environmental management system.

Respectful workplace

SKF follows the United Nation's Guiding Principles on Business and Human Rights and its 'protect, respect and remedy' framework. The Group's commitment on human rights is embedded in the SKF Code of Conduct.

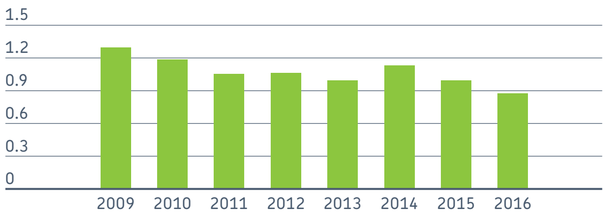
Labour management relations

Issues relating to significant changes at SKF, such as 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 SKF Code of Conduct and Social Policy are fundamental to Employee Care. The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) and the basis for discussion which this creates is key for the effective deployment of the SKF Code of Conduct throughout the organization. As one of the first agreements of its kind, the framework helps promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of Employee Care throughout the Group.

In 2016, 43 Code of Conduct reviews were conducted at SKF sites, of which 18 were in Europe, 12 in Asia, 11 in the Americas, and 2 in Africa. The audits showed 7 cases of noncompliance with the Code of Conduct, 6 of which were also legal non-compliances related to overtime hours worked above the legal limit. Corrective action was initiated in all cases.

As part of the due diligence process for major acquisitions, SKF evaluates various people issues such as human rights and labour rights. The precise approach must be adapted to the specific conditions of each acquisition.

Recordable accidents per 200,000 worked hours



Remuneration and equal opportunities

Remuneration at SKF is based on individual performance. The SKF Code of Conduct stipulates that all employees are to be treated equally, fairly and with respect. For salaried employees, the SKF Group uses an internationally well recognized evaluation system, International Position Evaluation (IPE). SKF also works to ensure that wages and other related benefits meet at least the legal or industry minimum standard in the country in question. Wages and benefits are rendered in full compliance with laws and collective agreements.

At the end of 2016, 86% of the Group's employees were covered by trade union agreements. In order to ensure that all employees have the same opportunity to compete for jobs. Openings at SKF up to a certain level are posted on the Group's internal website or via other local channels. The entitlement to fair chance to compete for job opportunities is also stipulated in the SKF Code of Conduct.

Positive and engaging workplace

SKF strives to offer a positive, engaging workplace for all employees. A positive and engaging workplace starts with strong values, sound leadership and clear direction. These are prerequisites to create conditions where the full potential of individuals and teams can be realized. SKF has implemented tools and processes that help leaders, managers and employees to create this engagement.

Competency and performance

SKF works with talent management and recruitment to ensure a good succession planning of key roles in the Group. Employee competency development is also essential for SKF to win business every day, develop its customers and to deliver value to stakeholders. At the beginning of the year, all employees and their managers agree on individual goals based on the team planning. Development activities are then selected to enable the individual to deliver on her/his targets. Employees and their managers summarize achievements and behaviors in an annual review. In the latest follow up, 75% of the employees in scope had been having their annual performance review.

Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), reviewed annually through discussions with their managers. In the latest follow up, 60% of SKF's employees had an individual development plan agreed with their manager. SKF College is the central function in SKF that manages and coordinates tools for learning in SKF. An assortment of development programmes focusing on professional skills, leadership skills, personal skills, and other strategic areas are made available to employees. To support these trainings SKF utilizes a wide range of virtual training models deployed to employees by SKF College's local campuses in Sweden, the USA, Argentina, China, India and Singapore. This enables SKF's global curriculum to be locally adapted and provided in local languages by local trainers.

Leadership and diversity

SKF strives to represent as many dimensions of diversity as possible and to meet customer demands in a global market. This work must consider gender, origin, industry background and other indicators of diversity. At year-end 2016, SKF had 70 country managers, representing 66 nationalities. All regions in which the Group operates are represented among the top management (about 500 managers). 12% of this population are women.

At the end of 2016, 25% of the Board of Directors and 18% 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 21%. For more people data, please refer to Sustainability statements on page 131–134.

Health and wellbeing

SKF takes care to ensure good health amongst the Group's employees. The elements of SKF's approach to wellbeing and life-balance vary at different locations depending on social context. The global OHSAS 18001 certification means that SKF has implemented joint health committees which focus primarily on work-related health and safety. In addition to addressing work-related issues, the majority of SKF's units have also implemented programmes that focus on general health and well-being. 87% of SKF's employees are covered by some type of documented health and wellbeing policy or programme.

SKF values drive business forward

Empowerment: We are expected to take initiatives and we are empowered to engage ourselves and seize opportunities to improve – and to empower co-workers to do the same.

High ethics: It takes decades to develop and earn the trust of our customers. SKF is and shall remain a role model for business conduct that is fair and lawful. We are empowered, but we can never disregard ethics or the Code of Conduct.

Openess: With a transparent organization, we also enable simplicity – one of the key ways to add value for our customers.

Teamwork: Our diversity of backgrounds, skills and experience is a competitive advantage and one of our key strengths. We are SKF and together we are able to accomplish even the most ambitious goals.

From *We Are SKF*, published in October 2016.

Environmental Care

The principles set out in Environmental Care require the Group to take steps to understand, reduce or avoid the environmental impacts occurring along its value chain.

Every stage in the value chain presents the potential for reducing environmental impact, from the raw materials selected, how these are utilized and processed, the energy used by the products when running in customers' installations, to the way in which products are disposed of when they come to the end of their useful life. Releasing this potential not only addresses the long term needs of society and future generations, it also creates opportunities for sustainable business for the Group and its customers.

Based on lifecycle assessments, long established practical knowledge and experience, and stakeholder dialogues, SKF has identified the most significant and material environmental impact areas along the value chain. These include energy and climate, recycling and waste management, resource use and efficiency, chemical use and water use. The following sections provide further explanation on how these impacts are addressed along the value chain.

Ambitious targets and strong performance on climate change

At year-end 2016, SKF concluded a set of ambitious climate targets addressing four key areas – suppliers, SKF operations, transport and customer solutions. These targets were based on SKF BeyondZero and has formed the main part of SKF's commitment within the WWF Climate Savers programme 2012–2016. SKF has overall delivered a strong result on these targets.

In 2017, SKF launches its climate targets for 2025 with continued focus on the value chain, including 40% carbon intensity reduction in manufacturing as well as for goods transportation, please read more on page 45.

Climate targets 2012–2016

Suppliers
Raw material and components (Scope 3)

Target
All SKF's energy-intensive major suppliers certified according to ISO 50001 Energy management Standard by 2016.

Results 2016
25 of 30 suppliers have successfully been certified. The rest are working towards certification.

83% achieved 2016

SKF operations
Manufacturing and other relevant aspects (Scope 1 and 2)

Target
1. Reduce the total annual energy use of the SKF Group by 5% below 2006's level by 2016.
2. Reduce the energy use per production output by 5% year-on-year.

Results 2016
In 2016, the total energy use for the Groups was 14% lower than baseline 2006. The energy per output was 5% lower in 2016 than 2015.

>100% achieved 2016

Transport and distribution
Goods transportation (Scope 3)

Target
Reduce CO_2 emissions per tonne-kilometre for all transport managed by SKF Logistics Services by 30% below 2011's level, by the end of 2016.

Results 2016
–31% for year average 2016. During parts of the year, the rate was down at –34%.

100% achieved 2016

Customer solutions
Development of the SKF BeyondZero customer solutions (Scope 4)

Target
Increase the revenue from the SKF BeyondZero customer solutions from SEK 2.5 billion in 2011 to SEK 10 billion by 2016.

Results 2016
Total revenues for 2016 was SEK 6.8 billion, about 9% of Group's total revenues.

68% achieved 2016

SKF remanufacturing

SKF offers remanufacturing service to a wide variety of industries globally – helping to reduce lead times, cut cost of ownership and save significant amounts of resources and energy.

Focusing on functionality around rotating equipment, SKF can leverage its full potential on remanufacturing and create value from circular economy business models. As part of the customers' maintenance setups, SKF's engineers can more precisely anticipate exhaustion of the rotating machinery, predict maintenance need and thereby help customers reduce downtime and cut costs significantly. Reworked bearings and units can be put back into circulation again, extending the utilization of applications and bearing use-phase even further.

Suppliers

SKF's approach towards supporting and driving improved environmental performance at the Group's suppliers is part of the responsible sourcing initiative, a more comprehensive overview of this programme is provided in the Sustainability statements on page 139.

This approach commands that major suppliers achieve ISO 14001 environmental management standard certification and that energy intensive major suppliers achieve ISO 50001 energy management standard certification. Energy and related CO_2 emissions remains the main contribution to environmental impact in SKF's supply chain. Energy intensity is also a major contribution to the water footprint in SKF's value chain, and thus SKF continues to engage with suppliers to implement and certify energy management systems.

Goods transportation

Greenhouse gas and other air emissions are the most significant of the environmental impacts related to SKF's logistical operations. SKF Logistics and Demand Chain has established targets and a number of initiatives aimed at reducing emissions by promoting and procuring lower impact transportation modes (e.g. avoiding air freight as much as possible), the improved utilization (fill rates) of trucks, promotion of best technology and other measures, which bring both cost and environmental savings. For more information please see Sustainability statements on page 126.

SKF's manufacturing and other operations

SKF has started certification to the new ISO 14001:2015 standard but the Group's well established environmental management system started over three decades ago, the first environmental policy dates back to 1989. The EHS management system has been designed to drive an integrated approach where responsibility for environmental (and health and safety) performance is owned by the line organization. EHS specialists are deployed at site, country, area and Group level and at year end 2016, the Group-wide ISO 14001 certificate consisted of 112 sites in 35 countries. The schedule for recently acquired companies' inclusion plans can be found at skf.com/14001. The Group also holds ISO 50001 certification since 2015. This certification covers 90% of the Group's total energy use (Scope 1–2).

On energy use and related CO_2 emissions, SKF has for five years had two parallel targets assuring high pressure and focus on energy efficiency irrespective of the external economic development and location of the site; total annual energy use and energy use per production output. As a result, energy use in 2016 compared to 2006 was reduced in absolute terms by 14% and the Group continues to be well ahead of the targeted 5% reduction by 2016, this while SKF's business has grown by 37%. SKF has also set ambitious goals on chemical use and recycling and follows up and reports on a wide range of environmental aspects. A progress update on the most relevant issues is presented on page 44. For all CO_2 and energy data, detailed environmental data and specific management approach, please refer to Sustainability statements on 127–131.

Sustainability standards for new facilities

SKF requires that, irrespective of location, all new facilities must be designed and constructed according to world-class standards in terms of environmental performance.

In 2010, therefore SKF defined that all major constructions undertaken by, or on behalf of, the Group must be designed and constructed in accordance with the US Green Building Council's (USGBC) "Leadership in Energy and Environmental Design" (LEED) standard. In addition, SKF has internally developed Sustainable Factory Rating (SFR) as an "add-on" to LEED, addressing specific manufacturing processes. Read more about SKF's construction standards at skf.com/leed.

Product design, customer use and disposal

SKF BeyondZero customer solutions

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact lies in the customer use phase of the Group's solutions. SKF's customers in all industries are increasingly motivated to improve energy efficiency and reduce the environmental impact from their products, services and processes. Therefore in 2012, SKF launched the SKF Beyond Zero portfolio to put additional focus on the development of customer solutions that can reduce these impacts, help customers meet these drivers and grow SKF's business in this area. The SKF BeyondZero customer solutions help customers reduce environmental impact either directly via for example bearings and seals for improved energy efficiency, or indirectly by supplying solutions that help to enable larger system improvements (supply to the wind or electric vehicle industry for example).

The environmental improvements provided by the various customer solutions are validated through a lifecycle assessment-based methodology developed by SKF. External auditors review this work and the reported results in order to ensure accuracy and credibility.

In 2016, the revenues from SKF BeyondZero customer solutions amounted to SEK 6.8 billion. For information on avoided emissions enabled by SKF solutions, please refer to Sustainability statements on 129.

Environmental design guidelines, product re-use and recycling

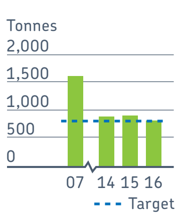
SKF has developed general guidelines for product designers, which support the integration of environmental aspects into the normal product design process. New offers are screened using the BeyondZero pre-evaluation to find potential environmental benefits early in the design phase.

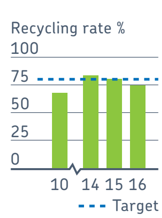
In general, SKF's products are highly recyclable due to the nature of the main materials used. SKF also focuses on reconditioning and re-manufacturing of its solutions, please refer to the example on page 43.

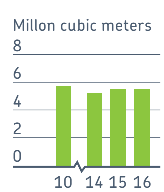
Environmental performance in SKF's manufacturing operations

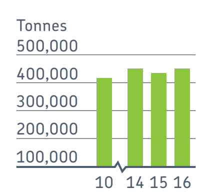
SKF is currently reviewing its environmental management system as part of the revised ISO 14001 standard. As part of this, new environmental targets and priorities will be set in 2017.

	Chemical use	Waste management/ recycling	Water use	Material use
KPI on continuous improvement	Total use of solvents in production. Solvents are another name for volatile organic compounds (VOCs).	Recycling rate of grinding swarf – a mixture of small particles of ground steel, abrasive materials and grinding liquids.	SKF sites are located in industrial zones and almost all water comes from municipal systems.	Steel is the main material used by SKF and much of the steel purchased by the Group is produced by remelting scrap steel.
Target	Reduce volume of solvents by 50% from 2007 to 2016.	80% recycling rate of grinding swarf globally.	SKF sites located in stressed areas have local targets. Not aggregated on Group level.	No Group target in 2016, the climate target 2017–2015 will include material efficiency related to production output and CO_2 emissions.
Performance 2016	The total volume was 808 tonnes in 2016, 49% lower than 2007.	74% in 2016. This target is extended until 2017.	5.5 million cubic meters from municipal system 2016.	A total of 446,000 tonnes of metal as raw material was used in 2016.









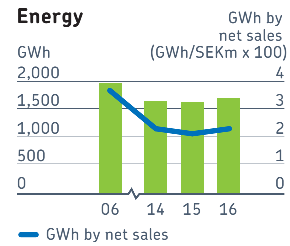
For detailed environmental data, please refer to the statements on pages 127–131.

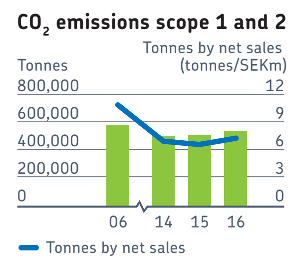
New climate targets 2017–2025

The motivation for SKF's continued commitment in addressing climate change 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 over time. SKF's ability to run its business activities in an increasingly energy and carbon-efficient way will ensure long-term competitive advantage.
- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solutions it provides, and in doing so create considerable value for customers and investors.

Similar to the previous targets, SKF's climate targets 2017–2025 are based on SKF BeyondZero and include raw material, manufacturing, goods transportation and customer solutions. The targets are aligned with the reduction levels suggested by contemporary climate science.





SKF climate targets 2025

Raw material (Scope 3)	SKF bearing manufacturing (Scope 1 and 2)	Goods transportation (Scope 3)	Customer solutions (Scope 4)
Target Support our suppliers to reduce their CO_2 emissions.	**Target** –40% CO_2 emissions from manufacturing per tonne of sold products.	**Target** –40% CO_2 emissions from goods transportation per tonne of shipped products to end customers[1].	**Target** Support our customers to reduce their CO_2 emissions.
KPI's Number and percent of suppliers in scope certified according to ISO 50001.	**KPI's** CO_2 emissions from manufacturing per tonne of sold products.	**KPI's** CO_2 emissions from goods transportation per tonne of products shipped to end customers.	**KPI's** Total revenues and avoided emissions.
Scope Major direct material suppliers that are energy intensive.	**Scope** SKF's bearing manufacturing – about 80% of total emissions (scope 1 and 2).	**Scope** SKF Logistics and Demand chain transports.	**Scope** SKF BeyondZero customer solutions.

The baseline year for quantitative targets is 2015.
1) The party to whom SKF is selling.

Community Care engagements

Sweden
SKF Sweden sponsored the national parasports federation – financially and technically by optimising bearing performance.

Argentina
SKF Argentina supported TECHO, building emergency houses for underprivileged who needed a roof over their heads.

France
The winner of SKF France's Meet the World tournament for special olympics teams got to travel to Gothenburg to play the Gothia Cup.

India
SKF India graduated the fourth batch of mechanical entrepreneurship students at its vocational school Youth Empowerment at SKF (YES) in Pune.

Mexico
SKF in Mexico invited the community and employees with their families to the environment, health and safety week.

Malaysia
SKF in Malaysia held road safety camps to young adults.

SKF Social Policy

The SKF Social Policy promotes involvement in commendable local social projects. This policy empowers SKF country organizations and employees around the world to engage with their local communities through various socially beneficial activities and approaches. Community Care activities include everything from small event driven activities to big Group-wide projects.

Community Care

SKF Care, the SKF Code of Conduct and related policies help ensure that the Group runs its business ethically and that potentially negative social impact is understood and avoided. Over and above these general contributions and commitments, SKF also plays an active role in the communities where it operates – creating additional positive social impact.

Supporting youth and sports has been a top priority for SKF over the years. In addition to this, SKF's community care activities typically focus on education and vocational training, help to underprivileged and supporting needs of local communities. Initiatives are typically driven by SKF country organizations and often in collaboration with local or global NGOs or non-profit organizations, in addition many one-off activities are also driven directly by SKF's employees, read more on skf.com/community.

The Gothia Cup and Meet the World

Meet the World is an SKF initiative that makes it possible for young people all over the world to qualify for the Gothia Cup. This is done by running tournaments with up to 32 teams in different countries, where the winners get to travel to Gothenburg, Sweden and take part in the Gothia Cup and meet other young people from all over the world. SKF started Meet the World in 2007 and since then, 3,000 youths from 41 countries have played the Gothia Cup as Meet the World winners. The Meet the World tournament is all about inspiration. It is a chance for children to discover other cultures, exchange ideas and dreams, and all this by following their passion for football.

The Gothia Cup partnership and SKF Meet the World qualifier tournaments are by far the most significant and long-term project where SKF uses the global presence of the Group to engage actively in communities. In addition, many SKF employees engage in activities that have a positive impact on their communities. 34 SKF country organizations have reported Community Care activities in 2016, these countries make up over 90% of the Group's global operations in terms of employees. Out of a total quantifiable contribution of around SEK 25 million, close to SEK 23 million consisted of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Close to SEK 2 million were donations to help underprivileged people or victims of natural disasters. About SEK 500,000 was in-kind giving. In addition, SKF employees engage in various volunteer work, including tutoring, construction and charity work.

Tax

SKF's tax policy states that the Group shall pay corporate income taxes where it makes the profit. SKF follows OECDs development of country by country reporting of taxes but does not disclose this for competitive reasons. With reference to the financial statements on page 70, SKF paid a total of SEK 1,897 million in corporate income tax, which is about 25% of the Group's operating profit in 2016. Please find the distribution of SKF economic value according to G4-EC1 on page 126. The SKF Group Tax policy is available at SKF.com/tax.

The Gothia Cup

The world's largest youth football tournament, Gothia Cup has hosted teams from over 140 countries since the start in 1975. Sharing the same values as Gothia Cup, SKF seeks to provide a meeting place for young people from all over the world. Apart from being the main sponsor to the event in Gothenburg, SKF's local country organizations arrange Meet the World tournaments where the Group has operations. The winner of each tournament gets to play the Gothia Cup in Gothenburg. In 2016, over 1,600 teams from 80 countries took part.

> Reducing the levelized cost of energy is a key objective for the wind industry.
>
> Jens Bode,
> Head of Energy Industry, SKF

Wind power

Outstanding reliability

In September, SKF launched its new spherical roller bearings for wind turbine main shafts. Manufactured to deliver outstanding reliability, these self-aligning bearings provide exceptional performance and are designed to meet service life needs of more than 25 years.

While SKF's standard spherical roller bearings are already the most used bearing type in wind turbine main shaft arrangements, with more than 100,000 installations worldwide, these newly developed bearings are the first to have been specifically tailored for the application.

SKF's introduction of the new bearing was strengthened by a collaboration with Vattenfall – one of Europe's largest generators of electricity. Full-scale functional tests were performed in one of their wind farms, providing valuable operational field experience. The cooperation has also provided insights into operating phenomena of the turbine's electrical environment, enabling us to identify further improvement opportunities in the turbine system beyond the bearing.

Industrial

The focus during the year has been to continue generating value for customers by deploying the new SKF business strategy and a more simplified way of working.

Customer and cost focused organization
The Industrial market reorganization in 2015 successfully changed the organizational focus, SKF's way of working and lowered fixed costs. At the beginning of 2016, the organizational structure was adjusted to further simplify operations within sales, manufacturing and technology development.

Three geographical sales areas were formed. Responsibility for end-to-end procurement, manufacturing and logistics were combined into one organization, Bearing Operations, and one organization was set up comprising business and product development. The three sales areas, Industrial Sales Americas, Industrial Sales Europe, Middle East and Africa, and Industrial Sales Asia, were formed to create an even more simplified and customer-focused sales organization. This has enabled SKF to strengthen customer relationships, solve customer needs and deploy the new strategy in the market faster.

To further strengthen how SKF serves its customers, the sales organization of the technology area lubrications was integrated into the regional sales structure later in the year.

Market development
Several important contracts were signed with customers in industries including marine, railway, pulp and paper, and energy.

Net sales amounted to SEK 51 billion, a decline of –6.2% but sales improved gradually during the year.

Cost efficiency initiatives
In 2016, the focus has been on investing in new manufacturing and logistics technologies, restructuring the manufacturing footprint through consolidation of units and optimizing processes within manufacturing. Major investments were announced for new technologies within manufacturing units in Schweinfurt, Germany, and Flowery Branch, USA.

A number of consolidation of manufacturing facilities to increase efficiency in North America was launched. This will result in the closure of the site in San Diego, California in June 2017 and the closure of the site in Baltimore, Maryland in 2018.

The harmonization of processes in accordance with SKF Production System continued and implementation began at ten new units during the year, with the aim of harmonizing all major bearing factories by 2018.

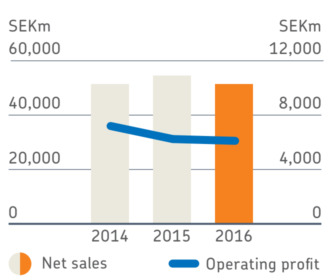
70%

Share of net sales

81%

Share of operating profit

Net sales and Operating profit[1)]



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

Main achievements 2016

- A leaner more customer-focused organizational structure
- Investments in manufacturing technologies
- Roll-out of SKF Production System
- New Product and Development organization, adopting Agile/SCRUM approach to product development.

New awarded businesses and products

SKF Marine CM Route Kit
Cloud-based condition monitoring system predicting and extending maintenance intervals across entire marine fleets. Eliminates potential breakdowns and reduces repair costs considerably.

Extended long-term contract with Valmet
Bearings, units and lubrication systems to global supplier of technologies, automation and services for the pulp, paper and energy industries.

Five-year contract with Gamesa do Brazil to supply Slewing Ring bearings for their wind turbine generator business.

SKF's technology in Metsä Group's pioneering bioproduct mill
SKF's lubrication technology and engineering support for optimal operational performance on the world's first next generation bioproduct mill.

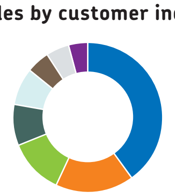
Additional business with the world's largest port crane manufacturer
Bearings, condition monitoring and service solutions to Shanghai Zhenhua Heavy Industries and its customer PSA, a worldwide terminal operator.

SKF supplied its largest ever spherical roller bearing to be used within the mining industry.

1.7 million km for railway
Single operation maintenance and reduced cost due to new railway wheel bearing designed to match replacement of wheels.

Agreement with Czech railway engineering company BONATRANS GROUP a.s., to supply 1,840 axlebox sets and journal bearings for freight cars to Algerian global infrastructure and municipal services company.

Net sales by customer industry



- Industrial distribution, 40%
- Industry, general, 17%
- Industry, heavy and special, 12%
- Aerospace, 9%
- Energy, 8%
- Railway, 5%
- Off-highway, 5%
- Other, 4%

Priorities 2017

- Leverage on the geographic sales organization, identifying and helping customers provide value through new solutions and innovations.
- Technology upgrade in manufacturing and continued roll out of SKF Production System.
- Development of new products and solutions, focus on digitalization to help customers utilize Industry 4.0 solutions.
- Inauguration and start-up of a new large bearing test centre in Schweinfurt, Germany.
- Continued focus on cost competitiveness throughout the value chain.

Automotive

The Turn Around Plan, launched at the end of 2015, delivered and contributed to an operating margin of 6.5%. The plan was formed to improve financial performance by focusing on operational excellence and cost efficiency and clearly defining the core business.

With the simplified organizational structure, Automotive aftermarket sales were merged with OE, enabling synergies and even closer cooperation. The consolidation of bearing manufacturing allowed Automotive to focus its manufacturing on automotive special products such as hub bearing units and suspension bearings. The introduction of General Bearing Company's (GBC) products in the SKF portfolio strengthened the customer value proposition.

Market development

There were a significant amount of new businesses awarded in 2016, particularly for hub bearing units, but also for powertrain, where a significant portion of new businesses were for electric vehicles. For the aftermarket, e-commerce initiatives opened up new channels to market and opportunities to grow the business.

Cost efficiency initiatives

The profit improvement initiatives materialized according to plan by consolidating suppliers, restructuring the manufacturing footprint, optimizing manufacturing processes and leveraging synergies from the new organization. To increase competitiveness, materials and specifications have been adapted for different applications, e.g., for aftermarket wheel bearings, to match the application-specific performance requirements.

In manufacturing, the focus has been on implementing world-class manufacturing processes such as intelligent grinding and cold rolling as well as increasing flexibility and automation of production channels. The manufacturing plant for seals in Hobart, USA was closed and most of the production was moved to a new production facility in Zapopan, Mexico. The kitting and warehouse facilities for the vehicle aftermarket and seals in the USA were consolidated and moved from Hebron to Crossville and the consolidation of the European vehicle parts facilities was completed.

Looking ahead

By leveraging core capabilities and expanding the offer with innovative solutions, SKF aims to be positioned as a high-tech, cost-competitive component supplier in the automotive market. Key areas identified to achieve this are electrification, selected powertrain product lines and developments in new materials and manufacturing. For the aftermarket, e-commerce is regarded as a future sales channel in focus.

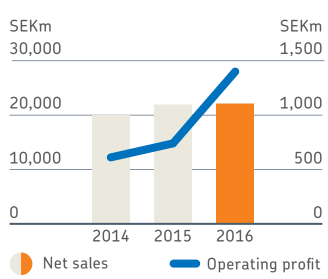
30%

Share of net sales

19%

Share of operating profit

Net sales and Operating profit[1)]



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

Main achievements 2016

- Strong order intake led to investments in new channels
- Turn Around Plan activities delivered according to plan.
- Leaner, more focused organizational structure.

New awarded business and products

SKF supplied FCA Group with wheel hub bearing units for front and rear wheels, shock absorber seals, transmission seals and engine seals for the Jeep Renegade.

SKF launched a new spring insulating suspension bearing that improves robustness, reduces noise and vibration, and contributes to improved driving comfort.

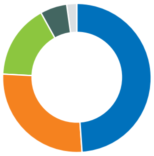
SKF launched a new grease that has been proven to reduce the risk of damage, caused by wear and corrosion, in hub bearing units.

SKF entered into a multi-year agreement with an automotive tier one supplier to manufacture and supply bonded pistons for its dual clutch transmission system.

The SKF Low friction truck hub unit is a wheel end solution that offers 30% lower friction and significant fuel reduction compared with standard wheel bearing sets.

The ground-breaking seal combines the lowest levels of friction ever achieved in an SKF hub bearing unit seal, with exceptional sealing performance for long and efficient bearing service life.

Net sales by customer industry



- Cars and light trucks, 49%
- Vehicle aftermarket, 27%
- Trucks, 16%
- Two-wheelers and electrical, 6%
- Other, 2%

Priorities 2017

- Drive innovation in product development
- Ensure smooth ramp-up of product deliveries and flawless launches of new products
- Drive e-commerce initiatives for the aftermarket
- Maintain operational excellence with excellent quality and service.

The SKF share

SKF A and B shares are listed on the NASDAQ Stockholm, Large Cap and are included in a large number of indexes. The price of the SKF B share increased by 22% during the year and the total return over the past five years was 37%.

On Nasdaq Stockholm the share price for the SKF A share increased by 22%, and at year-end the price was SEK 167.80 (137.90). The lowest price paid was SEK 121.00 on 2 February, and the highest price paid was SEK 176.00 on 8 December.

The share price for the SKF B share increased by 22% and at year-end the price was SEK 167.60 (137.20). The lowest price paid was SEK 120.00 on 2 February and the highest price paid was SEK 176.40 on 8 December.

In 2016, the total number of SKF shares traded on Nasdaq Stockholm was 665,043,723. SKF's B shares are also traded on Chi-X Europe Limited, Bats Europe and Turquoise. The total number of shares traded on these three market places together in 2016 was 478,175,985. SKF's ADRs are traded on the OTC market.

Share conversion

Owners of A shares have an option to convert these to B shares. There were no conversions in 2016.

Class A shares comprise 8% (8%) of the total number of shares.

Dividend and total return

The Board of Directors proposes to the Annual General Meeting a dividend of SEK 5.50 per share to be paid for 2016, 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 36% and for the SKF B share 37%.

Ownership structure

SKF had 64,032 shareholders on 31 December, 2016. About 52% of the share capital was owned by foreign investors, about 40% by Swedish companies, institutions and mutual funds and about 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 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

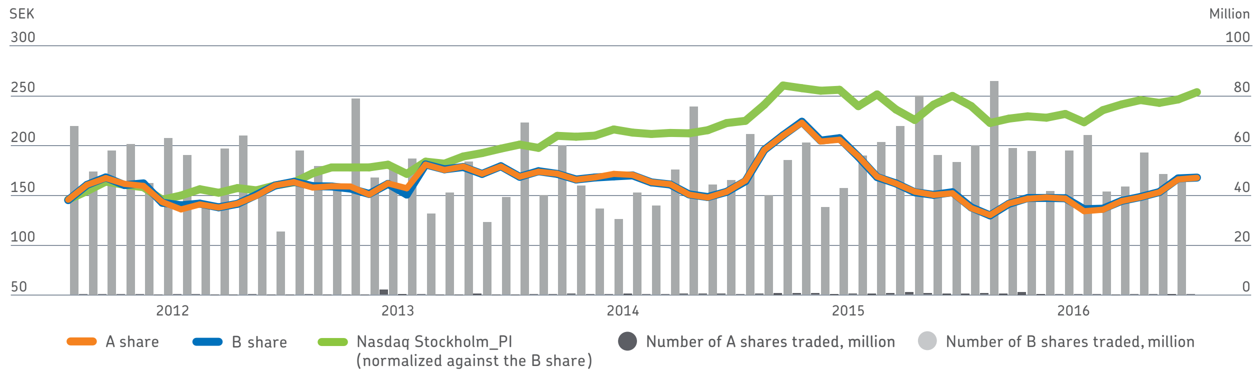
SKF is rated as one of the most sustainable companies by the Dow Jones Sustainability World Index (DJSI). The Group's performance within the criteria Supply Chain Management and Environmental Policy and Management Systems ranked highly in the latest benchmark. The Dow Jones Sustainability Indexes were launched in 1999 and are the longest-running and most prestigious global sustainability benchmarks worldwide. Furthermore, SKF is included in the FTSE4Good Index and the Ethibel Sustainability Index (ESI) Excellence Europe.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

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, there exist no agreements 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, which allow them to receive compensation in case of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid on the shares in AB SKF.

Price trend of SKF's shares

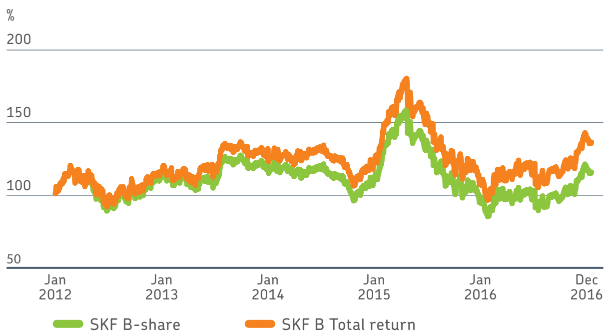


Per-share data

SEK per share unless otherwise stated	2016	2015
Earnings per share	8.75	8.52
Dividend per A and B share	5.50[1)]	5.50
Total dividends, SEKm	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	167.6	137.2
Equity per share	57	54
Yield in percent (B)	3.3[1)]	4.0
P/E ratio, B (share price/earnings per share)	19.2	16.1
Cash flow from operations, per share	15.7	17.0
Cash flow, after investments before financing, per share	16.95	14.09

1) According to the Board's proposal for the year 2016.

Total return 2012–2016

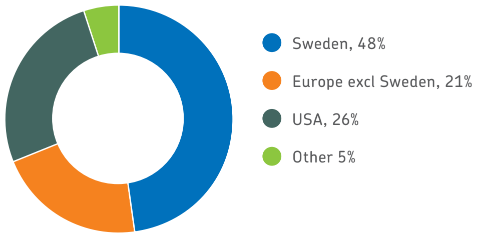


Total return, for a given period, is defined as share price performance including the value of all reinvested dividends. The dividend is calculated as reinvested from the ex dividend date. Total return is presented as percentage.

The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	61,936,151	13.6	29.2
Alecta Pensionförsäkring	5,166,552	1.1	3.2
Harris Associates	24,072,200	5.3	3.1
BlackRock	23,036,659	5.1	2.9
Livförsäkringsbolaget Skandia	2,525,775	0.6	2.3
AFA Försäkring	2,572,877	0.6	2.1
Swedbank Robur Fonder	13,305,445	2.9	1.7
SEB-Stiftelsen	1,400,000	0.3	1.6
SEB Trygg Liv	1,240,036	0.3	1.6
Didner & Gerge Fonder	7,543,654	1.7	1.0

Geographic ownership 2016



Risk management at SKF

The effective identification, evaluation and management of risks is critical to our short and the long term success. SKF has risk management processes aiming at ensuring a good understanding of – and effective and appropriate responses to – relevant risks. The material risks that SKF is seeking to address can be categorised into two main areas; business risks and reporting risks.

Business risk

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 as moderate in comparison to companies more dependent on specific sectors and regions or operating in faster moving technology areas. SKF applies an integrated approach to business risk management where, as much as possible, risk identification, evaluation and response determination is carried out by persons within the business with the relevant operational responsibility and experience.

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

The operational management of these and other relevant risks is facilitated through a number of means, such as Group Policies, reporting reviews and approval processes, all of which are coordinated and overseen by the various related Group functions.

The SKF risk matrix (pages 57 to 59) provides more information on the business risks and a brief description of the specific mitigation approaches defined.

Reporting risk

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 149.

Risk and uncertainties in the business

The SKF Group operates in many different industrial, automotive and geographical segments 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 currency exposure, both transaction and translation. For commercial flows the SKF Group is primarily exposed to the EUR and USD. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profits and lower dividend income for the parent company, as well as a need for writing down values of the shares in the subsidiaries.

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

Risk description	Specific risk	Mitigation approach
Financial risk[1)]		
Currency risk	SKF is subject to both transaction and translation exposure. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia as well as intra-European business.	The Group's policy is to hedge the net currency flows from one to six months on average. Translation exposure on Group accounts is hedged to some extent by borrowing in foreign currencies.
Interest rate risk	SKF's interest costs are impacted by market rates.	Liquidity and borrowing are managed at Group level. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.
Credit risk	SKF's exposure to losses caused by financial institutions failing to discharge their obligation, and by SKF's customer's inability to pay.	The Group's policy states that only well established financial institutions will be approved as counterparties. Exposure per counterpart is continuously monitored. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.
Liquidity risk	Acceptable liquidity levels are required in order to achieve desired financial results.	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 million syndicated by ten banks that will expire in 2019, and one committed credit facilities of SEK 3,000 million that will expire in 2018.
Fraud risk	SKF's employee or employees fail to adhere to the Group's Code of Conduct and related policies and requirements and act in a fraudulent manner leading to financial losses.	SKF takes a proactive approach to assure awareness of demanded ethical standards through education and compliance programs including antifraud. The work to follow up adherence is facilitated by the whistle blower function and a risk-and incident based audit system. See page 38.
Product related risks		
● **Product failure in customer application**	Product does not meet SKF/ISO or agreed specifications, leading to potential warranty claims and/or loss of business.	SKF Global quality management system ISO 9001 and other industry relevant industry standards is implemented to ensure that products and services conform to specified requirements and to continuously improve processes, products and services. Identification and minimisation 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.
● **Loss of technological advantage**	A new and disruptive technology becomes available from an external party, which can replace existing SKF platform solutions leading to loss of revenues.	SKF's overall R&D strategy for application-driven innovation aims at ensuring SKF technology leadership with the development of innovative solutions that customers value. In order to keep abreast of the latest technological developments SKF performs regular technical megatrend analyses and utilizes pacing technology activities.
Market risk		
● **Competitor risk**	Competitors find ways to produce better functioning products or competing products at dramatically lower cost.	SKF's mission is to be the undisputed leader in the bearing business. This is achieved firstly by offering customers with products and services that have differentiated and acknowledged value through the Group's R&D activities and secondly by working to assure that SKF operations and those of suppliers are world class in terms of productivity, efficiency, cost and waste avoidance. See a summary of the Group strategy on pages 10–11. SKF's diverse customer base in terms of regions, sectors and industries means that this risk is highly spread and the impact of the risk at Group level risk is thereby reduced.
Economic downturn	SKF customers could be impacted by a major economic downturn resulting in lower demand for SKF products and services.	SKF has a highly diversified and well balanced global customer base. The risk is therefore spread widely in both regional and industrial sector/segment perspective. SKF has focused on making manufacturing operations flexible in the face of changing customer demands. SKF uses sales and market data intelligence to follow and anticipate developments – allowing proactive management of changing market conditions.
Legal and compliance risks		
Non-compliance with export control regulations	SKF or SKF's employee(s) may act in breach of export control regulations when exporting products, services or data leading to imprisonment, debarment of carrying out certain business, loss of business, financial penalties and reputation damage.	Export control officers are appointed in high risk countries. SKF is classifying products and implementing processes and systems, which support compliance. Relevant personnel is trained.

● Risks related to the main business risks

1) More details can be found in the consolidated financial statements, Note 26.

Risk description	Specific risk	Mitigation approach
Cont. Legal and compliance risks		
Non-compliance with antitrust or anti-corruption laws	SKF's employee or employees may act in breach of antitrust or anti-corruption laws leading to imprisonment, loss of business, financial penalties, claims from business partners and reputation damage.	SKF has put in place specific antitrust and anti-corruption compliance programmes. The programmes are risk-based and focus on training and the creation of an ethical business culture and aim at ensuring that applicable laws and regulations are identified, understood and adhered to, see page 38.
Non-compliance with applicable laws	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 programs in order to make sure that legal risk relating to its business activities are identified and that risk decisions are taken on 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. Ethical aspects are emphasised within SKF management training and development programs. SKF has deployed an ethics and compliance reporting hotline, which allows concerned employees to raise related concerns in a fully confidential way and in local language, see page 138.
Legal risks relating to our business performance	In connection with the sale of SKF's products and services and in the purchase of products and services from our suppliers, large liabilities may occur in case of e.g. late delivery, delivery of defective products, unfulfilled service commitments and incorrect advice. Therefore, it is important that all such risks are identified, that risk decisions are taken on the appropriate level and that carefully worded contractual provisions aiming at reducing SKF's liabilities are included in contracts.	
Supply chain risks		
Raw material and component cost fluctuations	Significant changes in raw material (and therefore component) costs can impact on the Group's profitability. See sensitivity analysis on page 60.	SKF has established a globalized supply chain, which ensures components and materials are purchased in a highly competitive manner. Raw material cost indexes are often included in SKF customer agreements.
Code of conduct deviations in the supply chain	The Group requires its suppliers and sub-suppliers to work with high ethics in accordance with the SKF Code of Conduct for suppliers and sub-contractors. Deviations from this code could have an adverse impact on the environment and society and could damage the reputation of SKF.	SKF has established a responsible sourcing approach, which includes supplier training and development, auditing and follow up as well as corrective action. Relevant demands have been included in purchasing contracts. Targets for suppliers regarding social and environmental performance have been defined and are followed up, see page 139.
Supply chain disruption	External factors such as fires, extreme weather events, natural disasters, water stress, war or pandemic illness result in disruption of supply to SKF and impact on revenue and profit.	SKF has intentionally set up a flexible and global supply chain and works to avoid dependence on a single source or production location. The global supply chain organisation tracks issues of risks such as social unrest, terrorist or drug activity, or high levels of corruption as these may impact the supply. In addition SKF focuses on working with suppliers that have adequate insurance for both production and transports.
Material source or type compliance risks	SKF aims to avoid the use of hazardous substances in its products and processes, the company also strives to avoid negative social impacts within the extended supply chain. Legislations have been, and are being, introduced in these aspects. Failure to meet with requirements according to these legislations could result in costs as well as loss of business for SKF.	SKF has established a product material compliance approach, see page 39. As part of SKF's responsible sourcing activities, SKF is working to effectively address the conflict minerals issues as defined in the US Dodd-Frank act. In addition, SKF's Environmental Design Guidelines are part the Group's product development process, taking environment, health and safety risks into consideration.
Production risks		
Labour disputes	Industrial disputes lead to industrial action which impacts SKF's ability to meet customer demands.	SKF has maintained an open and positive relationship with the unions, as exemplified by the Groups' global framework with the World Union Council, see page 40.
Loss of a major production site	Fire, flood or natural disaster could result in the temporary loss of a production facility, in addition to the reconstruction and remediation costs. This could put customer deliveries and revenues at risk.	SKF has globalised manufacturing operations, with more than 100 separate facilities around the world. SKF's manufacturing strategy aims at ensuring a high degree of flexibility, so that if one unit is taken out of action, others could provide support production. SKF Reinsurance Co. Ltd is the SKF Group's internal insurance company. It is Group policy to have centrally purchased insurance lines as well as loss prevention programs. The mission is to protect the SKF Group's tangible and intangible assets through active risk management.
Environmental risks		
Major incident at an SKF facility	A major incident during which a significant amount of local environmental damage occurs leading to fines, loss of reputation etc.	SKF's environmental management system is ISO 14001 certified. The system works to ensure that all material environmental risks are identified and effective counter-measures are implemented in order to mitigate them. This includes actions to mitigate the risk as well as emergency response plans to ensure the impacts of any incident are minimised.

Risk description	Specific risk	Mitigation approach
Cont. Environmental risks		
Water risk	Water scarcity in the supply chain or at an SKF facility leads to reduced production.	SKF's direct processes are not water intensive. Most water systems are closed loop. SKF's facilities located in areas of water scarcity are identified and required to run strong water reduction programs. SKF has a diversified supply chain with requirements for suppliers to follow environmental norms, implement certified management systems and this facilitates risk reduction and avoidance for water risks and other environmental risks.
Risk of SKF's products causing environmental damage	SKF's products result in environmental damage during use or disposal by customer.	SKF Environmental Design Guidelines exist as part of the Group's overall product development process. Using lists of restricted substances and the compliance monitoring of relevant legislation e.g. REACH and RoSH facilitates proper use phase and end-of-life management, see page 39.
Climate change risks – extreme weather events	Extreme weather events disrupt SKF's facilities, distribution or supply chain.	Requirements for emergency response plans at all sites include flood risks etc. See also Production risks and Supply chain disruption above.
Climate change risks – energy and cost of carbon	Increased energy and other environmental cost due to legislation leading to increased material and production costs and / or impacting certain market segments.	SKF focuses on energy efficiency at its own facilities and suppliers – reducing energy demand and related risks, see pages 42–45.
Health and safety risks		
Health and safety at SKF operations	SKF's employees are hurt or killed by an accident at work.	SKF's Health and Safety management system is certified to OHSAS 18001. The Groups' Zero Accident program supported by proactive near miss reporting aims at the avoidance of all workplace accidents, see page 132.
Health and safety related to SKF products and services	Person or persons are hurt or injured as a result of SKF product failure or defect.	SKF follows strict design and validation rules for all products, and fully adheres to industry-specific requirements for safety critical applications such as aerospace, rail and automotive. SKF provides detailed instruction on the correct use, fitting and application of products. SKF's overall approach to quality management ensures product conformance to the highest level.
Health and Safety at supplier and business partner operations	Employees of SKF's suppliers or business partners are hurt or killed.	SKF has defined specific requirements to ensure health and safety for the employees within its Code of Conduct for suppliers and subcontractors. See also Code of Conduct deviations in the supply chain above.
Human rights risks		
Human rights non-compliances at SKF	SKF's employees' human rights are not respected.	SKF adheres to international standards and guidelines such as the UN Global Compact, see page 120. The SKF Code of Conduct sets out the requirements to respect human rights and SKF enforces the SKF Code of Conduct policy in all operations, see page 38.
Code of Conduct non-compliances or abuses in the supply chain	Human rights and labour rights of suppliers' employee (extended supply chain) not respected.	See Code of Conduct deviations in the supply chain above, read also on SKF's supply chain management on pages 139.
Brand risks		
Other companies or counterfeiters use SKF Brands to market their products	SKF is one of the strongest global industrial brands and subject to counterfeit globally. Counterfeit products of all types pose a risk to people and the global economy.	SKF focuses on protecting customers, safeguarding health and safety of machine operators, avoiding unexpected downtime, environmental and financial damage. Fake products are universally recognized as a major risk and continuous support to law enforcement, customs and other authorities makes up the majority of SKF's anti-counterfeit work. In addition to arranging customer events to make customers aware of the importance to safeguard authenticity, SKF runs anti-counterfeit e-learnings designed for the Group's personnel and distributors.
IT risks		
Cyber security risk	An adversary could gain unauthorized access to SKF information or computer systems, leading to loss of intellectual property or financial data.	SKF have IT Security Awareness training programs for the employees and an IT Security policy based on ISO 27000, for the deployment and use of IT Systems.
IT continuity risk	Unplanned interruptions in SKF computer systems, lead to loss of production or delays in deliveries to customers.	SKF work with trusted IT partners, that employ best practice procedures such as ITIL, ISO 20000 and ISO 9000 for business critical IT systems.

Sensitivity analysis

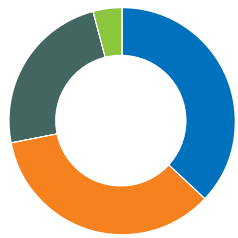
Costs

The annual cost of raw materials and components is around SEK 21 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 210 million. Steel scrap is a major ingredient in making bearing steel. An isolate 10% increase/decrease of market scrap prices would decrease/increase SKF's operating profit by around SEK 50 million.

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

A decrease/increase of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 180 million, based on the current position. The Group had net debt of SEK 23,357 million on 31 December, 2016.

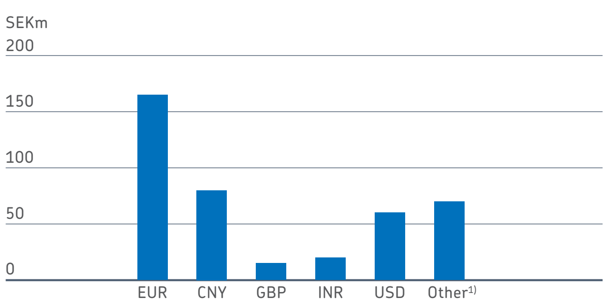
Cost split 2016



Currency impact

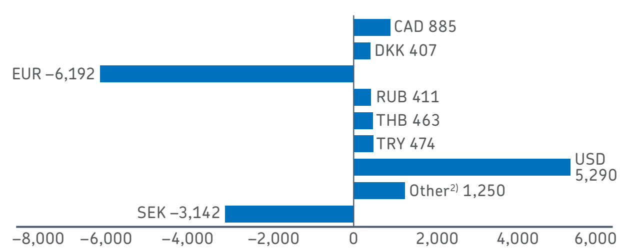
Translation effects: Most of the operating profit is made outside Sweden, meaning that the Group is exposed to translation risks from all major currencies into the reporting currency SEK. Based on 2016 operating profits in local currencies, the below graph represent a sensitivity-analysis that shows the effect on the translation of operating profits to SEK of a 5% weaker SEK against all other currencies.

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



1) Other is a sum comprising 41 different currencies.

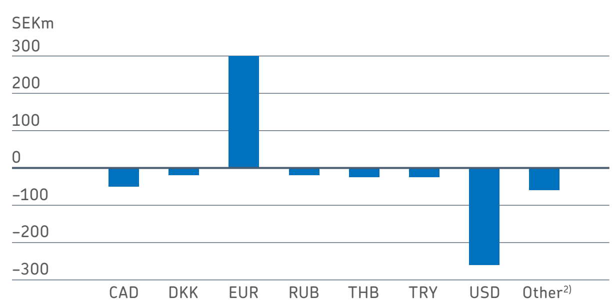
Net currency flows 2016, SEKm



For the commercial foreign exchange exposure, the SKF Group is exposed to currencies shown in the graph above.

Based on the assumption that the net currency flows will be the same as in 2016, the below graph represents a sensitivity-analysis that shows the effect on operating profit of a 5% stronger SEK against all other currencies.

Effect on operating profits of a 5% stronger SEK



2) Other is a sum comprimising 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 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 40% 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 2008–2016). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2017.

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 2017–2019 compared to the financial year 2016. 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 2017 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 215, the cost, including social security costs, is estimated at around SEK 258 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 2008–2016 resolved on SKF's Performance Share Programmes 2008–2016.
- 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. Any allotment of shares under SKF's Performance Share Programme 2015 will be made during 2018. Any allotment of shares under SKF's Performance Share Programme 2016 will be made during 2019.
- 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 2016 and remuneration of Group Management 2016, see Consolidated Financial Statements Note 23.

Nomination of Board members and notice of 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 another kind of Extra General Meeting 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. TVA 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 5% 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. Variable salary schemes are primarily based on this model.

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, 2016, the gearing was 55.3% (56.7), the equity/assets ratio 33.0% (33.0) and the net debt/equity ratio 84.4% (99.9). All things being equal, the Group expects to return to the targeted capital structure within a couple of years.

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December, 2016, 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 750 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 SEK 1,000 million, due in 2017, and one of EUR 200 million due in 2021.

In addition to its own liquidity, AB SKF had two committed credit facilities, one of SEK 3,000 million with due date 2018 and one of EUR 500 million with a due date in 2019.

Credit rating

On 31 December, 2016, 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 2017, see page 117, Proposed distribution of surplus.

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 4,393 million (7,051).

Net increase in investments in subsidiaries amounted to SEK 1,449 million (5,152), impairments amounted to SEK –326 million (–4,966) and SEK –37 million (15,879) to capital repayment and sales.

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 16,115 million (14,771).

Financial statements

Contents

Consolidated income statements

SEKm	Note	Years ended 31 December 2016	2015
Net sales	2	72,787	75,997
Cost of goods sold	5, 6	–54,984	–57,483
Gross profit		**17,803**	**18,514**
Selling expenses	6	–9,831	–11,164
Administrative expenses	6	–437	–439
Other operating income and expenses, net	7	–8	57
Operating profit		**7,527**	**6,968**
Financial income and expenses, net	8	–788	–1,134
Profit before taxes		**6,739**	**5,834**
Income tax	9	–2,530	–1,760
Net profit		**4,209**	**4,074**
Net profit attributable to:			
Shareholders of AB SKF		3,985	3,880
Non-controlling interests		224	194
Basic earnings per share (SEK)	16	8.75	8.52
Diluted earnings per share (SEK)	16	8.75	8.52

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December 2016	2015
Net profit		**4,209**	**4,074**
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	17	–1,746	1,236
Income tax	9	423	–334
		–1,323	**902**
Items that may be reclassified to the income statement			
Currency translation adjustments		1,273	–445
Available-for-sale assets	13	–205	217
Cash flow hedges	26	18	41
Income tax	9	50	–361
		1,136	**–548**
Other comprehensive income, net of tax		**–187**	**354**
Total comprehensive income		**4,022**	**4,428**
Total comprehensive income attributable to			
Shareholders of AB SKF		3,714	4,221
Non-controlling interests		308	207

Comments on the consolidated income statements

Amounts in parentheses refer to comparable figures for 2015.

General

The Group's income statement for 2016 included the result of divested companies as follows: Kaydon Velocity Control for the period 1 January–30 June and Fly-by-wire 1 January–30 June. It also included the result of the acquired lubrication business in Sweden for the period 1 April–31 December.

Net sales

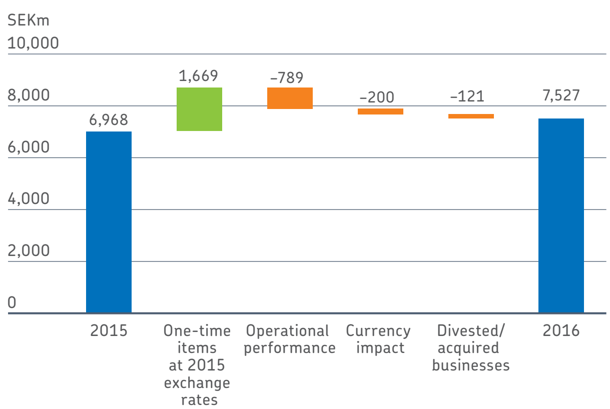
In 2016, net sales amounted to SEK 72,787 m (75,997) corresponding to a decrease of 4.2% compared to 2015. The change of the Swedish krona towards other currencies had a negative impact in 2016 of –0.4%. Structural changes accounted for –2.2%. Net sales in local currencies decreased by –1.6% driven by lower sales volumes primarily in North America, Asia and Latin America. Net sales in Europe increased by 1.7% compared to 2015.

Sales development percent y-o-y	Q1	Q2	Q3	Q4	Full year
Organic	–6.1	–4.4	–0.6	1.2	–1.6
Structure	–0.8	–0.6	–2.0	–1.8	–2.2
Currency	–2.0	–3.0	0.1	3.7	–0.4
Total	**–8.9**	**–8.0**	**–2.5**	**3.1**	**–4.2**

Operating profit

The Operating profit amounted to SEK 7,527 m (6,968) and excluding one-time items amounted to SEK 7,544 m (8,655) giving an operating margin excluding one-time items of 10.4% (11.4).

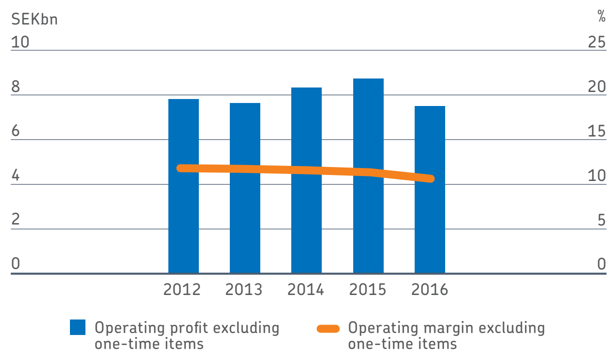
Operating profit development y-o-y



The Operating profit was positively impacted by lower one-time items, savings from cost reduction programmes and lower material prices compared to 2015. Operating profit was also negatively impacted by lower sales and manufacturing volumes, sales price development, customer mix, higher costs for the ERP implementation, general inflation and divested companies.

One-time items for the year amounted to SEK –17 m (–1,687) whereof SEK –576 m (–1,199) related to the restructuring and cost reduction programme, SEK –59 m (–488) net related to profits on sold businesses, impairments, write-off of assets and revaluation effects. The remaining SEK 618 m (0) related to a curtailment gain due to changed conditions in the defined benefit retirement plans.

Operating profit excluding one-time items



Financial income and expenses, net

The financial income and expenses, net for 2016 was SEK –788 m (–1,134). For more information about the changes year-over-year, see Note 8.

Taxes

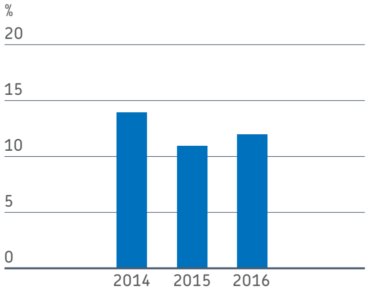
The effective tax rate for the year was 37.5% (30.2). Taxes were negatively impacted by divestment of businesses by SEK –383 m (–317). Excluding this the effective tax rate for the year was 31.8%. Adjusted for tax benefits not recognised as tax assets, the effective tax rate for the year was 30.4%.

Values by quarter SEKm	Q1	Q2	Q3	Q4	Full year
Net sales	17,720	18,370	17,912	18,785	72,787
Operating profit	1,875	1,875	2,191	1,586	7,527
Profit before taxes	1,658	1,656	2,049	1,376	6,739
Basic earnings per share (SEK)	2.40	1.44	2.97	1.95	8.75

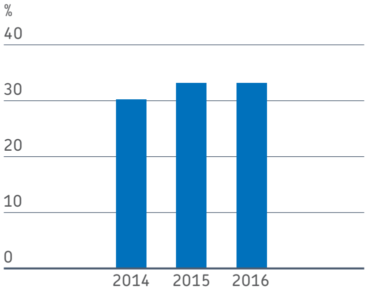
Consolidated balance sheets

SEKm	Note	As of 31 December 2016	2015
ASSETS			
Non-current assets			
Goodwill	10	11,137	12,078
Other intangible assets	10	8,431	9,407
Property, plant and equipment	11	15,746	15,303
Long-term financial assets	13	1,345	1,448
Deferred tax assets	9	3,806	3,185
Other long-term assets		343	159
		40,808	**41,580**
Current assets			
Inventories	12	15,418	14,519
Trade receivables	13	13,462	11,777
Other short-term assets	14	3,133	3,357
Other short-term financial assets	13	1,147	1,282
Cash and cash equivalents	13	9,939	7,218
		43,099	**38,153**
Total assets		**83,907**	**79,733**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		**26,034**	**24,815**
Equity attributable to non-controlling interests		**1,649**	**1,467**
		27,683	**26,282**
Non-current liabilities			
Long-term financial liabilities	19	22,031	22,383
Provisions for post-employment benefits	17	13,945	13,062
Deferred tax provisions	9	1,380	1,373
Other long-term provisions	18	1,410	1,204
Other long-term liabilities		80	98
		38,846	**38,120**
Current liabilities			
Trade payables	19	7,100	5,671
Short-term provisions	18	814	891
Other short-term financial liabilities	19	1,619	1,442
Other short-term liabilities	21	7,845	7,327
		17,378	**15,331**
Total equity and liabilities		**83,907**	**79,733**

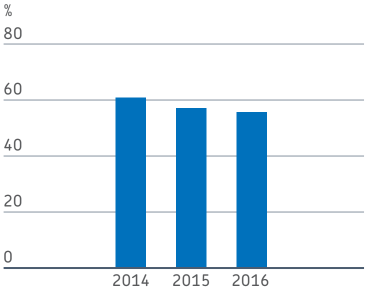
Return on capital employed



Equity/assets



Gearing

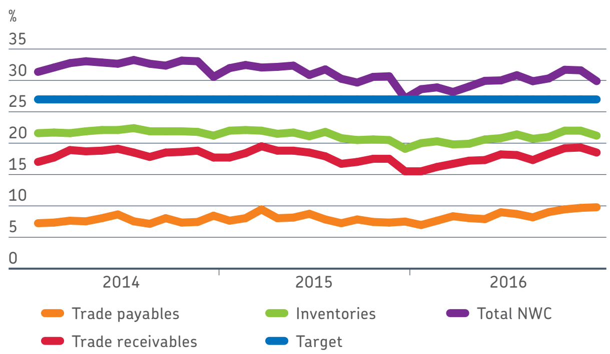


Comments on the consolidated balance sheets

Amounts in parentheses refer to comparable figures for 2015.

Net working capital
The 2016 target for net working capital as a percentage of sales was set at 25%. At 31 December, 2016 it was 29.9% (27.1) consisting of the following components:

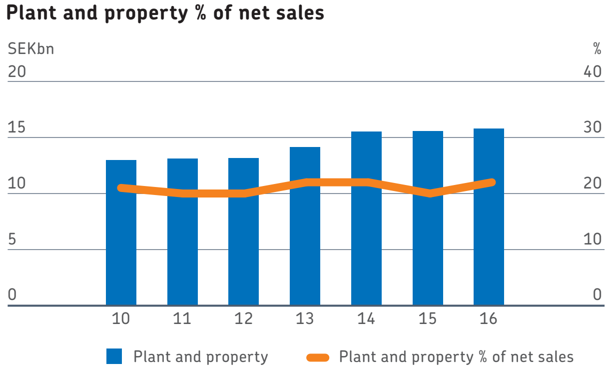
Net working capital as % of annual sales



- Inventories amounted to SEK 15,418 m (14,519) being 21.1% (19.1) of annual sales. The change in inventories was caused by some SEK 593 m due to a weaker Swedish krona and included an increase in volumes of SEK 306 m.
- Trade receivables amounted to SEK 13,462 m (11,777) which is 18.5% (15.5) of annual sales. The change in trade receivables was attributable to currencies with SEK 485 m, and also included a volume increase of SEK 1,200 m. The average days of outstanding trade receivables were 65 days (64).
- Trade payables amounted to SEK 7,100 m (5,671) being 9.8% (7.5) of annual sales. The change attributable to currencies was SEK 212 m and the remaining SEK 1,217 m was volume.

Plant and property
Plant and property amounted to SEK 15,746 m (15,303) at 31 December, 2016. This was as a percentage of annual sales 21.6% (20.0). The change attributable to currencies was SEK 699 m.

Plant and property % of net sales



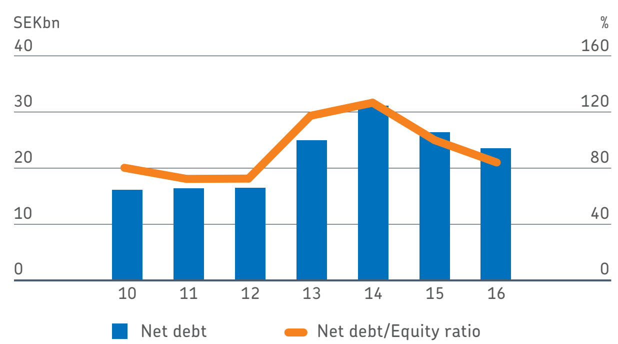
Net debt
Net debt amounted to SEK 23,357 m (26,269) at the end of 2016, representing an improvement of SEK 2,912 m.

Post employment benefit provisions totalled SEK 13,892 m (13,010) at year end, representing a net increase of SEK 882 m (–932), which was attributable to:

- Cash payments of SEK –1,853 m (–894), including a one-time contribution of SEK –858 m.
- Actuarial gains and losses of SEK 1,746 m (–1,236) mainly by decreasing discount rates, see Note 17.
- Expenses of SEK 355 m (1,127), which included a curtailment gain of SEK 618 m.
- The remainder was attributable to currency translation differences.

Loans totalled SEK 20,399 m (21,349) at the end of 2016 representing a decrease of SEK –950 m. The decrease was primarily attributable to net repayments of SEK –1,990 m and currency translation effects of SEK 882 m being primarily EUR.

Net debt/equity



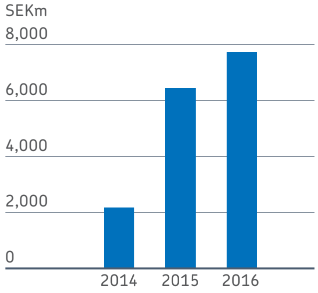
Equity
During the year, equity increased from SEK 26,282 m to SEK 27,683 m. Net profit amounted to SEK 4,209 m (4,074) and dividends paid were SEK 2,635 m (2,605). The increase caused by currency translation effects of SEK 1,273 m (–445), was offset by SEK –1,323 m (902) net of tax related to remeasurement gains on post-employment benefits and other changes totalling SEK –123 m (–48).

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, 2016, the gearing was 55.3% (56.7), the equity/assets ratio 33.0% (33.0) and the net debt/equity ratio 84.4 (99.9).

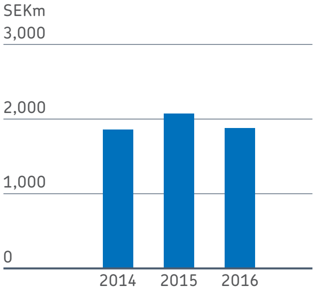
Consolidated statements of cash flow

SEKm	Note	Years ended 31 December 2016	2015
Operating activities			
Operating profit		7,527	6,968
Adjustments for			
Depreciation, amortization and impairment	6	2,368	2,858
Net gain on sales of businesses, property, plant and equipment and shares		–8	–217
Other non-cash items		123	952
Income taxes paid		–1,897	–2,320
Contributions to and payments under post-employment defined benefit plans	17	–995	–894
Changes in working capital			
Inventories		–306	469
Trade receivables		–1,200	620
Trade payables		1,217	–150
Other operating assets and liabilities, net		264	421
Interest and other financial items		57	–976
Net cash flow from operating activities		**7,150**	**7,731**
Investing activities			
Additions to intangible assets	10	–340	–247
Additions to property, plant and equipment	11	–1,869	–2,063
Sales of property, plant,equipment, and intangibles		75	128
Acquisitions of businesses, net of cash and cash equivalents	3	–60	–102
Divestments of businesses, net of cash and cash equivalents	4	3,146	1,165
Income taxes paid related to divestments		–383	–317
Investment in/sale of equity securities		–2	121
Net cash flow used in investing activities		**567**	**–1,315**
Net cash flow after investments before financing		**7,717**	**6,416**
Financing activities			
Proceeds from medium- and long-term loans		96	4,624
Repayments of medium- and long-term loans		–2,086	–5,566
Other financing items		16	–1,304
Cash dividends to shareholders of AB SKF and non-controlling interests		–2,635	–2,605
Funding of post-employment benefits	17	–858	—
Tax payment related to funding of post-employment benefits		332	—
Investments in financial assets		–653	–560
Sales of financial assets		570	212
Net cash flow used in financing activities		**–5,218**	**–5,199**
Net cash flow		**2,499**	**1,217**
Cash and cash equivalents at 1 January		7,218	5,920
Translation effect		222	81
Cash and cash equivalents at 31 December		**9,939**	**7,218**

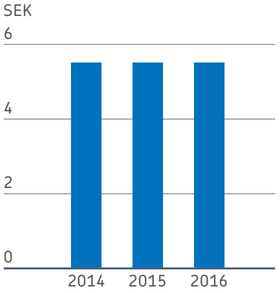
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2016, which is subject to approval at the Annual General Meeting in March 2017, 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 2015.

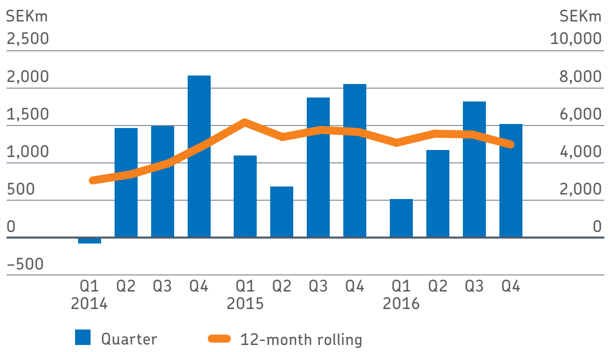
The consolidated statements of cash flow have been adjusted for exchange rate effects arising upon the translation of foreign subsidiaries' balance sheets to Swedish krona, as these do not represent cash flows.

Cash and cash equivalents comprise 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 7,717 m (6,416) in 2016 (6,416). Adjusted for acquisitions and divestments of businesses, the cash flow amounted to SEK 5,014 m (5,670).

Cash flow after investments before financing excluding acquisitions/divestments



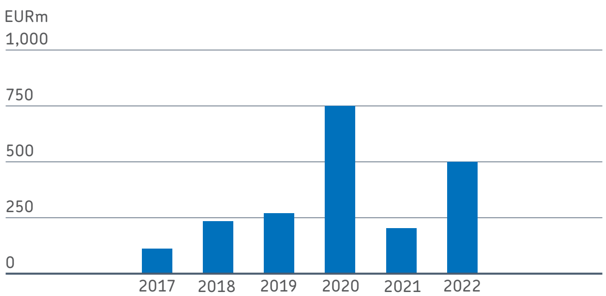
Other non-cash items included expenses for which the cash flow has not yet occurred. The most significant item was operating expenses on the post-employment benefits. Interest and other financial items included interest paid of SEK 382 m (560), interest received of SEK 76 m (145), and the remainder SEK –335 m (247) related primarily to realised derivatives on commercial flows between Group companies.

During the year the Group divested the Fly-by-wire and Kaydon Velocity Control businesses, which generated SEK 2,763 m net of income tax payments. The acquisition of a lubrication business in Sweden resulted in a total net cash outflow of SEK 60 m in 2016.

Cash flow used in financing activities

The Group's debt structure improved in 2016 through the repayment of the EUR 100 m loan due in 2016 and the repayment of the EUR 100 m loan with due date 2020.

Current debt structure



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

Other financing items amounted to SEK 16 m in 2016. 2015 included primarily SEK –369 m interest paid related to the buy-back of borrowings and SEK –935 m to realized derivatives related to long-term borrowings.

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

Change in net debt (SEKm)	2015 Closing balance	Cash change	Businesses acquired/ sold	Other non-cash changes	Translation effect	2015 Opening balance
Loans[1)]	21,349	–942	—	5	–1,102	23,388
Post-employment benefits, net[2)]	13,010	–894	—	–52	14	13,942
Other short-term financial assets[3)]	–872	–348	—	–2	–4	–518
Cash and cash equivalents	–7,218	–1,199	–18	—	–81	–5,920
Net debt	**26,269**	**–3,383**	**–18**	**–49**	**–1,173**	**30,892**

1) Excludes derivatives, see Note 19.
2) Other non-cash changes includes remeasurements as well as expenses on defined benefit plans.
3) Other short-term financial assets excludes derivatives, see Note 13.

Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF: Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Opening balance 1 January, 2015	**1,138**	**564**	**295**	**–46**	**553**	**20,585**	**23,089**	**1,315**	**24,404**
Net profit	—	—	—	—	—	3,880	3,880	194	4,074
Components of other comprehensive income									
Currency translation adjustments	—	—	—	—	–2,057	—	–2,057	13	–2,044
Change in fair value of available-for-sale assets and cash flow hedges	—	—	297	–46	—	—	251	—	251
Release of available-for-sale assets and cash flow hedges	—	—	–80	87	—	—	7	—	7
Release of net investment hedge	—	—	—	—	1,599	—	1,599	—	1,599
Remeasurements	—	—	—	—	—	1,236	1,236	—	1,236
Income taxes	—	—	—	–10	–351	–334	–695	—	–695
Transactions with shareholders									
Non-controlling interest	—	—	—	—	—	–5	–5	46	41
Cost for Performance Share Programmes, net[1)]	—	—	—	—	—	14	14	—	14
Dividends	—	—	—	—	—	–2,504	–2,504	–101	–2,605
Closing balance 31 December, 2015	**1,138**	**564**	**512**	**–15**	**–256**	**22,872**	**24,815**	**1,467**	**26,282**
Net profit	—	—	—	—	—	3,985	3,985	224	4,209
Components of other comprehensive income									
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
Transactions with shareholders									
Non-controlling interest	—	—	—	—	—	–4	–4	4	—
Cost for Performance Share Programmes, net[1)]	—	—	—	—	—	14	14	—	14
Dividends	—	—	—	—	—	–2,504	–2,504	–131	–2,635
Closing balance 31 December, 2016	**1,138**	**564**	**307**	**–1**	**987**	**23,039**	**26,034**	**1,649**	**27,683**

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 1,095 m (SEK 947 m) relating to SKF India Ltd, representing a 46.4% (46.4) shareholding. This represents 2.8% (3.6) 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 2015.

Note 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 6 March, 2017. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheet are subject to adoption at the Annual General Meeting on 29 March, 2017.

The consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below.

To improve the reading and understanding of each note, the corresponding accounting policy has been moved to the beginning of respective note. Accounting policies without a specific note remain in Note 1. When applicable, accounting estimates and judgements are also moved to respective note. See below Critical accounting estimates and judgements according to management.

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 publically listed company in India of which the Group has control via ownership of 53.6% of the voting rights. For the subsidiaries where less than 100% is owned, the non-controlling interests are shown separately within equity.

Translation of foreign financial statements and items denominated in foreign currency

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

All foreign subsidiaries report in their functional currency being the currency of the primary economic environment in which the subsidiary operates. Upon consolidation, all balance sheet items are translated to the Swedish krona based on the year-end exchange rates. Income statement items are translated at average exchange rates. The accumulated exchange differences arising from these translations are recognized via other comprehensive income to the translation reserve in equity. Such translation differences are reclassified into the income statement upon the disposal of the foreign operation.

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

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

Exchange rates

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

			Average rates		Year-end rates	
Country	Unit	Currency	**2016**	2015	**2016**	2015
Argentina	1	ARS	0.58	0.91	0.57	0.64
China	1	CNY	1.29	1.34	1.31	1.29
EMU countries	1	EUR	9.45	9.33	9.56	9.14
India	100	INR	12.73	13.11	13.39	12.58
Brazil	1	BRL	2.47	2.56	2.79	2.16
United Kingdom	1	GBP	11.58	12.85	11.17	12.38
USA	1	USD	8.56	8.41	9.09	8.36

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 fulfillment 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 such an arrangement. Shipping documents and customer acceptances are used, when applicable, to verify delivery. Collectibility is assessed based primarily on the creditworthiness 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.

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.

Cont. Note 1

- 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 2016

IASB issued several amended accounting standards effective starting 1 January, 2016. None of these had a material impact on the SKF Group's financial statements.

New accounting principles 2017

IASB issued and endorsed several amended accounting standards effective starting 1 January, 2017. None of these are expected to have a material impact on the SKF Group's financial statements. Due to updates in IAS 7 "Statement of cashflow", additional disclosure will be required to reconcile between opening balance and closing balance for financial assets reported as financing activities in the statement of cash flow and that hedge long term loans. Those financial assets are included in the line other financing items in the cash flow statement and are not considered in the change in net debt.

Other new accounting principles issued but not yet effective

The following have been issued by the IASB and are effective for annual periods after 2017 as noted.

IFRS 9 "Financial Instruments" endorsed by the European Union in November 2016 is effective as of 1 January, 2018, with earlier adoption permitted. 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. The Group does not expect any material effect from the change to the expected loss model. Additionally the application of hedge accounting is today very limited in the Group and no material impact is expected here either. SKF will implement the new standard January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers", endorsed by the European Union in October 2016 is effective as of 1 January, 2018, with earlier adoption permitted. The standard 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 certain point in time. SKF is aligned with the revenue recognition method according to IFRS 15 when selling products or services. The new standard may have an impact on the revenue recognition method for service contracts where the supply of products is subsidiary to the fulfillment of the contract. These kind of contracts are immaterial to the Group, hence no material effect is expected from the implementation of IFRS 15 for these contracts. During 2017, the Group will continue to assess if such contracts are required to be classified as separate performance obligations according to the new standard. SKF will implement the new standard from 1 January, 2018, and the full retrospective method is expected to be used.

IFRS 16 "Leases"[1)] 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 Group's leasing commitments are discussed in Note 20, and the full impact of the new standard is currently being investigated.

1) Indicates that this has not yet been endorsed by the EU.

Note 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.

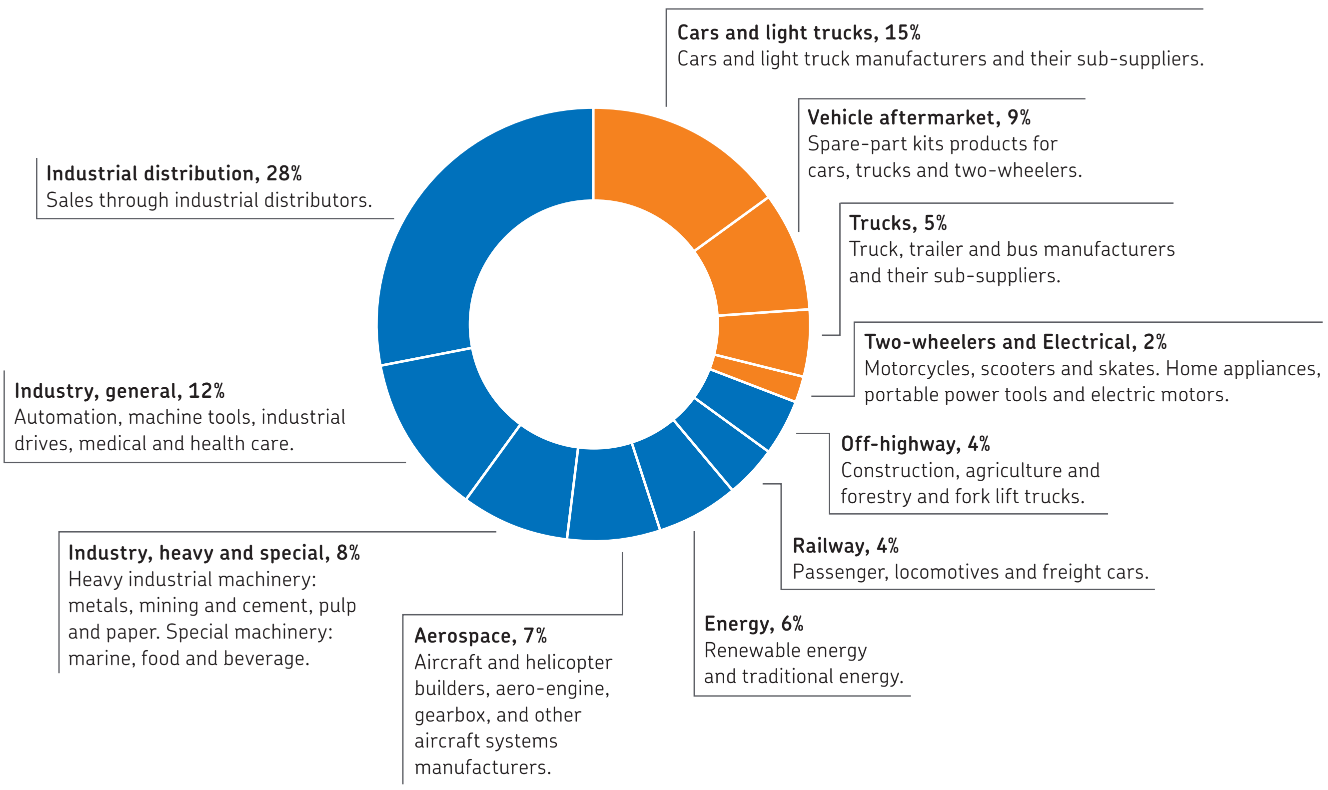
As from 2016 Industrial is structured according to a functional approach and is managed as one segment comprising six different functional organizations: Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Business and Product Development, Bearing Operations, 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.

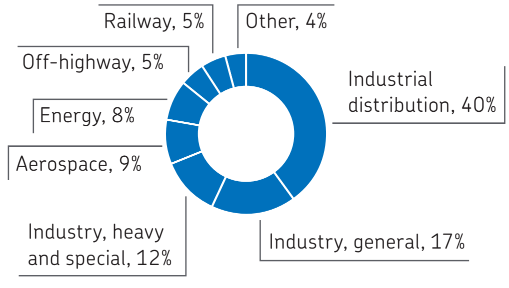
Automotive sells to customers in the global automotive market, directly or indirectly through SKF's distributor network. Key customers are manufacturers of cars, light and heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

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

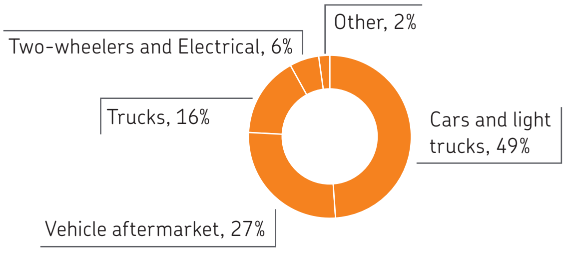
Previously published segment information has been restated to current segment definition being Industial and Automotive customers. The main change related to the Specialty segment which was moved into Industrial and Automotive based on type of customer.



Net sales by customer industry – Industrial



Net sales by customer industry – Automotive



Cont. Note 2

SEKm	Net sales		Sales including intra-Group sales		Contribution to profit before tax	
	2016	2015[1)]	2016	2015[1)]	2016	2015[1)]
Industrial	50,756	54,132	57,053	60,692	6,103	6,229
Automotive	22,005	21,842	23,423	23,167	1,424	739
Subtotal operating segments	**72,761**	**75,974**	**80,476**	**83,859**	**7,527**	**6,968**
Other units	26	23	101	211	—	—
Eliminations of intra Group sales	—	—	– 7,790	–8,073	—	—
Financial net	—	—	—	—	–788	–1,134
Total	**72,787**	**75,997**	**72,787**	**75,997**	**6,739**	**5,834**

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2016	2015[1)]	2016	2015[1)]	2016	2015[1)]
Industrial	1,851	1,973	50	384	1,229	1,490
Automotive	450	446	17	55	520	394
Eliminations and unallocated items	—	—	—	—	460	426
Total	**2,301**	**2,419**	**67**	**439**	**2,209**	**2,310**

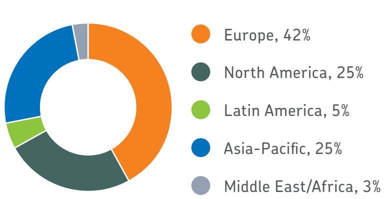
SEKm	Assets		Liabilities	
	2016	2015[1)]	2016	2015[1)]
Industrial	48,703	49,368	9,351	8,381
Automotive	14,054	12,568	4,717	3,592
Subtotal operating segments	**62,757**	**61,936**	**14,068**	**11,973**
Financial and tax items	16,805	13,987	36,335	36,435
Eliminations and other unallocated items	4,345	3,810	5,821	5,043
Total	**83,907**	**79,733**	**56,224**	**53,451**

1) Previously published figures have been restated.

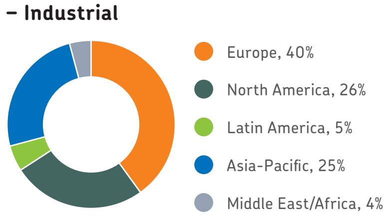
Geographic disclosure SEKm	Net sales by customer location		Non-current assets	
	2016	2015	2016	2015
Sweden	1,784	1,799	3,776	3,379
Europe excl. Sweden	27,652	28,033	11,093	10,852
North America (incl. Mexico)	18,263	19,876	15,273	17,469
Asia-Pacific	19,039	19,806	5,165	5,295
Middle East/Africa	1,931	1,998	86	72
Latin America	4,118	4,485	710	495
Eliminations	—	—	–499	–666
Total	**72,787**	**75,997**	**35,604**	**36,896**

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 21% (22) were located in the USA, 14% (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, 40% (45) were located in the USA, 15% (14) in Germany, and 10% (10) in China.

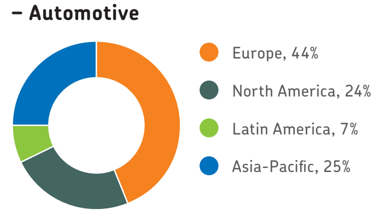
Net sales by geographic area



Net sales by geographic area – Industrial



Net sales by geographic area – Automotive



Note 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	2016	2015
Total fair value of net assets acquired		
Property, plant and equipment	1	8
Current assets	26	71
Current liabilities	–19	–32
Fair value net assets acquired	**8**	**47**
Goodwill	56	87
Total acquisition cost	**64**	**134**
Consideration payable	—	–14
Cash and cash equivalents acquired	–4	–18
Cash outflow	**60**	**102**

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

In 2015, SKF had total net cash outflows of SEK 102 m for the acquisition of a distribution business in South Africa.

Note 4 | Divestment of businesses

SEKm	2016	2015
Goodwill	1,791	556
Other intangible assets	1,319	394
Property, plant and equipment	212	52
Current assets	590	110
Deferred tax provisions	–518	–109
Non current liabilities	–2	—
Current liabilities	–192	–8
Non controlling interest	—	41
Net assets disposed of	**3,200**	**1,036**
Profit	15	171
Impairment on goodwill in divested company	—	–42
Total consideration	**3,215**	**1,165**
Cash and cash equivalents divested	–84	—
Cash inflow for divestments in previous years	15	—
Total cash inflow	**3,146**	**1,165**

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 on a cash-free and debt-free basis.

During 2015, SKF divested businesses for a total cash flow of SEK 1,165 m resulting in a profit of SEK 171 m.

In May 2015, SKF completed the divestment of Erin Engineering and Research, Inc. to Jensen Hughes, a US-based engineering consultancy for the built environment. The total consideration of the deal was around SEK 230 m on a cash-free and debt-free basis.

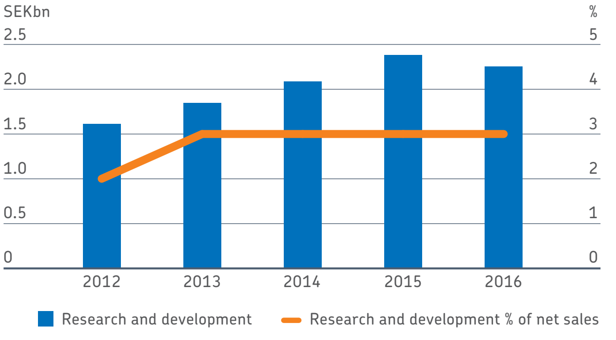
In June 2015, SKF sold two filtration businesses, Purafil and Kaydon Custom Filtration, to Filtration Group Corporation, an affiliate of Madison Industries. The total consideration for the divestment was around USD 90 m on a cash-free and debt-free basis.

In August 2015, SKF completed the divestment of Canfield Technologies, Inc. to Gen Cap America, a private equity firm headquartered in Nashville, Tennessee. The total consideration of the divestment was around USD 23 m on a cash and debt-free basis. In June 2015, SKF sold 25.81% of its share in PT SKF Indonesia, reducing SKF's ownership to 60%.

Note 5 | Research and development

Research and development expenditure, excluding developing IT solutions, totalled SEK 2,246 m (2,372), corresponding to 3.1% (3.1) of annual sales. For more information on the research and development expenditures see page 20.

Research and development % of net sales



Note 6 | Expenses by nature

SEKm	2016	2015
Employee benefit expenses including social charges	22,770	23,920
Raw material and components consumed, including traded products	22,964	24,617
Change in work in process and finished goods	1,275	331
Depreciation, amortization and impairments	2,368	2,858
Other expenses, primarily purchased services, shop supplies and utilities	15,875	17,360
Total operating expenses	**65,252**	**69,086**

	2016				2015			
Depreciation, amortization and impairments were accounted for as (SEKm)	Depreciation	Amortization	Impairments	Total	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,711	101	19	1,831	1,765	113	218	2,096
Selling expenses	102	387	48	537	99	442	129	670
Other operating expenses	—	—	—	—	—	—	92	92
Total	**1,813**	**488**	**67**	**2,368**	**1,864**	**555**	**439**	**2,858**

Note 7 | Other operating income and expenses

SEKm	2016	2015
Other operating income		
Exchange gains on trade receivables/payables	303	377
Profit from sale of property, plant and equipment	34	63
Profit from associated companies	8	4
Profit from divestment of businesses	174	171
Other	123	101
Total	**642**	**716**
Other operating expenses		
Exchange losses on trade receivables/payables	–365	–511
Loss from sale of property, plant and equipment	–23	–17
Loss on divestment of businesses	–159	–42
Other	–103	–89
Total	**–650**	**–659**
Other operating income and expenses, net	**–8**	**57**

Note 8 | Financial income and financial expenses

SEKm	2016	2015
Interest income	107	108
Interest expense	–436	–640
Net gains/losses:		
Net interest cost on post-employment benefits	–355	–377
Exchange differences, net	–38	–154
Other financial income including dividends	56	133
Other financial expense	–122	–204
Financial net	**–788**	**–1,134**

Interest expense amounted to SEK –436 m (–640), 2015 included around SEK –270 m related to the buy-back of the bonds. The exchange differences, net included SEK –100 m (–140) related to negative revaluation effects due to currency developments in Latin America. 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.

	2016			2015		
Financial net specified by category of financial instruments (SEKm)	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	–16	—	—	—	—	—
Derivatives held for trading	—	21	–76	7	220	–1,793
Derivatives held for hedge accounting	—	—	2	—	—	497
Financial assets classified as loans and receivables	123	—	1,043	101	—	1,098
Other financial liabilities, primarily loans	—	–457	–952	—	–860	176
Other liabilities including post-employment benefits	—	—	–476	—	—	–580
Total	**107**	**–436**	**–459**	**108**	**–640**	**–602**

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.

Note 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 of 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.

	2016			2015		
Tax expense (SEKm)	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	–2,198	—	–2,198	–2,198	—	–2,198
Deferred taxes	–332	473	141	438	–695	–257
Total	**–2,530**	**473**	**–2,057**	**–1,760**	**–695**	**–2,455**

Taxes charged to other comprehensive income included SEK 423 m (–334) related to remeasurements of post employment benefits, SEK –4 m (–10) related to cash flow hedges and SEK 54 m (–351) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2016	2015
Tax calculated using statutory tax rate in Sweden	–1,483	–1,284
Difference between statutory tax rate in Sweden and foreign subsidiaries	–520	–507
Other taxes	–106	–40
Tax credits and similar items	97	67
Non-deductible/non-taxable differences	–419	179
Change in tax rate	—	1
Tax loss carry-forwards	–105	–148
Current tax referring to previous years	–17	17
Other	23	–45
Actual tax	**–2,530**	**–1,760**

The corporate statutory income tax rate in Sweden was 22.0% (22.0). The actual tax rate on profit before taxes was 37.5% (30.2).

The non-deductible/non-taxable differences included tax costs of divestment of business in 2016 and 2015 and non-taxable translation gains in 2015.

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

	2016		2015	
Gross deferred taxes per type (SEKm)	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	–130	2,347	–191	2,828
Property, plant and equipment	–31	999	–46	1,075
Inventories	–469	455	–460	474
Trade receivables	–77	5	–56	5
Provisions for post-employment benefits	–3,240	36	–3,240	12
Other accruals and liabilities	–770	16	–773	100
Tax loss carry-forwards	–1,264	—	–1,215	—
Other	–419	116	–415	90
Gross deferred taxes	**–6,400**	**3,974**	**–6,396**	**4,584**
Net deferred taxes presented in the Consolidated balance sheet	–3,806	1,380	–3,185	1,373

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 421 m (600), whereof SEK 264 m (164) related to tax loss carry-forwards, SEK 0 m (255) related to tax credits and SEK 157 m (181) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of SEK 43 m (25) related to tax losses and SEK 0 m (70) related to tax credits will expire during the period 2017 to 2021. 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 335 m (30) 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 91 m (137) 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, 2016, the Group had tax loss carry-forwards amounting to SEK 6,750 m (5,974), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2017	72
2018	73
2019	142
2020	123
2021	77
2022 and thereafter	767
Never	5,496

Note 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 new ERP system (Unite) will follow another amortization pattern, effective from 2017 when amortization starts, 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 2017 to 2019 the yearly amortization will be around 3% of the amount capitalized for Unite at the end of 2016. The expected useful life for Unite ends 2028.

Intangible assets with definite useful lives

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

Factors that are considered important are:

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

When there is an indication that the carrying value may not be recoverable based on the above indicators, the profitability of the CGU to which the asset belongs is analyzed to further confirm the nature and extent of the indication. If an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected assets exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives have been allocated to CGUs, and are tested for impairment annually and whenever an indication of impairment exists. The impairment test is carried out at the lowest level at which these assets are monitored by management.

The 2016 reorganization of the Group into a functional organization, see Note 2, further intensifies the development of the business synergies with acquired companies which are being incorporated into the ordinary SKF operations, as each of the segments become fully integrated. The result being that independent cash flows cannot be identified on lower than segment level, and the CGU structure has been changed accordingly so that acquired businesses that used to be tested for impairment separately, are now merged into the CGUs for Industrial and Automotive, with the exception of some CGUs mentioned in Other CGUs below.

Cont. Note 10

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 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 the following time frames, which reflects the Group's long business cycle:

- business strategic plans for a three-year period 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 for another seven years 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	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
Total	**24,647**	**340**	**–3,386**	**–5**	—	**14**	**1,571**	**26,113**

SEKm	2016 Closing balance	Amortizations	Businesses acquired/ 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
Total	**5,079**	**488**	**–332**	**–2**	**46**	**1**	**250**	**4,628**
Net book value	**19,568**							**21,485**

SEKm	2015 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair- ments	Other	Translation effects	2015 Opening balance
Acquisition cost								
Goodwill	13,347	—	–469	—	—	—	502	13,314
Patents, tradenames and similar rights	3,079	1	–83	—	—	—	152	3,009
Internally developed software	1,981	198	—	—	—	—	—	1,783
Customer relationships	5,437	2	–257	—	—	—	227	5,465
Leaseholds	235	31	—	—	—	—	4	200
Product development	409	11	—	–5	—	—	–9	412
Technology	1,480	3	–108	—	—	—	60	1,525
Other intangible assets	145	1	—	—	—	—	–3	147
Total	**26,113**	**247**	**–917**	**–5**	**—**	**—**	**933**	**25,855**

SEKm	2015 Closing balance	Amortiza- tions	Businesses sold	Disposals	Impair- ments	Other	Translation effects	2015 Opening balance
Accumulated amortization and impairments								
Goodwill	1,269	—	–42	—	188	—	42	1,081
Patents, tradenames and similar rights	352	30	–9	—	—	—	–9	340
Internally developed software	708	23	—	—	210	—	—	475
Customer relationships	1,693	363	–29	—	—	—	26	1,333
Leaseholds	44	12	—	—	—	—	1	31
Product development	141	23	—	–5	—	—	–4	127
Technology	294	102	–16	—	—	—	5	203
Other intangible assets	127	2	—	—	—	—	–2	127
Total	**4,628**	**555**	**–96**	**–5**	**398**	**—**	**59**	**3,717**
Net book value	**21,485**							**22,138**

Impairment losses
Impairments amounted to SEK –46 m in 2016, 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.

Impairments amounted to SEK –398 m in 2015, of which SEK –188 m related to goodwill and the remaining SEK –210 m related to internally developed software which is described below under Significant intangibles. SEK –96 m of the goodwill impairments related to the Actuation and Linear Motion business in Taiwan, where recent changes in strategic direction have not yet had the impact on profitability as expected. The remaining impairments for 2015 included SEK –42 m related to Canfield Corporation which was sold during the year, and SEK –50 m related to a smaller heat transfer coil and tube machinery business operating in the US.

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 1,345 m (1,237), Kaydon Friction SEK 702 m (645), Peer SEK 227 m (210), GBC SEK 207 m (191) and others SEK 105 m (110).

Cont. Note 10

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 2016 was SEK 1,572 m (1,279). No amortization was made in 2016. The first implementation of the software was in the first quarter 2017, hence the amortization starts for the part in use. Useful life is twelve years as described in the accounting policy. An impartment of SEK –30 m was made due to changes of on-premise licenses for a cloud solution. In 2015, the impairment of SEK –210 m of the capitalized software was made due to anticipated changes in one of the technical platforms that would result in scrapping of several modules.

Other individual intangible assets that are material for the Group include the customer relationship intangibles for Lincoln amounting to SEK 1,333 m (1,381) having a remaining useful life of nine years, and for Kaydon amounting to SEK 1,159 m (1,859) having a remaining useful life of twelve years.

CGUs with significant intangibles
As a result of the reorganization in 2016 and the further integration of the acquired companies into the ordinary SKF operation, the CGU structure has changed accordingly. 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.

	2016[1]		2015		
	Industrial	Automotive	LUB[2]	Kaydon Friction	Kaydon Velocity
Goodwill, SEKm	8,954	483	4,310	3,165	1,749
Tradenames, SEKm	2,178	210	1,237	645	270
Average revenue growth rate	3.5%	3.0%	2.3%	4.1%	5.1%
Discount rate, pre tax	11.8%	10.9%	10.1%	10.5%	10.8%
Terminal growth factor	2.5%	2.5%	2.5%	3.0%	3.0%

1) As a result of the reorganization in 2016, the CGUs follow the segment reporting with the exception of some minor businesses in Industrial that are tested as separate CGUs.
2) Lubrication business

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 ten-year forecast period. The same discount rate is applied to all cash flows in the ten-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.

Note 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.

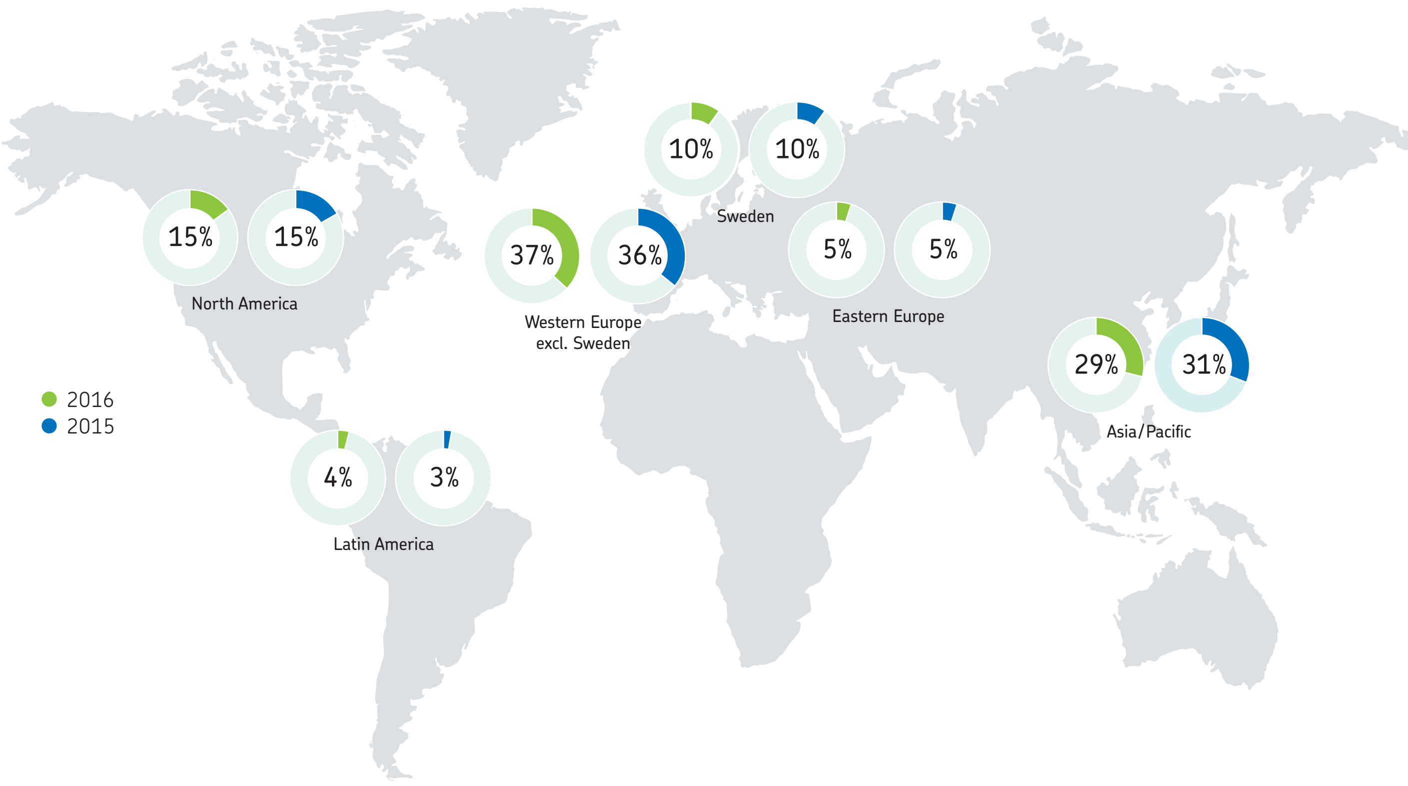
The useful lives are:
- 33 years for buildings and installations;
- 10–20 years for machinery and supply systems;
- 10 years for control systems within machinery and supply systems;
- 4–5 years for tools, office equipment and vehicles.

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 circumstanses indicates that the carrying value may not be recoverable.

Geographical distribution of property, plant and equipment 2015–2016



Cont. Note 11

SEKm	2016 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair-ments	Other[1]	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
Construction in process including advances[2]	1,790	1,045	–6	—	—	–1,101	88	1,764
Total	**43,770**	**1,869**	**–249**	**–462**	—	**–322**	**1 796**	**41,138**

SEKm	2016 Closing balance	Deprecia-tion	Businesses sold	Disposals	Impair-ments	Other[1]	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
Total	**28,024**	**1,813**	**–38**	**–390**	**21**	**–316**	**1,099**	**25,835**
Net book value	**15,746**							**15,303**

SEKm	2015 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair-ments	Other[1]	Translation effects	2015 Opening balance
Acquisition cost								
Buildings	7,585	244	–27	–36	—	150	–196	7,450
Land and land improvements	867	—	–8	–2	—	6	–22	893
Machinery and supply systems	27,200	612	–20	–242	—	388	–529	26,991
Machine toolings and factory fittings	3,722	131	11	–92	—	–7	–82	3,761
Construction in process including advances	1,764	1,076	–4	6	—	–861	–19	1,566
Total	**41,138**	**2,063**	**–48**	**–366**	**—**	**–324**	**–848**	**40,661**

SEKm	2015 Closing balance	Deprecia-tion	Businesses sold	Disposals	Impair-ments	Other[1]	Translation effects	2015 Opening balance
Accumulated depreciation and impairments								
Buildings	3,527	245	–3	–31	—	–7	–107	3,430
Land improvements	197	10	—	—	—	2	–9	194
Machinery and supply systems	18,953	1,331	–7	–186	41	–224	–459	18,457
Machine toolings and factory fittings	3,158	278	6	–67	—	–98	–59	3,098
Total	**25,835**	**1,864**	**–4**	**–284**	**41**	**–327**	**–634**	**25,179**
Net book value	**15,303**							**15,482**

1) Includes primarily reclassification between categories.
2) Contractual commitments for acquisition of PPE not yet booked amounted to SEK 275 m.

Note 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	2016	2015
Finished goods	9,036	8,560
Raw materials and supplies	4,883	4,328
Work in process	1,499	1,631
Total	**15,418**	**14,519**

Inventory values are stated net of a provision for net realizable value of SEK 1,566 m (1,409). The amount charged to expense for net realizable provisions during the year was SEK 204 m (105). Reversals of net realizable provisions during the year were SEK 14 m (28).

Note 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 and liabilities (such as trade receivables and payables) 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 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 2016

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: Trading	Derivatives for hedge accounting	Total	Of which current
Trade receivables	13,462	—	—	—	—	13,462	13,462
Cash and cash equivalent	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
Carrying amount	**17,505**	**519**	**6,999**	**857**	**13**	**25,893**	**24,548**
Fair value	**17,505**	**519**	**6,999**	**857**	**13**		

Financial assets per category 2015

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: Trading	Derivatives for hedge accounting	Total	Of which current
Trade receivables	11,777	—	—	—	—	11,777	11,777
Cash and cash equivalent	2,340	—	4,878	—	—	7,218	7,218
Equity securities	—	703	—	—	—	703	—
Marketable securities	—	—	—	607	—	607	—
Deposits	783	—	—	—	—	783	783
Derivatives	—	—	—	411	14	425	410
Loans and receivables	128	—	—	—	—	128	25
Debt securities	—	20	64	—	—	84	64
Carrying amount	**15,028**	**723**	**4,942**	**1,018**	**14**	**21,725**	**20,277**
Fair value	**15,028**	**723**	**4,942**	**1,018**	**14**		

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 subject to hedge accounting.

Fair value hierarchy for financial assets at fair value (SEKm)	Level 1	Level 2	Level 3	2016	Level 1	Level 2	Level 3	2015
Available-for-sale								
Equity securities	459	—	—	459	665	—	—	665
Debt securities	21	—	—	21	20	—	—	20
Fair value through profit or loss								
Trading securities	760	—	78	838	602	—	70	672
Cash and cash equivalents	6,831	—	—	6,831	4,878	—	—	4,878
Trading derivatives	—	187	—	187	—	411	—	411
Derivatives used for hedge accounting	—	13	—	13	—	14	—	14
Total	**8,071**	**200**	**78**	**8,349**	**6,165**	**425**	**70**	**6,660**

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 39 m (38) valued at cost and consequently not included in the specification above.

			Past due, net of allowance			
Trade receivables by due date (SEKm)	Carrying amount	Not yet due	1–30 days	31–60 days	61–90 days	> 91 days
2016	13,462	11,367	1,294	327	154	320
2015	11,777	9,967	1,092	334	152	232

The average days outstanding of trade receivables in 2016 were 65 days (64). Trade receivables as a percentage of annual net sales totalled 18.5% (15.5). Trade receivables included receivables sold with recourse amounting to SEK 194 m (43). 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)	2016	2015
Opening balance 1 January	**376**	**353**
Additions	67	102
Reversals	–21	–34
Changes through the income statement	**46**	**68**
Allowances used to cover write-offs	–44	–38
Acquired/ divested companies	–3	—
Currency translation adjustments	20	–7
Closing balance 31 December	**395**	**376**

Note 14 | Other short-term assets

SEKm	2016	2015
Value added taxes receivables, net	934	965
Income tax receivables	569	854
Prepaid expenses	500	507
Accrued income	184	149
Advances to suppliers	103	113
Other current receivables	843	769
Total	**3,133**	**3,357**

Note 15 | Share capital

	Number of shares authorized and outstanding			
	A Shares	B Shares	Total[1]	Share capital (SEKm)
Opening balance 1 January, 2015	37,649,081	417,701,987	455,351,068	1,138
Conversion of A shares to B shares	–1,350,548	1,350,548	—	—
Closing balance 31 December, 2015	**36,298,533**	**419,052,535**	**455,351,068**	**1,138**
Conversion of A shares to B shares	—	—	—	—
Closing balance 31 December, 2016	**36,298,533**	**419,052,535**	**455,351,068**	**1,138**

1) The quota value for all shares is SEK 2.50

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, 190,638,214 A shares have been converted to B shares.

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 16,115 m (14,771), see page 117. The Board has decided to propose to the Annual General Meeting, on 29 March, 2017, a dividend of SEK 5.50 (5.50) per share to be paid to the shareholders. The proposed dividend for 2016 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 31 March, 2017. 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 7 April 2016, a dividend of SEK 5.50 (5.50) per share was paid to the shareholders.

Note 16 | Earnings per share

	2016	2015
Net profit attributable to owners of AB SKF (SEKm)	3,985	3,880
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	**8.75**	**8.52**
Dilutive shares from Performance Share Programmes	197,634	—
Weighted average diluted number of shares	455,548,702	455,351,068
Diluted earnings per share (SEK)	**8.75**	**8.52**

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 2014 Performance Share Programme settled in 2017 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.

Note 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)	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
Total	**2,309**	**898**	**7,330**	**831**	**1,371**	**1,153**	**13,892**
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
Total	**2,309**	**898**	**7,330**	**831**	**1,371**	**1,153**	**13,892**

Amounts recognized in the consolidated balance sheet (SEKm)	2015 US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	525	916	622	—	263	841	3,167
Present value of funded defined benefit obligation	9,249	—	8,006	2,906	1,279	1,595	23,035
Less: Fair value of plan assets	–6,210	—	–2,451	–2,509	–629	–1,393	–13,192
Total	**3,564**	**916**	**6,177**	**397**	**913**	**1,043**	**13,010**
Reflected as							
Other long-term assets	—	—	—	–6	–3	–43	–52
Provisions for post-employment benefits	3,564	916	6,177	403	916	1,086	13,062
Total	**3,564**	**916**	**6,177**	**397**	**913**	**1,043**	**13,010**

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. Additionally, to further reduce the US net position of the defined benefit pension plan, in September 2016 a one-time contribution of SEK 858 m 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 2016, this reimbursement right totalled SEK 22 m (24).

Germany
The major German pension plans represent around 90% 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 (CTA).

United Kingdom
The major plans in the UK represent around 93% of the total UK obligation. Benefits under these plans are based on length of service and a career average revalued earnings (CARE) 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 85% 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	2016 Present value of obligation	2016 Fair value of plan assets	2016 Total	2015 Present value of obligation	2015 Fair value of plan assets	2015 Total
Opening balance 1 January	**26,202**	**–13,192**	**13,010**	**27,171**	**–13,229**	**13,942**
Interest expense/(income)	821	–466	355	827	–450	377
Current service cost	618	—	618	749	—	749
Past service cost and gains on settlements[1)]	–621	—	–621	–4	—	–4
Other	1	2	3	4	1	5
Subtotal expenses	819	–464	355	1,576	–449	1,127
Difference between actual return and interest income	—	–496	–496	—	357	357
Actuarial (gains)/losses – demographic assumptions	–260	—	–260	–124	—	–124
Actuarial (gains)/losses – financial assumptions	2,407	—	2,407	–1,354	—	–1,354
Experience adjustments	101	—	101	–111	—	–111
Other	—	–6	–6	—	–4	–4
Subtotal remeasurements in OCI	2,248	–502	1,746	–1,589	353	–1,236
Employer contribution[2)]	—	–1,387	–1,387	—	–493	–493
Employee contribution	31	–9	22	36	–9	27
Benefit payments	–1,498	1,010	–488	–1,425	997	–428
Subtotal cash flow[3)]	–1,467	–386	–1,853	–1,389	495	–894
Other	–67	13	–54	53	4	57
Translation differences	1,138	–450	688	380	–366	14
Closing balance 31 December	**28,873**	**–14,981**	**13,892**	**26,202**	**–13,192**	**13,010**

1) Past service cost include 2016 favourable curtailment of SEK 618 m from the hard freeze of all current salary defined benefit (DB) in the US plans. This means that, effective from December 2016, all salary plan participants' defined pension benefits are frozen and no new service credit will be earned. The number of persons affected by the hard freeze was about 1,480. These participants will now also become part of the defined contribution plan.

2) Additionally to the salary DB plan hard freeze, to further reduce the US net position of the defined benefit pension plan, in September 2016 a one-time contribution of SEK 858 m was paid.

3) Cash outflows for 2017 are expected to be some SEK 1,100 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)	2016	2015
Post-employment defined benefit expense	355	1,127
Post-employment defined contribution expense	419	387
Total post-employment benefit expenses[1)]	**774**	**1,514**
Whereof amounts charged to:		
Cost of goods sold	434	693
Selling expenses	–67	416
Administrative expenses	52	28
Financial expenses	355	377
Total	**774**	**1,514**

1) 2016 total amount includes the favourable curtailment of SEK 618 m from the hard freeze of all current salary defined benefit (DB) in the US plans.

Plan asset composition (SEKm)	2016 Quoted	2016 Unquoted	2016 Total	2015 Quoted	2015 Unquoted	2015 Total
Government bonds	1,836	102	1,938	1,622	—	1,622
Corporate bonds	4,965	36	5,001	4,532	33	4,565
Equity instruments	5,433	512	5,945	4,929	381	5,310
Real estate	244	707	951	255	604	859
Other, primarily cash and other financial receivables	492	654	1,146	371	465	836
Total	**12,970**	**2,011**	**14,981**	**11,709**	**1,483**	**13,192**

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 (ALM) 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. The fair value of real estate in the specification of plan assets above includes SEK 67 m (136) related to buildings in the USA where the Group is the lessee under operating lease arrangements. Lease expense for the Group was SEK 9 m (8) and it includes a lease in Switzerland for which the related building was sold in December 2016.

	2016					
Significant weighted-average assumptions at end of year	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[1)]	n/a	n/a	2.0	3.6	1.5	n/a
Salary growth rate[2)]	n/a	n/a	2.7	2.8	3.5	3.3
Longevity male/female[3)]	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)[4)]	11.1	8.9	17.8	22.3	21.3	13.7

	2015					
Significant weighted-average assumptions at end of year	US pension	US medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	4.3	4.1	2.3	3.8	3.4	2.2
Pension increase rate[1)]	n/a	n/a	2.0	3.4	1.5	n/a
Salary growth rate	3.5	n/a	3.0	2.8	3.5	2.9
Longevity male/female[2)]	21.3/23.3	21.3/23.3	19.0/23.0	21.4/23.3	21.0/23.8	19.9/22.8
Weighted average duration of the plan (in years)[3)]	11.9	8.8	17.0	21.4	20.0	13.8

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%	–3,525
	–1%	4,560
Salary growth rate	+0.5%	500
	–0.5%	–515
Pension increase rate	+0.5%	870
	–0.5%	–845
Longevity	+1 year	975
	–1 year	–1,060

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 has been prepared consistently with prior years.

Note 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 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. The largest items included jubilee bonuses in Italy and part-time retirement programmes in Germany. 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.

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.

SKF and other companies in the bearing industry are part of investigations by the US Department of Justice and the Korea Fair Trade Commission regarding a possible violation of anti-trust rules. SKF is subject to two investigations in Brazil by the General Superintendence of the Administrative Council for Economic Defense, one investigation regarding an alleged violation of antitrust rules concerning bearing manufacturers, and another investigation regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. An enquiry has been initiated by the Competition Commission of India against several different companies, including SKF, regarding an alleged violation of antitrust rules in India. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers. Each of Peugeot S.A. and BMW AG, and several of their respective group companies, have separately initiated lawsuits, with claims for damages, against bearing manufacturers, including SKF, that were part of the settlement decision by the European Commission for violation of European competition rules. As per managements judgement, these investigations did not qualify for recognition as other provisions or disclosed as contingent liabilities.

SEKm	2016 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2016 Opening balance
Claims	395	114	–83	–59	14	13	396
Other long-term employee benefits	663	98	–59	–11	21	23	591
Restructuring	490	578	–731	–9	–20	33	639
Other	676	252	–116	–95	144	22	469
Total	**2,224**	**1,042**	**–989**	**–174**	**159**	**91**	**2,095**

In 2016 the total restructuring cost amounted to around SEK 580 m and included the cost of consolidation of three factories in North-America, the cost of voluntary and involuntary termination benefits spread over a large number of countries, with the largest being the USA, Italy, Germany and China. The majority of the remaining provisions is expected to be settled in 2017.

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

Contingent liabilities at nominal values (SEKm)	2016	2015
Guarantees	16	143
Other contingent liabilities	20	10
Total	**36**	**153**

Note 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 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.

		2016		2015	
SEKm	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
SEK 1,000 m	2017	—	—	1,000	1,000
EUR 500 m (outstanding EUR 234 m)	2018	2,280	2,389	2,216	2,345
EUR 500 m (outstanding EUR 266 m)	2019	2,534	2,651	2,419	2,542
EUR 750 m	2020	7,565	7,643	7,216	7,294
EUR 100 m	2020	—	—	913	941
EUR 200 m	2021	1,913	1,914	1,828	1,830
EUR 500 m	2022	4,748	5,198	4,531	4,891
Other long-term loans	2018–2022	125	127	91	92
Derivatives held for hedge accounting	2018–2020	1,724	1,724	1,325	1,325
Derivatives held for trading	2017	1,142	1,142	844	844
Subtotal long-term financial liabilities		**22,031**	**22,788**	**22,383**	**23,104**
Short-term financial liabilities					
SEK 1,000 m	2017	1,000	1,000	—	—
EUR 100 m	2016	—	—	914	913
Medium-term loans	2017	19	19	20	20
Trade payables	2017	7,100	7,100	5,671	5,671
Short-term loans	< 3 months	214	214	201	202
Derivatives held for trading	2017	386	386	296	296
Derivatives held for hedge accounting	2017	—	—	11	11
Subtotal short-term financial liabilities		**8,719**	**8,719**	**7,113**	**7,113**
Total		**30,750**	**31,507**	**29,496**	**30,217**

Derivatives are classified in the category “Fair value through profit or loss” and fall into Level 2 of the fair value hierarchy for both 2015 and 2016. 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 the subject of fair value hedging. The fixed EUR interest on the EUR 750 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 5,041 m (4,887) 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.

Other long-term and short-term financial liabilities have been secured by assets totalling SEK 0 (5) m.

Note 20 | Leasing

Future minimum lease payments at 31 December (SEKm)	2016 Finance Leases	2016 Operating Leases	2015 Finance Leases	2015 Operating Leases
Within one year	14	672	9	686
Later than one year but within five years	34	1,731	31	1,715
Later than five years	5	1,172	7	1,202
Total	**53**	**3,575**	**47**	**3,603**
Less: Interest	–4		–3	
Present value of minimum lease payments under finance leases	49		44	
Current portion	14		8	
Non-current portion	35		36	

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 expense related to operating leases was SEK 760 m (769). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in USA, China, Germany, Sweden and Singapore.

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

Note 21 | Other short-term liabilities

SEKm	2016	2015
Employee related accruals	3,204	2,897
Accrual for rebates	763	653
Income tax payable	211	336
Deferred income	323	321
Customer advances	304	286
Value added taxes payable, net	342	383
Other current liabilities	752	770
Other accrued expenses	1,946	1,681
Total	**7,845**	**7,327**

Note 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 2016 FAM is the major shareholder of the Parent company, holding 29.2% (29.5) of the voting rights and 13.6% (12.9) 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	2016	2015
Sales of goods and services	67	65
Purchases of goods and services	294	282
Receivables as of 31 December	10	18
Liabilities as of 31 December	28	24

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.

Note 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 2016, 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 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 40% 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 2016 decided on the introduction of SKF's Performance Share Programme 2016. 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 2016–2018 compared to the financial year 2015. 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 2016 it was decided that the Board be entitled to a firm allotment of SEK 7,294,000 to be distributed with SEK 1,950,000 to the Chairman of the Board and with SEK 668,000 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 883,000 for committee work shall be divided with SEK 226,000 to the Chairman of the Audit Committee, with SEK 161,000 to each of the other members of the Audit Committee, with SEK 129,000 to the Chairman of the Remuneration Committee and with SEK 103,000 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 2016 as salary and other remunerations a total of SEK 12,784,684, of which SEK 10,006,384 was fixed annual salary and SEK 2,778,300 was short-term variable salary related to 2015 performance.

The variable salary for the year 2016 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 2016.

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 year's 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 11 people at the end of the year, received in 2016 (exclusive of the President) salary and other remunerations amounting to a total of SEK 55,212,466, of which SEK 47,879,117 was fixed annual salary and SEK 7,333,349 was short-term variable salary related to 2015 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.

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[1]/fixed Board remuneration		Short-term variable salary		Performance Share Programmes		Remuneration for committee work		Gross pension costs[2]		
	Amounts paid in 2016[3]	Amounts expensed in 2016[3]	Amounts paid in 2016 related to 2015[3]	Amounts expensed in 2016[3]	Amounts paid in 2016 related to prior years[3]	Amounts expensed in 2016[3]	Amounts paid in 2016[3]	Amounts expensed in 2016[3]	Amounts expensed in 2016[3]	Total expensed in 2016	Total expensed in 2015
Board of directors of AB SKF											
Leif Östling	1,900,000	1,950,000	—	—	—	—	283,000	290,000	—	2,240,000	2,254,097
Ulla Litzén	—	—	—	—	—	—	—	—	—	—	24,440
Marie Bredberg	659,000	668,000	—	—	—	—	161,000	161,000	—	829,000	831,440
Lena Treschow Torell	659,000	668,000	—	—	—	—	—	—	—	668,000	674,440
Peter Grafoner	659,000	668,000	—	—	—	—	103,000	103,000	—	771,000	774,440
Lars Wedenborn	659,000	668,000	—	—	—	—	329,000	329,000	—	997,000	994,440
Joe Loughrey	659,000	668,000	—	—	—	—	—	—	—	668,000	674,440
Jouko Karvinen	325,000	—	—	—	—	—	—	—	—	—	774,440
Baba Kalyani	659,000	668,000	—	—	—	—	—	—	—	668,000	674,440
Hock Goh	659,000	668,000	—	—	—	—	—	—	—	668,000	674,440
Nancy Gougarty	659,000	668,000	—	—	—	—	—	—	—	668,000	650,000
CEO[4]	10,006,384	11,504,283	2,778,300	1,440,206	—	392,500	—	—	3,702,315	17,039,304	16,819,176
Former CEO[4,6]	—	—	—	—	—	—	—	—	—	—	–6,519,628
Group Management[4,5]	47,879,117	50,716,765	7,333,349	9,040,602	—	2,617,670	—	—	16,364,598	78,739,635	56,673,203
whereof AB SKF	31,965,083	34,781,730	4,690,658	4,500,083	—	2,050,374	—	—	8,742,390	50,074,577	35,810,010
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	—
Total 2015	64,556,194	48,579,318	8,309,582	11,761,906	—	1,833,672	677,000	960,000	12,838,912	—	75,973,808
whereof AB SKF	50,254,973	34,278,097	7,372,149	9,929,337	—	1,589,118	677,000	960,000	8,354,063	—	55,110,615

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) and former CEOs were SEK 153 m.
5) Exclusive of CEO and former CEOs. 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) The negative amounts expensed in 2015 relates to adjustments relative to the amounts that were expensed in 2014.

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. If there is a payout of shares, the participants are compensated for dividends as if they had owned the shares from the start of the three year period.

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 131 for SKF's Performance Share Programme 2016. The dividend compensation amount is recognized as employee benefit expense separate from the share-based compensation expense. The cost for the programmes is adjusted annually for changes to the number of shares expected to vest and for the forfeitures of the participants' rights that no longer satisfy the programme conditions. Provisions for social costs to be paid by the employer in connection with share-based compensation programmes are calculated based on the fair value of the SKF B share at each reporting date and expensed over the vesting period.

Allotment of shares under SKF's Performance Share Programme normally 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 2014: Allotment of shares was made in the beginning of 2017. In total 33,729 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 2014–2016.

SKF's Performance Share Programme 2015: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2018, if all the conditions of the programme are met and the allotment is approved by the Board.

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.

Amounts expensed 2016 for all programmes were SEK 14 m (14) excluding social charges. The total provision for all programmes was SEK 34 m (20) and the total provision for social charges for all programmes was SEK 8 m (3).

	2016		2015	
Men and women in Board of Directors and Group Management	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	12	75%	13	77%
Group Management incl. CEO	11	82%	7	86%
Parent Company				
Board of Directors of the Parent company incl. CEO	12	75%	13	77%
Group Management incl. CEO	9	78%	6	83%

Note 24 | Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (SEKm)	2016	2015
Audit fees	39	40
Audit related fees	2	2
Tax fees	10	9
Other fees	3	3
	54	**54**
The Parent Company's share (SEKm)		
Audit fees	6	5
Audit related fees	1	1
Tax fees	2	1
Other fees to auditors	2	2
	11	**9**

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.

At the Annual General Meeting in 2013, PWC was elected auditor for AB SKF until the Annual General Meeting in 2017.

Note 25 | Average number of employees

	2016		2015	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	613	69%	647	68%
Subsidiaries in Sweden	1,941	80%	2,048	80%
Subsidiaries abroad	40,954	78%	41,610	79%
	43,508	**78%**	**44,305**	**78%**

	2016		2015	
Geographic specification of average number of employees in subsidiaries abroad	Number of employees	Whereof men	Number of employees	Whereof men
France	2,488	81%	2,613	82%
Italy	3,219	77%	3,189	77%
Germany	5,950	87%	6,449	86%
Other Western Europe excluding Sweden	3,606	83%	3,689	83%
Central and Eastern Europe	4,051	63%	3,914	63%
USA	4,677	72%	5,465	75%
Canada	259	78%	258	76%
Mexico	1,616	70%	1,267	76%
Latin America	2,714	89%	2,551	88%
China	5,821	68%	5,938	68%
India	3,182	97%	2,852	95%
Other Asian countries/Pacific	2,857	76%	2,938	80%
Middle East and Africa	514	79%	487	78%
	40,954	**78%**	**41,610**	**79%**

Note 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 five percentage points. This is the basis for the Group's financial objectives and the financial performance management model.

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

The capital structure target of the Group is

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

Key figures[1)]	2016	2015
Total equity, SEKm	27,683	26,282
Gearing, %	55.3	56.7
Equity/assets ratio, %	33.0	33.0
Net debt/equity ratio, %	84.4	99.9
Return on capital employed, %	11.9	10.9

1) Definition of these key figures is available on page 156.

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 58,926 m (59,881) to SEK 3,142 m (4,609). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from one to six months on average. The Group stopped applying hedge accounting on this type of contracts in 2015.

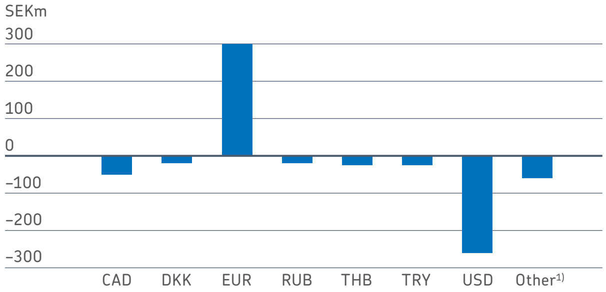
Net currency flows (SEKm)	2016	2015
CAD	885	635
DKK	407	553
EUR	–6,192	–5,682
RUB	411	312
THB	463	471
TRY	474	502
USD	5,290	6,261
Other[1]	1,250	1,393
SEK	–3,142	–4,609

1) Other is a sum comprising 11 different currencies

Based on the assumption that the net currency flows will be the same as in 2016, the below graph represent 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.

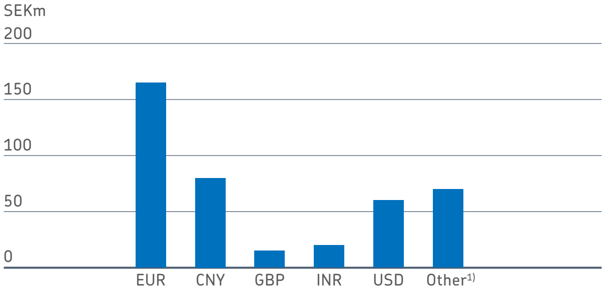
Sensitivity analysis: Effect on operating profits of a 5% stronger SEK



1) Other is a sum comprimising 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 2016 operating profits in local currencies, the below graph represent 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 104–105.

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



1) Other is a sum comprising 41 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 34,344 m (34,411) and total interest bearing financial assets amounted to SEK 12,005 m (8,919). 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 unfavorable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around SEK 180 m (190). 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 459 m (665), 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 23 m (33) higher/lower.

Liquidity risk
Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet commitments. Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities.

Cont. Note 26

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 SEK 3,000 m that will expire in 2018.

A good rating is important in the management of liquidity risks. As of 31 December, 2016 the long-term rating of the Group by Standard & Poor's and Moody's Investor Service is BBB– and Baa2 respectively, both with stable outlook.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment flows. All instruments held at 31 December, 2016 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, 2016. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2016 Cash flows			
SEKm	2017	2018	2019–2021	2022 and thereafter
Loans	–1,638	–2,686	–12,366	–4,861
Trade payables	–7,100	—	—	—
Derivatives, net	–699	–4	–2,362	—
Total	**–9,437**	**–2,690**	**–14,728**	**–4,861**

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 25,394 m (21,022) 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)	2016	2015
Trade receivables	13,462	11,777
Other receivables	1,793	1,602
Derivatives	200	425
Cash and cash equivalent	9,939	7,218
Total	**25,394**	**21,022**

At operational level, the outstanding trade receivables are continuously monitored locally in each area. The Group's concentration of credit risk related to trade receivables is mitigated primarily due to its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The SKF Group has signed ISDA agreements (International Swaps and Derivatives Association, Inc.) with nearly all of these financial institutions. ISDA is classified as an enforceable netting arrangement. One feature of the ISDA agreement is that it enables the SKF Group to calculate its credit exposure on a net basis per counterpart, i.e. the difference between what the Group owes and is owed. The agreement between the Group and the counterparty allows for net settlement of derivatives when both elect to settle net. In the event of default of one of the counterparties the other counterpart of the netting agreement has the option to settle on a net basis. Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored. As of the balance sheet date the Group had derivative assets of around SEK 170 m (140) and derivative liabilities of around SEK 3,200 m (2,400) 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 2016, by using cross-currency interest rate swaps.

The EUR 750 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 –1,722 m (–1,317) as fair value hedges as of 31 December, 2016.

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

SEKm	Financial expense 2016	Financial expense 2015
Financial liabilities (hedged items)	–24	63
Cross-currency interest-rate swaps (hedging instruments)	27	–50
Difference (inefficiency)	**3**	**13**

Cash flow hedges

Hedge accounting is applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted net sales and 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.

In 2015 the Group stopped applying cash flow hedge accounting to hedges of highly probable forecasted USD sales and the associated foreign currency risks arising from changes in USD rates.

In 2016, no gains/losses (loss of SEK 27 m) were resulting from the change in the fair value of currency forwards designated as cash flow hedges. During the year no gains/losses (losses of SEK 79 m) were transferred via other comprehensive income to net sales.

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity forward contracts were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2016 financial year, gains totalling SEK 15 m (loss of 19) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year losses of SEK 2 m (loss of 8) 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 –246 m (1) before tax in 2016 and was recognized as a translation difference in other comprehensive income. During the year no gains/losses (SEK 1,599 m) 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. Other derivatives can also be embedded (i.e. a component of a hybrid instrument that contains a non-derivative host contract).

Derivative assets and liabilities, net (SEKm)	Category	2016	2015
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	–1,722	–1,317
Economic hedges	Trading	–628	–464
Currency forwards/ currency options			
Net investment hedges	Hedge accounting	12	13
Economic hedges	Trading	–712	–262
Electricity forwards			
Cash flow hedges	Hedge accounting	–1	–19
Embedded derivatives	Trading	—	–2
		–3,051	**–2,051**

Parent Company income statements

SEKm	Note	Years ended 31 December 2016	2015
Revenue	2	5,061	6,006
Cost of revenue	2	–4,598	–5,317
General management and administrative expenses	2	–1,448	–1,699
Other operating income and expenses,net	2	–1	–5
Operating loss		**–986**	**–1,015**
Financial income and expenses, net	3	3,814	2,707
Profit after financial items		**2,828**	**1,692**
Appropriations	4	2,140	1,125
Profit before tax		**4,968**	**2,817**
Income taxes	5	–667	587
Net profit		**4,301**	**3,404**

Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December 2016	2015
Net profit		4,301	3,404
Items that may be reclassified to the income statement			
Change in fair value of available-for-sale assets	9	–206	216
Other comprehensive income, net of tax		**–206**	**216**
Total comprehensive income		**4,095**	**3,620**

Parent Company balance sheets

SEKm	Note	As of 31 December 2016	2015
ASSETS			
Non-current assets			
Intangible assets	6	1,939	1,757
Property, plant and equipment	7	67	76
Investments in subsidiaries	8	22,403	21,317
Long-term receivables from subsidiaries		18,567	19,637
Investments in associated companies		1	1
Investments in equity securities	9	459	664
Other long-term receivables		156	—
Deferred tax assets	5	72	716
		43,664	**44,168**
Current assets			
Short-term receivables from subsidiaries		4,683	3,589
Other short-term receivables		83	47
Prepaid expenses and accrued income		44	72
Cash and cash equivalents		4	—
		4,814	**3,708**
Total assets		**48,478**	**47,876**
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		261	—
		2,317	**2,056**
Unrestricted equity			
Fair value reserve		288	494
Retained earnings		11,526	10,873
Net profit		4,301	3,404
		16,115	**14,771**
		18,432	**16,827**
Untaxed reserves	4	**69**	**179**
Provisions			
Provisions for post-employment benefits	10	306	296
Other provisions		238	83
		544	**379**
Non-current liabilities			
Long-term loans	11	18,564	19,634
Long-term liabilities to subsidiaries		602	127
		19,166	**19,761**
Current liabilities			
Short-term loans	11	1,000	914
Trade payables		204	114
Short-term liabilities to subsidiaries		8,579	9,126
Other short-term liabilities		15	13
Accrued expenses and deferred income		469	563
		10,267	**10,730**
Total shareholders' equity, provisions and liabilities		**48,478**	**47,876**

Parent Company statements of cash flow

SEKm	Years ended 31 December 2016	2015
Operating activities		
Operating loss	–986	–1,015
Adjustments for		
Depreciation and amortization	147	323
Other non-cash items	107	108
Income taxes received/paid	—	–65
Payments under post-employment defined benefit plans	–33	–29
Changes in working capital		
Trade payables	90	–158
Other operating assets and liabilities, net	2,695	–13,892
Interest received	413	505
Interest paid	–610	–1,181
Other financial items	–48	–66
Net cash flow from operating activities	**1,775**	**–15,470**
Investment activities		
Additions to intangible assets	–323	–227
Additions to property, plant and equipment	–7	–16
Dividends received from subsidiaries	4,393	7,051
Capital repayments from subsidiaries	—	16,843
Investments in subsidiaries	–1,449	–5,152
Sales of shares in subsidiaries	—	320
Investments in equity securities	–2	–11
Sales of equity securities	—	131
Net cash flow used in investing activities	**2,612**	**18,939**
Net cash flow after investments before financing	**4,387**	**3,469**
Financing activities		
Proceeds from medium- and long-term loans	—	4,583
Repayment of medium- and long-term loans	–1,879	–5,548
Cash dividends to AB SKF's shareholders	–2,504	–2,504
Net cash flow used in financing activities	**–4,383**	**–3,469**
Increase(+)/decrease(–) in cash and cash equivalents	**4**	**—**
Cash and cash equivalents at 1 January	—	—
Cash and cash equivalents at 31 December	**4**	**—**

Parent Company statements of changes in equity

SEKm	Restricted equity: Share capital[1)]	Restricted equity: Statutory reserve	Restricted equity: Capitalized development reserve	Unrestricted equity: Fair value reserve	Unrestricted equity: Retained earnings	Total
Opening balance 1 January, 2015	**1,138**	**918**	—	**278**	**13,363**	**15,697**
Net profit	—	—	—	—	3,404	3,404
Components of other comprehensive income						
Change in fair value of available-for-sale assets	—	—	—	216	—	216
Transactions with shareholders						
Cost under Performance Share Programmes[2)]	—	—	—	—	14	14
Dividends	—	—	—	—	–2,504	–2,504
Closing balance 31 December, 2015	**1,138**	**918**	**—**	**494**	**14,277**	**16,827**
Net profit	—	—	—	—	4,301	4,301
Components of other comprehensive income						
Change in fair value of available-for-sale assets	—	—	—	–206	—	–206
Capitalized development reserve	—	—	261	—	–261	—
Transactions with shareholders						
Cost under Performance Share Programmes[2)]	—	—	—	—	14	14
Dividends	—	—	—	—	–2,504	–2,504
Closing balance 31 December, 2016	**1,138**	**918**	**261**	**288**	**15,827**	**18,432**

1) The distribution of share capital between share types 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

Note 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 ha a definite useful life. The useful life amounts to eight years and the amortization follows a linear pattern.

Note 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 2,015 m (2,101).

Of the total operating expenses, SEK 3,210 m (3,836) was invoiced from subsidiaries.

Note 3 | Financial income and financial expenses

SEKm	2016	2015
Income from participations in Group companies		
Dividends from subsidiaries	4,393	7,051
Other financial income from investments in subsidiaries	2	1,384
Impairment and disposals of investments in subsidiaries	–334	–4,966
	4,061	**3,469**
Financial income		
Interest income from subsidiaries	413	505
Other financial income	—	1
	413	**506**
Financial expenses		
Interest expenses to subsidiaries	–182	–328
Interest expenses to external parties	–428	–853
Other financial expense	–50	–87
	–660	**–1,268**

Note 4 | Appropriations

Appropriations (SEKm)	2016	2015
Paid/received group contribution	2,030	1,024
Untaxed reserves		
Change in accelerated depreciation reserve	110	101
	2,140	**1,125**
Untaxed reserves in the balance sheet		
Accelerated depreciation reserve	**69**	**179**

Note 5 | Taxes

Taxes on profit before taxes (SEKm)	2016	2015
Current taxes	—	–65
Deferred taxes	–667	652
	–667	**587**

Net deferred asset per type (SEKm)	2016	2015
Provisions for post-employment benefits	70	75
Tax loss carry-forwards	—	638
Other	2	3
Deferred tax assets	**72**	**716**

Reconciliation of the statutory tax in Sweden and the current tax (SEKm)	2016	2015
Tax calculated using the statutory tax rate in Sweden	–1,093	–620
Non-taxable dividends and other financial income	966	1,551
Other non-deductible and non-taxable profit items, net	–540	–344
Actual tax	**–667**	**587**

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

Note 6 | Intangible assets

SEKm	2016 Closing balance	Additions	Impairment	2016 Opening balance
Acquisition cost				
Goodwill[1)]	22	2	—	20
Technology and similar items[1)]	901	—	—	901
Internally developed software	1,810	321	—	1,489
	2,733	**323**	—	**2,410**

1) Reclassification of opening balances have been made in accordance with final purchase price allocation.

SEKm	2016 Closing balance	Depreciation	Impairment	2016 Opening balance
Accumulated depreciation				
Goodwill	1	1	—	—
Technology and similar items	553	110	—	443
Internally developed software	240	—	30	210
	794	**111**	**30**	**653**
Net book value	**1,939**			**1,757**

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.

Note 7 | Property, plant and equipment

SEKm	2016 Closing balance	Additions	Other[1)]	Disposals	2016 Opening balance
Acquisition cost					
Buildings	5	1	—	—	4
Machine toolings and factory fittings	84	—	26	—	58
Construction in process including advances	13	6	–26	–9	42
	102	**7**	—	**–9**	**104**

SEKm	2016 Closing balance	Depreciation	Other[1)]	Disposals	2016 Opening balance
Accumulated depreciation					
Buildings	1	—	—	—	1
Machine toolings and factory fittings	34	7	—	—	27
	35	**7**	—	—	**28**
Net book value	**67**				**76**

1) Includes primarily reclassification between categories

Note 8 | Investments in subsidiaries

Investments in subsidiaries held by the Parent company on 31 December (SEKm)	2016	Additions	Impair-ment	Disposals and capital repayments	2015	Additions	Impair-ment	Disposals and capital repayments	2014
Investments in subsidiaries	22,403	1,449	–326	–37	21,317	5,152	–4,966	–15,879	37,010

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.

					Book value		
Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	2016	2015	Main activities[1)]
SKF Argentina S.A.	Argentina	—	14,677,299	29.2%[2)]	75	75	M,S
SKF Australia Pty. Ltd.	Australia	—	96,500	100%	—	—	S
SKF Österreich AG	Austria	—	200	100%	176	176	M,S
SKF Belgium NV/SA	Belgium	—	1,778,642	99.9%[2)]	109	109	S
SKF Logistics Services Belgium NV/SA	Belgium	—	29,907,952	99.9%[2)]	28	28	O
SKF do Brasil Ltda.	Brazil	—	517,294,748	99.9%[2)]	1,152	540	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100%	183	183	M
SKF Canada Ltd.	Canada	—	130,000	100%	58	58	M,S
SKF Chilena S.A.I.C.	Chile	—	88,191	99.9%[2)]	—	—	S
SKF (China) Co. Ltd.	China	—	133,400	100%	1,135	1,135	O
SKF CZ, a.s.	Czech Republic	—	430	100%	10	10	S
SKF Danmark A/S	Denmark	—	5	100%	7	7	S
Oy SKF Ab	Finland	—	48,400	100%	12	12	M,S
SKF Holding France S.A.R.L.	France	—	1	100%	3,371	3,371	O
SKF GmbH	Germany	—	1,000	100%	1,574	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

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value 2016	Book value 2015	Main activities[1]
Carried Forward					7,896	7,284	
SKF Technologies (India) Private Ltd.	India	—	2,426,500,101	93.3%[2]	402	652	M,S
SKF India Ltd.	India	—	24,639,048	46.7%[3]	94	94	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60%	24	24	M,S
PT. Skefindo Primatama	Indonesia	—	5	5%[2]	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	—	M
SKF de México, S.A. de C.V.	Mexico	—	375,630,290	99.9%[2]	303	303	M,S
Peer Rodamientos de Mexico, S.A. de CV	Mexico	—	3,202,619	99.9%[2]	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%[2]	—	—	S
SKF Polska S.A.	Poland	—	3,701,466	100%	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	—	61,601	95%[2]	4	4	S
SKF Korea Ltd.	Republic of Korea	—	128,667	100%	74	74	M,S
SKF Sealing Solutions Korea Co., Ltd.	Republic of Korea	—	153,320	51%	15	15	M,S
SKF Treasury Centre Asia & Pacific Pte. Ltd.	Singapore	—	61,500,000	100%	467	467	O
SKF Asia Pacific Pte. Ltd.	Singapore	—	1,000,000	100%	—	—	S
Barseco (PTY) Ltd.	South Africa	—	1,422,480	100%	157	157	S
SKF Española S.A.	Spain	—	3,650,000	100%	383	383	M,S
SKF Förvaltning AB	Sweden	556350-4140	124,500	99.6%[2]	3,870	3,395	O
SKF International AB	Sweden	556036-8671	20,000	100%	1,320	1,320	O
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100%	125	125	O
Bagaregården 16:7 KB	Sweden	916622-8529	—	99.9%[2]	60	59	O
Gloi AB	Sweden	556782-9717	1	100%	—	37	M,S
SKF Eurotrade AB	Sweden	556206-7610	83,500	100%	12	12	S,O
SKF Motion Technologies AB	Sweden	559035-5356	50,000	100%	—	—	M,S
SKF Lager AB	Sweden	556219-5288	2,000	100%	—	—	O
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100%	—	—	O
SKF Verwaltungs AG	Switzerland	—	500	100%	502	502	O
SKF 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%[2]	37	37	S
SKF B.V	The Netherlands	—	1,450	100%	304	—	M
SKF Holding Maatschappij Holland B.V	The Netherlands	—	60,002	100%	—	76	O
Trelanoak Ltd.	UK	—	6,965,000	100%	120	120	O
JSC 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,O
SKF USA Inc.	The USA	—	1,000	100%	4,155	4,155	M,S,O
SKF Venezolana S.A.	Venezuela	—	20,014,892	100%	—	—	S
					22,403	**21,317**	

1) M=Manufacturing, S=Sales, O=Other incl treasury, reinsurance and/or holding activities
2) Parent company together with subsidiares own 100%.
3) Parent company together with subsidiaries own 53.6%

Cont. Note 8

Name of indirectly owned subsidiaries	Country	% Ownership	Owned by subsidiary in	Main activities[1)]
ABBA Linear Tech Co. Ltd	Taiwan	100%	Taiwan	M,S
Alemite LLC	USA	100%	USA	M,S
ATLAS MANAGEMENT INC.	USA	100%	USA	O
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
Industrial Tectonics Inc	USA	100%	USA	M,S
International Component Supply Ltda	Brazil	100%	Brazil	M
Kaydon Corporation	USA	100%	USA	M,S,O
Kaydon Europa B.V.	The Netherlands	100%	The Netherlands	M,S
Kaydon Ring & Seals Inc	USA	100%	USA	M,S
Kaydon S de R.L. de C.V.	Mexico	99.99%	USA	M,S
Lincoln Helios (India) Ltd.	India	100%	Germany	M,S
Lincoln Industrial Corporation	USA	100%	USA	M,S,O
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 (Hong Kong)	M
Reelcraft Industries, Inc.	USA	100%	USA	M,S
RFT S.p.A.	Italy	100%	Italy	M,S
RKS S.A.S	France	100%	France	M
S2M France S.A	France	100%	France	M,S
Shanghai General Bearing Ltd	China	40%	Barbados	M,S
Shanghai Peer Bearing Co., Ltd., Shanghai (SPZ 1)	China	100%	China (Hong Kong)	S,O
SKF (China) Sales Co Ltd	China	100%	China	S
SKF (Dalian) Bearings and Precision Technologies Co. Ltd.	China	100%	China	M
SKF (Jinan) Bearings & Precision Technology Co. Ltd	China	100%	China	M
SKF (Schweiz) A.G.	Switzerland	100%	Switzerland	S
SKF (Shanghai) Automotive Technologies Co Ltd	China	100%	China	M
SKF (Shanghai) Bearings Ltd.	China	100%	China	M
SKF (Shanghai) Industrial Service Co. Ltd (BAO)	China	66%	China	S
SKF (U.K.) Ltd.	United Kingdom	100%	United Kingdom	M,S
SKF Actuation System (Pinghu) Co. Ltd.	China	100%	China	M
SKF Aeroengine France S.A.S	France	100%	France	M,S
SKF Aerospace France S.A.S.	France	100%	France	M,S
SKF Bearing Industries (Malaysia) Sdn Bhd	Malaysia	100%	The Netherlands	M
SKF Distribution (Shanghai) Co Ltd	China	100%	China	S,O
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 Lubrication Systems CZ s.r.o	Czech Republic	99%	Germany	M,S
SKF Lubrication Systems Germany GmbH	Germany	100%	Germany	M,S
SKF Marine GmbH	Germany	100%	Germany	M,S
SKF Mekan AB	Sweden	100%	Sweden	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	100%	South Africa	S
SKF Sverige AB	Sweden	100%	Sweden	M,S
SKF Tver Ltd	Russian Federation	100%	Sweden	M
SKF Türk Sanayi ve Ticaret Limited Sirketi	Turkey	100%	Belgium	S
SKF ZAO	Russian Federation	100%	Sweden	S
Transrol S.A.S.	France	100%	France	M
Venture Aerobearings LLC.	USA	51%	USA	M,S
Zhejiang Xinchang Peer Bearing Co. Ltd, Xingchang (XPZ1)	China	100%	China (Hong Kong)	M
Zhejiang Xinchang Peer Mechanical Parts Co. Ltd	China	75%	China	M
Zhejiang Illinois Peer Bearing Co. Ltd., Xingchang (XPZ3)	China	100%	China (Hong Kong)	M

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

Note 9 | Investments in equity securities

Name and location (SEK m)	Holding in percent	Number of shares	Currency	2016 Book value	2015 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	456	663
Other			SEK	3	1
				459	**664**

Note 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)	2016	2015
Present value of funded pension obligations	344	322
Less: Fair value of plan assets	–236	–226
Net obligation	**108**	**96**
Present value of unfunded pension obligations	198	200
Net provisions	**306**	**296**

Change in net provision for the year (SEKm)	2016	2015
Opening balance 1 January	296	253
Defined benefit expense	43	72
Pension payments	–33	–29
Closing balance 31 December	**306**	**296**

Components of expense (SEKm)	2016	2015
Pension cost	51	59
Interest expense	2	4
Return on plan assets	–10	9
Defined benefit expense	**43**	**72**
Defined contribution expense	94	96
Total post-employment benefit expense	**137**	**168**

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 0.7% (3.4). Expected cash outflows for 2017 were SEK 35 m.

Note 11 | Loans

SEKm	Maturity	Interest rate	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Bonds						
SEK 1,000 m	2017	0.28	1,000	1,000	1,000	1,000
EUR 500 m (Outstanding 234 m)	2018	3.88	2,231	2,389	2,130	2,345
EUR 500 m (Outstanding 266 m)	2019	1.87	2,534	2,651	2,419	2,542
EUR 750 m	2020	2.38	7,138	7,643	6,813	7,294
EUR 200 m	2021	0.56	1,913	1,914	1,828	1,830
EUR 500 m	2022	1.63	4,748	5,198	4,531	4,891
Long-term loans						
EUR 100 m	2016	0.44	—	—	914	913
EUR 100 m	2020	0.77	—	—	913	941
			19,564	**20,795**	**20,548**	**21,756**

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

SEKm	2016	2015
Salaries, wages and other remuneration	607	661
Social charges (whereof post-employment benefit expense)	316 (137)	311 (168)

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.

Note 13 | Contingent liabilities

SEKm	2016	2015
General partner	2	1
Other contingent liabilites	17	16
	19	**17**

General partner regarding 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	287,416,341
Retained earnings	SEK	11,526,529,609
Net profit for the year	SEK	4,300,847,550
Total surplus	**SEK**	**16,114,793,500**
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 5.50 per share[1)]	SEK	2,504,430,874[2)]
to be carried forward:		
Fair value reserve	SEK	287,416,341
Retained earnings	SEK	13,322,946,285
	SEK	**16,114,793,500**

1) Suggested record day for right to dividend, 31 March, 2017.
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 2016 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, 6 March, 2017

Leif Östling, *Chairman*
Lena Treschow Torell, *Board member*
Peter Grafoner, *Board member*
Lars Wedenborn, *Board member*
Joe Loughrey, *Board member*
Baba Kalyani, *Board member*
Hock Goh, *Board member*

Marie Bredberg, *Board member*
Alrik Danielson, *President and CEO, Board member*
Nancy Gougarty, *Board member*
Jonny Hilbert, *Board member*
Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 6 March, 2017.

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized public accountant
Auditor in charge

Bo Karlsson
Authorized public accountant

Sustainability statements
as defined by GRI G4

The SKF Annual Report takes an integrated approach to reporting financial, environmental and social performance. Information that may be referred to as sustainability reporting is found in various parts of the report. These statements provide a consolidated summary of SKF's sustainability performance with reference to GRI G4.

With reference to the GRI G4 in accordance criteria, the 2016 Annual Report is self-declared as being in accordance with the 'Core' option, which is confirmed by the Groups's external auditors PwC.

The Annual Report – SKF Group 2016 covers the reporting period January to December 2016. This report includes indicators on general standard disclosures, and specific standard disclosures where relevant. As part of the report's content definition and the reflection of its materiality, all aspects have been carefully evaluated from internal and external stakeholder perspectives. Those aspects that are considered of significant materiality are included in the specific standard disclosures below.

SKF submits Annual Reports for third party assurance to ensure quality reporting in terms of accuracy, comparability, clarity, timeliness, balance, and reliability.

Sustainability related disclosures in the SKF Annual Report 2016 has been subject to limited assurance in accordance with FAR (the Institute for the Accounting Profession in Sweden) recommendation RevR 6 "Assurance of sustainability reports".

The limited assurance report on the sustainability disclosures in the Annual Report is found on page 143.

Topics related to Annual Report
In addition to the information provided in this Annual Report, topics related to the Annual Report is found at skf.com/ar2016.

The documents referred to in these statements are:
- Carbon dioxide emission data[1)]
- Environmental performance data[1)]
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2016

1) Documents subject to limited assurance by SKF's auditors.

Contents

General standard disclosures

Strategy and analysis

G4-1 Statement from the most senior decision-maker – CEO
The CEO statement is found on page 6–7 in this report. Strategic priorities, trends, targets and achievements and outlook is described throughout the report.

G4-2 Description of key impacts, risks, and opportunities
An overview of SKF's risk management is provided on pages 56–59 along with short descriptions on the risk management approaches applied. Sustainability risks are integrated in this section. Prioritised risks are agreed at Group management level. The most significant sustainability risks and opportunities are managed under the SKF Care framework which is further described on pages 36–47.

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on page 8. SKF's solutions create value for customers by helping them to improve resource and energy efficiency. SKF's BeyondZero customer solutions provide significant environmental benefits regarding for example global warming and resource use, these solutions generated about 9% of SKF Groups total revenues 2016.

More on customer solutions can be found in the Creating and capturing customer Value section on page 14 and Application driven innovation on page 20.

SKF has established Group targets for a number of relevant sustainability issues, progress on these targets are presented under the SKF Care section and detailed result and governance mechanisms are presented in these statements on pages 126–139.

Organisational profile

G4-3 Name of the organization
AB SKF

G4-4 Primary brands, products, and services
The SKF Group is a leading global supplier of products, solutions and services within rolling 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 page 4, 19, 28, 33, 49 and 51. For information on SKF's brands please refer to skf.com/brands.

G4-5 Location of the organization's headquarters
SKF Group headquarters is located at Hornsgatan 1 in Gothenburg, Sweden.

G4-6 Countries where the organization operates
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 annual report on SKF.com/ar2016.

SKF operations, sales and distribution are also described on page 16–17 in this Annual Report.

G4-7 Nature of ownership and legal form
SKF provides articles of association on skf.com/ar2016. These are part of Topics related to annual report. In addition, information on shares and shareholder information are found on page 54–55.

G4-8 Markets served
Page 2–3 provides an overview of geographies and industries served. Information on Industrial and Automotive areas is further described on page 4–5 and 50–53. Additional information is available on skf.com/ar2016.

G4-9 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 page 102.

SKF Manufacturing and other operations are presented on skf.com/ar2016, Net sales are presented on pages 66 and broken down further in the financial statements on pages 74–76.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 69. Quantity of products or services is not disclosed,

G4-10 Employee data

	Permanent		Temporary		
	White collar	Blue collar	White collar	Blue collar	Agency workers
Asia and Pacific	3,685	6,506	7	627	1,777
Middle East and Africa	366	32	8	0	27
North America	2,281	3,754	44	31	195
Latin America	760	1,856	0	0	46
Eastern and Central Europe	853	2,908	19	500	199
Western Europe	9,250	11,088	48	245	810
Group	**17,195**	**26,144**	**126**	**1,403**	**3,054**

G4-11 Percentage of total employees covered by collective bargaining agreements
SKF holds collective bargaining agreements in 19 countries (Argentina, Austria, Brazil, Bulgaria, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, Sweden, UK, USA, China and Ukraine). These countries make up close to 95% of all blue-collar workers (around 26,000). 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 19 countries above, in 2016 SKF employed around 600 blue-collar workers in South Korea, Japan, and Singapore. Of these, South Korea is the largest with 450 blue-collar employees. South Korea is the next country to be considered for inclusion in the SKF World Union Council.

The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) was first signed by all parties in 2003. It is based on the SKF Code of Conduct and was one of the first agreements of its kind in Europe. Through the years, it has helped to promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of Employee Care throughout the Group.

G4-12 Describe the organization's supply chain
SKF's down stream 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 around 26,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations in terms of property plant and equipment. 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 souring offices around the world in Europe, China, India and 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 2,000 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 31 and page 139.

G4-13 Significant changes during the reporting period
No significant changes affecting the reporting.

G4-14 Precautionary approach or principle
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.

G4-15 Externally developed economic, environmental and social charters, principles endorsed
The SKF Group 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 sustainable development.

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. SKF has participated in the Global Compact since 2006. SKF commits to the defined principles within the Global Compact and to communicate its progress via its Annual Report.

The International Labour Organization (ILO) draws up and oversees international labour standards. It brings together representatives of governments, employers and workers to jointly shape policies and programs promoting decent work for all. SKF adheres to the ILO Declaration on Fundamental Principles and Rights at Work. By doing so SKF commits to upholding basic human values established by the ILO.

The International Chamber of Commerce (ICC) is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity. Its Business Charter for Sustainable Development issued in 1991 defines 16 principles for environmental management. SKF has endorsed the ICC Charter since 1992 and consequently applies its principles in all its business activities.

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

G4-16 Memberships 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 UN Global Compact, World Bearing Association, the Conference Board, Teknikföretagen, The Royal Swedish Academy of Engineering Sciences, Swedish Life-cycle Centre and 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.

Identified material aspects and boundaries

G4-17 Entities included in the organization's consolidated financial statements or equivalent documents
This information is available in the financial statements on pages 112–114.

G4-18 Process for defining the report content and the aspect 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.

SKF defines its significant stakeholders as those who can be significantly affected by the Group's activities. Stakeholders and Materiality is described in more detail below.

The context, scope and boundaries are described further in the specific standard disclosures along with management approach.

G4-19 Material aspects identified in the process for defining report content
SKF's materiality work integrates a mix of periodic dialogues, surveys, questionnaires and megatrend analysis with internal risk management and strategic capabilities. The result of this work is a list of material issues presented on the next page, input from external stakeholders is presented on pages 121–122.

Material issues for SKF have been established by combining stakeholder input with that input from senior representatives of from SKF's Areas and Group staff functions. This has been further verified with Group management. These issues are presented and explained on page 123 in this report.

Overall, the analysis of SKF's qualitative and quantitative input indicates that the stakeholders expects and relies on SKF to manage sustainability challenges in three main ways.

- The first is to live up to a fair standard and manage risk, avoiding the negative impact for the Group and its stakeholders. More on SKF's risk management is explained on pages 56–59.
- The second is to be an agile and innovative business partner that can create opportunities from relevant sustainability issues and make use of these to generate business. Please refer to pages 51 and 53 for examples.
- The third is to be the enabler of new solutions, technologies and business models. Please refer to pages 14, 20–23 and 43 for examples.

In terms of sustainability reporting, the important issues translate into the following aspects as defined by GRI G4 guidelines. Potential omissions are specified next to the indicators on pages 126–139.

Material issues

GRI G4 categories and aspects	Indicators reported
Economic category	
Direct economic performance	EC1, EC2, EC3
Environmental category	
Energy	EN3, EN5, EN6
Emissions	EN7, EN15, EN16, EN17, EN18, EN19, EN20, EN27
Effluents and waste	EN23, EN24
Water	EN8
Compliance	EN29
Supplier assessment environment	EN32, EN33
Social category	
Occupational Health and Safety	LA6, LA5
Employment	LA1
Diversity and equal opportunities	LA12
Training and education	LA11
Equal remuneration for women and men	LA13

GRI G4 categories and aspects	Indicators reported
Social category (cont.)	
Labour management relations	LA4
Labour practice grievance mechanism	LA16
Non-discrimination	HR3
Freedom of association and collective bargaining	HR4
Child labour	HR5
Forced or compulsory labour	HR6
Assessment	HR9
Human rights grievance mechanism	HR12
Local communities	SO1
Anti-corruption	SO4, SO5
Anti-competitive behaviour	SO7
Compliance	SO8
Grievance mechanism for impact on society	SO11
Supplier assessment social	LA14, LA15, HR10, HR11, SO9, SO10

G4-20 For each material aspect, report the aspect Boundary within the organization

Specific standard disclosures are described on pages 126–139. Boundaries are described under each aspect.

G4-21 For each material aspect, report the aspect Boundary outside the organization

In those cases where boundaries outside the organization are relevant, this is stated in the aspect boundary text on pages 126–139.

G4-22 Effect of any restatements of information provided in previous reports

No significant restatements.

G4-23 Report significant changes from previous reporting periods in the Scope and Aspect Boundaries

Under the aspect Training and education the scope of data collection has been narrowed to include white collar employee. This job category shares a common learning and development platform.

Stakeholder engagement

G4-24 Provide a list of stakeholder groups engaged by the organization

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 customers surveys and reviews scorecards from key accounts and strategic customers. Aggregated results from surveys and scorecards are used as input to SKF continual improvement work. The input received helps the company to continually improve customer value, measure benefits of SKF offerings and stay as the preferred supplier.

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. An annual capital markets day is 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.

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 144–150. In addition, SKF carries out periodic employee feedback survey in the SKF Working Climate Process (WCP), around every 18–24 months. In addition to this Group wide survey, the working climate also calls for more frequent status updates in the cultural and leadership change currently taking place in SKF. The findings from the WCP are used to implement improvements in the working climate and performance at all levels within the company – from local teams to Group Management.

Communities
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.

Non-governmental organizations
SKF is actively involved in various business organizations. SKF utilizes these networks to share experiences and ideas with other companies and to develop the company's thinking and approach on many issues. SKF has established working relationships with certain non-governmental organizations (NGOs). SKF invites feedback and input from these NGOs around issues relating to environmental, social and economic concerns.

Suppliers
The cost of goods and services purchased by SKF amounts to about half of the Group's revenues. 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.

G4-25 Basis for identification and selection of stakeholders with whom to engage
SKF defines key stakeholder groups as customers, investors, suppliers, employee representatives and representatives from society in general, these groups includes 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 collaboration. This allows SKF to better understand various perspectives and concerns, and address them quickly.

G4-26 The organization's approach to stakeholder engagement as part of the report preparation process
The basis for SKF's materiality work relies on an integration of periodic dialogues, surveys, questionnaires and megatrend analysis. In accordance with the GRI G4 reporting requirements and in addition to the well-established processes described above, SKF has also gathered input from a selection of individuals from main stakeholder groups more focused on the Annual Report, both in terms of content and how this is being presented. This work provided confirmation and further understanding of potentially important aspects for the Group's stakeholders and within which boundaries are more important to manage.

From the customer perspective, SKF aggregates the most relevant issues coming in from various questionnaires and assessments. This has been completed with a number of interviews to receive more qualitative information of their perception. Input from employees was collected from surveys. Investor input was gathered by aggregating the most common assessments from this stakeholder group and completed with a number of face to face dialogues to receive a nuanced picture of important issues. Input from communities was gathered from SKF's public relations functions in the regions where SKF is present. Supplier input was collected through site audits.

G4-27 Key topics and concerns that have been raised through stakeholder engagement

Stakeholder dialogue – top material issues per stakeholder group

Stakeholder group	Customers and peers	Investors and analysts	Employees and union organizations	Local markets and communities	Suppliers
Material aspects	• Creating and capturing customer value • Energy and climate • Business ethics • Systematic environmental protection • Equality and human rights • Health and safety	• Business ethics • Positive and engaging workplace • Financial performance over time • Energy and climate	• Equality and human rights • Business ethics • Health and safety • Positive and engaging workplace	• Creating and capturing customer value • Energy and climate • Innovation • Local community relationship • Systematic local environmental protection • Employee engagement • Financial performance	• Occupational health and safety • Work hours • Compensation • Other employment practices • Environmental protection
Specific issues addressed	SKF customers see the value provided to them as a combination of operational benefits and that SKF can be an agile and resilient business partner. Customers further expect SKF to work with these aspects in a systematic way over the value chain and enabling customers to reduce their supply chain risks.	Governance, reduced risk. Ensure that proper actions are taken on all issues to ensure strong future cash-flow, at the same time as avoiding negative impact on people, environment and society today.	Union organizations focus on job development, diversity, health and safety. From the individual employee perspective, a clear customer focus, ethical leadership in combination with an engaging work environment has been highlighted as most material.	Most important issues are related to local investments leading to job and responsible restructuring and that SKF acts as a responsible corporate citizen on environmental and human rights issues in general. Experts from the academic field see innovation as the most important aspect of SKF's response to sustainability issues. Especially in combination with current challenges such as emissions and water.	Suppliers have been engaged by site audits and the topics material aspects above are the most common findings of improvement related to SKF's Code of Conduct. These are mostly related to occupational health and safety and employment practices.

These issues or areas above translates into one or more aspects referring to GRI G4 guidelines, on the next page they are presented in the way SKF groups them into different material issues or challenges.

Customer expectation	The fundamental ability to anticipate, meet and exceed customer expectations in terms of value, quality and service in the highly competitive global market place.
Business ethics	The ability to conduct all business in a highly ethical manner, which complies with all applicable laws and conforms to the SKF Code of Conduct.
Financial performance	The ability to deliver sustained financial performance with efficient working capital management, and cash flow over time, which meets the expectations of investors and customers and communicate this transparently.
Health and safety	The ability to assure the health and safety of all SKF's employees and working to protect the health and safety of the customers and users of SKF's products and solutions and work to assure good work environment also in the supply chain.
Application driven innovation	The capacity and ability to commercialize application driven innovations and new business models in order to support customers in the rapidly changing and evolving markets and industries where SKF is present.
Attract retain and engage a diverse and effective workforce	The ability to create positive and engaging workplaces through openness, high ethics, teamwork and empowerment.
Equality, human and labour rights	The ability to assure equal opportunities, fair remuneration and working conditions, human rights and positive and constructive relations between labour and management, at SKF and its supply chain.
Environmental impact over the value chain	The capacity to assure that the environmental impact resulting from SKF's products, related processes and activities is understood and minimized and supporting SKF customers to do the same. The ability to realize the significant business opportunities that result from the associated environmental and economic constraints while at the same time reduce related risks and costs.
Create additional value in the communities around SKF	The capacity to use business and economic growth to support the local communities and to create additional value in the communities around SKF's operations, enhancing the company's reputation within the community and workforce.

Report profile

G4-28 Reporting period
SKF Annual report covers the financial year 1 January to 31 December 2016.

G4-29 Date of most recent previous report
The report was published on 7 March, 2017. The most previous report was published on 8 March, 2016.

G4-30 Reporting cycle
Annual

G4-31 Contact point for questions regarding the report or its contents
SKF's Annual Report refers to three main contact points, please refer to page 156.

G4-32 'In accordance' option chosen.
GRI Content Index for chosen Reference to the External Assurance Report
With reference to the GRI G4 in accordance criteria, SKF Annual Report 2016 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors PwC.

G4-33 Policy and current practice with regard to seeking external assurance for the report
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 2016 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.

Governance

G4-34 Governance structure of the organization, including committees of the highest governance body
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 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 145–148 in the Corporate Governance Report.

G4-35 Process for delegating authority for economic, environmental and social topics
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 primarily operates with two areas: Industrial and Automotive. Each area is further, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

In SKF, the implementation of sustainability programmes in the line organization is driven by the respective SKF areas, their business units, staff functions or by country organizations with direction and coordination from formal cross-functional decision making bodies and working-groups such as for example:

- SKF BeyondZero governance board which decides about inclusion and exclusion of SKF BeyondZero customer solutions.
- 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 Quality and EHS board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 etc. and related policies and instructions and coordinates the deployment of the Group's related strategy.

In each country where the Group has manufacturing or logistics centres, there is a country coordinator who oversees the Environment, Health and Safety (EHS) at local SKF facilities together with the EHS site coordinators. Country coordinators work as the extended arm of the Group and a number of them are members of the Group EHS audit team, which audits SKF's units to ensure compliance with Group standards and national legislation.

Key indicators of sustainability performance of the Group are reported to Group Management on a six months basis. This includes accident rates, energy and CO_2 emission reports. The Group Management team and area management teams also perform annual reviews on the functioning of the Group EHS management system, which is covering ISO 14001, ISO 50001 and OHSAS 18001. The area presidents and human resources directors are updated regularly about the Group's internal audit findings on the environment, health and safety, as well as the SKF Code of Conduct.

SKF uses a systematic and standardized approach which is embedded throughout the organization and decision making processes and uses Group-wide management systems 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). During 2016, SKF has initiated projects to update these management systems in the light of the ISO revisions ISO 14001:2015, ISO 9001:2015 and IATF 16949.

For material aspects, depending on the specific role, incentives for responsible people are set on an individual performance basis following SKF's performance management process. Employees and managers invest time to ensure they have relevant goals set for the year and to follow up achievements and discuss priorities. By setting SMART goals (specific, measurable, attainable, realistic and timely) between employees and their immediate managers and which are aligned with the Group's objectives, employees can influence their own work and future compensation.

G4-36 Executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body

SKF Corporate Sustainability reports to the Senior Vice President Group Legal and Sustainability and 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 must be delivered in accordance with the strategic direction and fundamental requirements as set by Corporate Sustainability and the Group. 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. SKF Corporate Sustainability is responsible for outlining and shaping policies, strategies and targets related to SKF's overall sustainability performance and these in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

G4-39 Chair of the highest governance body and executive officer

Refer to page 146 in the Corporate Governance Report.

G4-41 Processes for the highest governance body to ensure conflicts of interest are avoided and managed

Refer to page 145 in the Corporate Governance Report.

G4-42 Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts

The Board of Directors is the highest governance body of the company. 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 continually monitoring SKF's vision, mission, values and drivers, its strategies, performance and related information.

The tenure on the governance body and competencies relating to sustainability impacts are integral parts of the nomination of board members.

G4-48 The highest committee or position that formally reviews and approves the organization's sustainability report

The SKF Annual Report 2016 includes SKF's sustainability reporting and is signed by all members of the Board.

G4-51 Remuneration policies for the highest governance body and senior executives

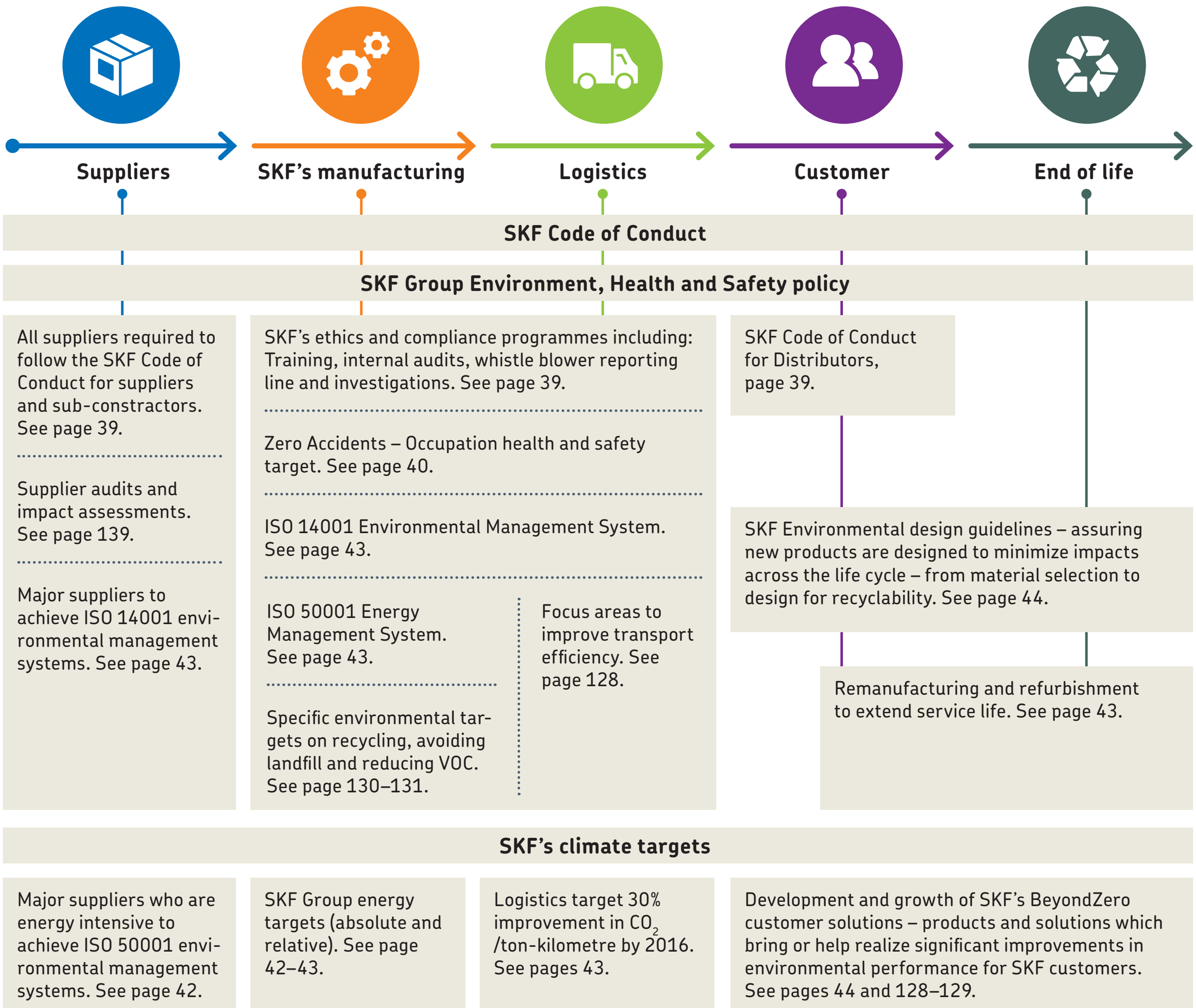
Refer to financial statements, Note 23 on pages 98–101.

G4-52 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.

The AGM 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 its annual report. 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.

Actions over the value chain for environmental and social performance



Ethics and Integrity

G4-56 The organization's values, principles, standards and norms of behaviour
The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptions of the SKF management systems but the SKF Code of Conduct is the superior policy, all other policies are subordinate to it. It is available in 17 languages and publically available on SKF.com/code. The SKF Group's values are presented on page 10 and 41. These are:
• Empowerment • High ethics • Openness • Teamwork

G4-57 Internal and external mechanisms for seeking advice on ethical and lawful behaviour
In addition to normal internal reporting possibilities, employees have the opportunity to report raise concerns or seek advice via SKF's Ethics and compliance reporting line which is externally hosted by a third party. SKF also makes use of an internal helpline via email.

G4-58 Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity
SKF 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. SKF employees can also raise concerns via the Group-level 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. Cases managed by the SKF Group are disclosed in this report on page 138 under Social grievance mechanisms.

Specific standard disclosures
Economic category

Economic performance

Boundaries
SKF Group and its subsidiaries.

Disclosure on management approach
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.

Scope and basis of consolidation
The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control. Please refer to page 73 for more information about SKF's financial accounting policies.

G4-EC1 Direct economic value generated and distributed
The data from the financial statements has been used to break down economic value generated and distributed as described below.

Economic value generated and distributed, (SEKm)	2016	2015
Net sales	72,787	75,997
Revenue from financial investments and other operating income	107	108
Economic value generated	**72,894**	**76,105**
Operating costs	–40,097	–42,219
Employee wages and benefits	–22,770	–23,920
Payments to providers of capital	–3,071	–3,245
Payments to government (tax)	–1,897	–2,320
Community investments	–25	–32
Economic value distributed	**–67,860**	**–71,736**
Economic value retained	**5,034**	**4,369**

Economic value generated includes net sales (page 66) and interest income (page 79).
Operating costs include the total operating expenses (page 78) and the net of other operating income and expenses (page 78) less depreciation, amortization and impairments (page 78), less employee wages and benefits (78), less Community Care activities (page 47).
Employee wages and benefits including related tax and social charges (page 78).
Payments to providers of capital include suggested dividends to SKF's shareholders (page 70) and interest expenses (page 79).
Payments to governments include the total taxes paid according to the consolidated statement of cash-flow the Group (page 70).
Community investments are those also reported under the section Community Care (page 47).

G4-EC2 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 and positions the Group's overall risk profile as moderate. On climate change in particular, it is likely that costs associated with energy and related emissions will increase in the medium to long term. An increased cost of carbon emissions by SEK 250 per tonne CO_2 impacts SKF's operating profit by around SEK 120–150 million. Carbon taxes are developing in different ways in different parts of the world with different mechanisms but in general, the associated costs are likely to increase over time. This cost only takes into consideration SKF's costs of sourced energy used at the Group's own operations, carbon pricing mechanisms would also affect cost for suppliers of raw material and components. SKF takes an active approach to energy efficiency at its own facilities and suppliers – reducing energy demand and related risks.

Considering SKF's customers, the general trend to internalise carbon costs and incentivise efficiency is a major driver in many of the industrial segments served by the Group. This presents both opportunities for growth and some risks in certain segments which may be negatively impacted by this trend. Please refer to pages 50–53 for an overview of SKF's Areas. Customer industries are further described on skf.com/skfs-business. The drivers in these industries create significant opportunities for SKF to contribute to climate change mitigation through the products and solutions it provides, and thereby create considerable value for customers and investors.

The motivation for SKF's continued commitment in addressing climate change 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 a long-term competitive advantage.
- SKF is uniquely positioned to significantly contribute 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 45 for a detailed explanation of BeyondZero and SKF's climate targets.

G4-EC3 Coverage of the organization's defined benefit plan obligations
SKF reports the coverage of its provisions of post-employment benefits in the financial statements on pages 91–93.

Specific standard disclosures **Environmental category**

Energy and emissions

Boundaries
The Group's climate targets address energy and emissions over the full value chain. Targets have been established for suppliers, goods transportation, SKF's operations and customer solutions – the areas where SKF can significantly contribute.

Disclosure on management approach
The most relevant emissions to the air from SKF are direct and indirect CO_2 emissions. These are related to the energy used when processing raw material, processes at SKF's operations, transporting goods and during the use-phase of SKF's products. Continued global emissions of greenhouse gases will cause further global warming and increase the likelihood of severe, pervasive and irreversible impacts for people and the natural environment. Limiting emissions is a critical challenge for business, governments and society. At SKF, all relevant functions are included in the work along with specific responsibilities.

SKF is developing and deploying technology that enables improved energy efficiency for its customers and increased renewable energy generation. SKF's products and solutions help enable resource efficiency, energy and fuel savings for customers in numerous industrial segments, and SKF's solutions help make the wind industry more commercially viable. These solutions are defined by the SKF BeyondZero customer solutions. Revenues and avoided emissions from the portfolio are reported on page 129.

SKF has an energy management system certified according to ISO 50001 at its own operations, which covers all energy-intensive operations – about 90% of the Group's total energy use. The deployment and maintenance of systematic energy management is the foundation of long-term improvement. Please refer to page 124 for more information about SKF's management systems. SKF also works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001.

Detailed data on SKF's energy and emissions are reported in this section. Ozone depleting substances are reported in kilogrammes used on page 131 under Chemicals and substances in production.

SKF's climate targets 2012–2016 are concluded on page 42. In general, the Group considers the progress on these targets a success:

- On scope 1 and 2 emissions, SKF has reduced its energy use and related emissions by 14% compared to 2006. Going forward, SKF will focus on reducing CO_2 emissions per tonnes of bearings sold as main KPI. Energy management efficiency will continue to be a major strategic lever, in combination with material efficiency and the use of renewable energy.
- On scope 3, SKF's target on suppliers was to have all energy intensive major suppliers ISO 50001 certified. At year-end 2016, 25 of 30 suppliers had achieved this. This certification will continue to be a key target on SKF's suppliers. SKF also targeted to reduce CO_2 emissions per volume shipped goods from its logistics operations by 30% 2012–2016, which has been achieved.
- On scope 4 emissions, SKF's target was to develop the sales from SKF BeyondZero customer solutions from BSEK 2.5 in 2011 to BSEK 10 in 2016. In 2016, the total net sales from these solutions was BSEK 6.8, which is over 9% of the Group's total net sales. The net sales from SKF BeyondZero customer solutions will continue to be the main KPI of SKF scope 4 performance.

Scope and data compilation
All energy and CO_2 data reported in the SKF Annual Report 2016 (except goods transportation data and business travel data) was compiled either quarterly or annually using the Group's main reporting and consolidation tool. Data 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.

Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. The reporting of greenhouse gas emissions is done according to the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resources Institute.

For site by site data, please refer to the Environmental performance data available at skf.com/ar2016.

G4-EN6 Reduction of energy use – Performance
Absolute energy use has been reduced by 14% 2016 compared to 2006. This has been achieved by for example more volumes from recently built efficient facilities using LEED standards, effective energy management of central systems in factories, and investments in more efficient machines. Energy efficiency (per output) was improved by 5% in 2016 compared with 2015. SKF's energy management system was certified according to ISO 50001 in 2015 and is expected to enable improvement in energy management over time, emission performance, cost and risk over time.

Energy use and associated CO_2 emissions from SKF's own facilities (Scope 1 and 2)
Targets: 5% reduction in absolute energy use in 2016 vs. 2006 and reduce the energy use per production output by 5% year-on-year (measured as energy use/output)

Energy	**2016**	2015	2014	2013	2012	2006
G4-EN3 Energy in GWh scope 1	275	284	294	323	314	407
G4-EN3 Energy in GWh scope 2	1,408	1,336	1,347	1,379	1,362	1,550
Total energy use (GWh)	**1,683**	**1,620**	**1,641**	**1,702**	**1,676**	**1,957**
G4-EN5 Indexed energy efficiency (GWh/output)[1)]	95	100	98			
G4-EN5 Energy use per net sales (GWh/SEKm x 100)	2.31	2.13	2.31	2.67	2.59	3.68

1) Energy efficiency is calculated by dividing GWh used at SKF's production sites by an internal measure of output. In this table it is shown as an indexed indicator based on the previous year as index 100. Because the measure of output is recalculated, only the last three years are comparable.

CO_2 (tonnes)	2016	2015	2014	2013	2012	2006
Direct combustion (scope 1)[1]						
LPG	3,707	4,046	4,025	4,775	4,708	4,234
Fuel oil	2,459	2,689	3,221	3,069	3,750	11,891
Natural gas	50,047	51,363	53,035	58,207	56,178	69,165
G4-EN15 Total scope 1	56 213	58,098	60,281	66,051	64,636	85,290
Supplied energy (scope 2)[1]						
Electricity	443,622	415,814	403,871	401,108	389,938	445,462
Heating energy	30,747	28,126	30,188	36,473	35,684	45,911
G4-EN16 Total scope 2	474,369	443,940	434,059	437,581	425,622	491,373
Total CO_2 emissions scope 1 and 2	530,582	502,038	494,340	503,632	490,258	576,663
G4-EN18 CO_2 per net sales (tonnes/SEKm)	7.29	6.61	6.96	7.92	7.59	10.86

1) SKF reports greenhouse gas emissions in accordance with the Greenhouse Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, business travel etc.). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2016 are adjusted according to the GHG-protocol for acquisitions and divestments. SKF sources energy locally for all sites and the level of detail in each contract differs, SKF can therefore not report the source of energy on scope 2 emissions on an aggregated level.

Goods transportation data and related CO_2 emissions (Scope 3)
SKF Logistics and Demand Chain reduces emissions from transport as part of its transport efficiency programme. In 2016, the target to reduce CO_2 emissions per tonne-kilometre by 30% between 2012 and 2016 has been achieved. Overall, the work to reduce CO_2 emissions and costs of transport can be summarised in three main points:

- Shifting to transport alternatives with lower CO_2 intensity, such as sea, road and rail, instead of air.
- Continual improvements in the efficiency of each transport mode chosen.
- Avoiding unnecessary transports.

Examples can be found in previous annual reports and on skf.com/climate.

SKF measures the emissions of the air and ocean shipments on a global level. For road transportation, the Group measures emissions for local transportation in most of the countries where Logistics and Demand Chain is responsible for. Going forward, SKF will shift focus to reducing CO_2 emissions per tonne shipped goods, this to optimize the footprint and shorten routes even more. The recording partly includes other emissions such as SOx, NOx, and particles.

	2016	2015	2014[1]	2013	2012	2011
G4-EN17, Total CO_2 emissions (tonnes) scope 3	96,439	106,112	101,926[1]	—	—	—
Transport works (million tonne-kilometres)	2,462	2,374	2,146[1]	—	—	—
Indexed CO_2 emission per tonne kilometre (Index 2014)[1]	84	97	100	95	119	118
G4-EN19 Change from 2011 (%)	–31%	–18%	–15%	–19%	+1%	—
Fill rate for trucks[2] (% of available truck space utilized)	75%	70%	79%	80%	79%	81%
Shipped volumes and emissions per transport mode 2016		Road	Sea	Air		
Transport works, tonnekilometre % of total		19.5	79	1.5		
CO_2 emissions, % of total		38	34	28		

1) Between 2012 and 2014 SKF reduced the total CO_2 per tonne-kilometre by 15% according to baseline 2011. Then in 2014, a new baseline was established for the remaining target period (2015–2016). Therefore, SKF reports CO_2 per tonne-kilometre indexed based on 2014.
2) The fill rate indicator covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

Business travel
SKF monitors CO_2 emissions from its air travel in Europe, the US and China. China was added to the scope in 2014. 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.

Tonnes	2016	2015	2014	2013	2012	2011
G4-EN17 CO_2 emissions from air travel	20,604	21,703	24,236[1]	16,334	18,302	19,870

1) The scope of reporting was extended in 2014 by adding China. According to the previous scope – for comparability the number for 2014 would be 18,569 tonnes.

The SKF BeyondZero customer solutions
Total SKF BeyondZero customer solutions revenues
Target: To reach total revenues of the SKF BeyondZero customer solutions of SEK 10 billion in 2016.
Result: Although the revenues almost tripled in five years, SKF did not meet the initial target set in 2011. The target set was based on a view on aggressive growth of the wind industry which did not fully materialise. Going forward, net sales of SKF BeyondZero customer solutions will continue to be the main indicator on the Group's contribution to customers, investors and the environment. Read more on SKF's 2025 climate targets on page 45.

The annual revenues from SKF BeyondZero customer solutions consist of the total sales from specific products and solutions as well as that from SKF's business with the renewable energy (wind, solar, ocean and hydro power) and electric vehicle industries.

The growth is based on sales development of solutions included previous years and the inclusion of new solutions during the year.

SEKm	2016	2015	2014	2013	2012	2011
Total SKF BeyondZero customer solutions revenues	6,819	5,930	5,493	3,324	2,972	2,500[1]

1) The result for 2011 is estimated. From 2012 the work with SKF BeyondZero customer solutions has been reviewed or audited annually by external auditors.

Avoided greenhouse gas emissions enabled by specific SKF solutions[1]

Tonnes CO_2e	2016	2015	2014	2013	2012
G4-EN7, G4-EN27	400,000	410,000	440,000	83,000	52,000

1) The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific BeyondZero customer solutions – Designed for Environment or Applied for Environment – sold during the respective year. These calculations focus on the difference in the life cycle impact of the SKF solutions compared to baseline solutions. The baseline is defined as the most common alternative on the market. This figure is intended to show the magnitude of the savings and will become more comprehensive as further calculations, updates and refinements are made during the course of 2017.

Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries[1]

Tonnes CO_2e	2016	2015	2014	2013	2012
G4-EN7, G4-EN27	1,960,000	2,350,000	1,760,000	1,220,000	1,620,000

1) The figure has been estimated as SKF's part of the avoided greenhouse gas emissions made possible by the whole renewable energy industry. An economic allocation factor of 6% has been used. Going forward, this category will also include SKF's sales to the electric vehicle industry.

There is yet no standard method for companies to calculate environmental benefits, such as avoided carbon dioxide emissions, from their products and services. The statements in this report concerning environmental impacts, as well as cost savings and revenue increases, are based on results experienced by SKF's customers and/or based on internal calculations by SKF's personnel and do not constitute a guarantee that any future results will be the same. For more details, methodology and documentation about reduced environmental impact, visit: www.beyondzero.com.

Material use in SKF's production

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.

The Group is continually working to improve resource efficiency. SKF reports material use because the amount of material is closely linked to cost and environmental impact. Life cycle assessments and material flow analysis of raw materials used indicates a significant environmental impact, mostly related to energy and associated emissions from material refinement.

The company invests in research into advanced manufacturing technology that minimizes the amount of material to be removed to produce finished products. At the same time, SKF's designers, process engineers and purchasing staff are working towards minimizing material waste throughout the value chain.

Tonnes	2016	2015	2014	2013	2012	2011	2010
Metal as raw material from external suppliers	446,260	431,523	446,978	405,235	368,401	413,945	412,068
Rubber as raw material from external suppliers	5,487	5,485	4,553	4,226	4,247	4,354	3,915

Effluents and waste, water, compliance

Boundaries

Systematic environmental protection is relevant over the value chain of SKF.

The generation of effluents and waste from the Group's manufacturing operations along with water use are relevant and material issues for SKF.

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.

Compliance is material in relation to SKF's manufacturing operations and those of its suppliers.

Disclosure on management approach

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. 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 publically reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to skf.com/ar2016.

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.

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. Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). Downstream, SKF can provide solutions to reduce the water footprint for customers. The most important dimension of water for SKF is that of the water needed to generate energy for use over the value chain.

Environmental permits
Operations requiring permits exist in all countries where SKF has manufacturing sites. On 31 December, 2016, SKF held permits in Sweden covering 10% of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to the production of bearings, bearing housings and couplings.

Landfills
Many SKF plants have disposed of various types of waste at approved landfill sites. Because of stricter laws and regulations – some with a retroactive effect – relating to landfill disposal, some SKF companies are currently involved in cleaning up old landfills, most of which have not been used for many years. Relevant provisions have been made to cover these costs.

Scope and data compilation
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.

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/ar2016.

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. Most targets were set with 2016 as target year. During 2017, new targets on energy and climate have been published, other environmental targets will be set during the year as part of an updating of SKF's environmental management system.

G4-EN23 Residual products and recycling
SKF measures and reports waste types and disposal methods in another way than GRI suggests, the amounts of residual material and recycling rate are disclosed below and in more detail in Environmental Data spreadsheet available at skf.com/AR2016. 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 of 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.

	2016	2015	2014	2013	2012	2011	2010	2009
Grinding swarf (tonnes)	20,332	20,110	20,706	20,466	20,297	23,221	20,899	15,740
Grinding swarf Recycled (%)	74	80	83	80	76	68	67	70

Recycling of grinding swarf
Grinding swarf is a common waste product from SKF's manufacturing processes. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2016. This target was achieved in 2013 and in 2015 the rate was at 83%. Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target to achieve and in 2016 the rate was down at 74%. This is mainly a result of new regulations in Italy, where SKF has previously had high recycling rate. The target on grinding swarf is extended until 2017 and during the year, new targets will be established as part of the update of SKF's environmental management system to the new standard ISO 14001:2015.

	2016	2015	2014	2013	2012	2011	2010	2009
Turning Chips (tonnes)	40,088	42,885	46,972	49,328	49,207	54,536	64,782	51,085
Turning Chips Recycled (%)	98	100	100	100	100	100	100	100
Other metal scrap (tonnes)	6,096	7,537	6,011	6,098	5,625	6,318	7,487	7,670
Other metal scrap recycled (%)	100	100	100	100	100	100	100	100
Rubber scrap (tonnes)	1,686	1,631						
Rubber scrap recycled (%)	88	86						
Used oils (tonnes)	3,531	3,701	3,954	4,369	3,861	3,899	4,275	3,880
Used oils recycled (%)	97	91	93	91	96	95	94	96
Paper and carton (tonnes)	4,446	4,630	4,544	4,615	4,276	4,193	4,084	3,390
Paper and carton recycled (%)	99	96	95	98	100	100	98	96
Waste sent to landfill (tonnes)	9,533	9,043	9,507	8,505	9,371	10,938	10,722	7,740

Chemicals and substances in production

SKF reports all significant use of chemicals and substances site by site for all SKF's units, please refer to the Environmental Data spreadsheet available at skf.com/ar2016. In this note, SKF highlights the most significant uses and the progress on targets for solvents (VOCs).

	2016	2015	2014	2013	2012	2011	2010	2009
Solvents (tonnes)	808	902	882	929	966	847	1,144	1,075

Solvents – VOCs

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. After a successful 25% reduction of solvents in 2002–2007, SKF set new a target in 2007 to reduce the use of solvents by 50%. The In 2016, the amount used was 808 tonnes – meaning that over 49% reduction has been achieved. As with the recycling target, this target will be extended until 2017 and new targets will be set out as part of the updated management system.

	2016	2015	2014	2013	2012	2011	2010	2009
Alcohols (tonnes)	1,893	1,890	1,865	1,636	1,500	1,542	1,514	1,293
Hydraulic Oil (tonnes)	1,712	1,885	2,214	2,386	2,435	2,515	2,501	1,932
Grease (tonnes)	2,046	1,876	1,718	1,717	1,615	1,515	1416	1,175
PCB (Sites with)	0	0	0	0	0	1	1	1
Other oils (tonnes)	2,260	2,242	2,642	2,862	3,246	3,843	3,114	3,160
Lubrication Oils (tonnes)	5,328	707	825	703	793	986	880	649
Cutting Oils (tonnes)	2,338	2,412	2,102	2,492	2,271	2,456	2,656	1,971

G4-EN20 Ozone-depleting substances (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 a number of local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been totally eliminated due to process changes in manufacturing.

	2016	2015	2014	2013	2012	2011	2010	2009
ODS-Class I Manufacturing (kilogram)	0	0	0	0	0	0	0	0
ODS-Class II Manufacturing (kilogram)	0	0	0	0	0	0	15	1
ODS-Class III Manufacturing (kilogram)	102	209	323	311	300	138	119	24
ODS-Class I Non-Manufacturing (kilogram)	0	0	0	0	0	0	30	30
ODS-Class II Non-Manufacturing (kilogram)	0	0	0	0	2	124	107	253
ODS-Class III Non-Manufacturing (kilogram)	436	638	257	1,511	745	294	477	281

G4-EN8 Water use

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Therefore, SKF monitors total water consumption at operating units and not according to water withdrawal by source. SKF uses the Global Water Tool from World Business Council for Sustainable Development to identify sites located in areas of potential water related risks. SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption.

	2016	2015	2014	2013	2012	2011	2010	2009
Water use (1,000 N Cubic Meters)	5,508	5,558	5,200	5,451	5,662	5,584	5,652	6,898
Water use at SKF sites in water stressed locations	1,294	1,179	1,265	1,472	1,428	1,495	—	—

G4-EN24 Total number and volume of significant spills

SKF received no significant directives from the environmental authorities in 2016. One minor spill was recorded during the year. This has been communicated and resolved with local environmental authorities.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

No significant fines or sanctions 2016.

Specific standard disclosures
Social category

Occupational health and safety

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 25,000 people in manufacturing 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. For SKF's white-collar employees, health is mostly related to stress and psycho-social health.

Disclosure on management approach
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 environmental health and safety management system. SKF's management system is further described on page 123.

Scope and data compilation
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.

SKF Group People data presented on pages 131–134, and in the Employee Care section on page 40 is collected annually. All figures reflect the situation on 31 December each year and the scope includes the SKF Group and all subsidiaries included in the financial reporting.

Performance and serious incidents
As referred to in the Employee Care section on page 40, regrettably two fatal accidents occurred in 2016. One was a traffic accident on the way from a customer visit and one was a fork-lift truck accident on SKF's premises where the driver did not use the seatbelt. The Group has driven initiatives aimed at further improving safety awareness during business travel and fork-lift truck safety. Other focus areas in 2017 include machine and finger safety.

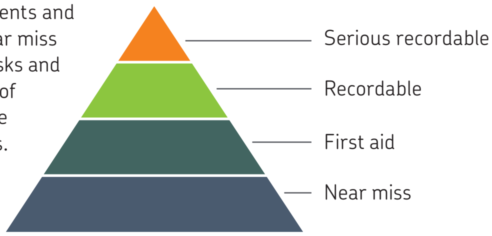
Since the start of the Zero Accidents programme in 2000, significant improvement has been made. Today, less than one individual (0.87) out of 100 full time employees is involved in a recordable accident. Even if the trend is still moving in the right direction, more focus and dedication is required to completely eliminate accidents.

G4-LA6 Accident rate for the Group
Data per region and gender cannot be reported. Lost days are documented locally, so far this is not aggregated and reported on Group level.

	2016	2015	2014	2013	2012	2011	2010	2009
Accident rate for the Group	0.87[1)]	0.99	1.13	0.99	1.06	1.05	1.18	1.29

1) In 2016, SKF has included recordable accidents from two sites which are currently being integrated in common systems, but not been able to include all worked hours. The accident actual rate 2016 is therefore lower than reported.

Proactive and preventative work
The accident rate for the Group includes recordable accidents and illnesses. SKF's sites around the world work to report near miss and first aid incidents. This is a way to identify potential risks and prevent accidents from happening. In the figure the base of the pyramide is near miss, the second layer is first aid, the top layers are recordable and serious recordable incidents. The objective is to have more near miss and first aid incidents reported and acted upon, and thereby reduce recordable accidents over time.



G4-LA8 Health and safety topics covered in formal agreements with trade union
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.

SKF deploys joint health and safety committees with management and worker representatives as part of the health and safety management system. Some units that have not yet fully implemented such a management system have still a joint health and safety committee. Typically, these committees operate at factory management level.

G4-LA5 SKF employees covered by joint health and safety committees with management and worker representatives, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	89	85	77	71	59
Middle East and Africa	77	93	100	100	59
North America	99	99	98	99	88
Latin America	97	96	86	99	88
Eastern and Central Europe	94	94	94	97	45
Western Europe	94	97	97	97	89
Group	**94**	**94**	**91**	**91**	**77**

SKF employees covered by formalized health and well-being policy/programme, by region

These programmes may include for example HIV/aids and other infectious diseases, health and fitness, stress, work-life balance or other issues relevant to the local context.

%	2016	2015	2014	2013	2012
Asia and Pacific	87	78	92	71	69
Middle East and Africa	79	62[1]	100	100	82
North America	97	94	97	91	94
Latin America	88	71	84	98	98
Eastern and Central Europe	61	46	44	20	47
Western Europe	88	86	94	90	92
Group	**88**	**81**	**90**	**81**	**83**

1) One recently acquired subsidiary started reporting as a separate legal unit in 2015. On 31 December the unit had no formal programme in place. The unit, located in South Africa has launched such programme co-funded by SWHAP (Swedish Workplace HIV/Aids Progamme) in February 2016.

Employment

Boundaries

The SKF Group and its subsidiaries.

Disclosure on management approach

SKF has a long established human resources function (Group People) that is integrated in the Group People, Communication and Quality management function. 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.

SKF has a global framework with the World Union Council which is based on the SKF Code of Conduct. 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 union and the World Union Council. The SKF Group operates under Swedish legislation and the Swedish Corporate Governance Code, as an effect of this, employee representatives are part of the Board – the highest governance body. Among other things, this means that employee representative have direct insight on board level issues and strategic outlook for the Group.

During recent years, SKF has undergone significant restructuring, extensive dialogues were held with employees and their representatives and efforts were made to minimise the negative impacts on those employees leaving the Group. These included the use of early retirement schemes as well as voluntary redundancy programmes. Employee Care describes the overall approach from the Group towards employees – further information can be found on pages 40–41.

Scope and data compilation

SKF reports retention rate and turnover by gender and region, not by age group. This is due to differences in human resource and salary systems which makes it challenging to aggregate this on Group level.

G4-LA1 Employee retention rate by region (excluding lay-offs)

	2016					
%	Women	Men	Total	2015	2014	2013
Asia and Pacific	90	92	92	90	89	87
Middle East and Africa	95	93	93	91	90	95
North America	91	92	92	90	93	91
Latin America	91	95	95	95	92	88
Eastern and Central Europe	90	91	90	94	95	95
Western Europe	94	96	96	96	96	95
Group	**92**	**94**	**93**	**93**	**93**	**92**

Voluntary retention rate 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.

G4-LA1 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 2016, women %	11.2	11.2	6.4	17.2	22.3	9.9	7.4
Employee turnover 2016, men %	8.5	8.9	8.8	13.5	16.6	9.7	5.2
Employee turnover 2016, total %	**9.1**	**9.3**	**8.2**	**14.5**	**17.2**	**9.7**	**5.6**
Employee turnover 2015, total %	8.9	12.2	12.3	11.3	18.6	7.4	5.2
New hires 2016	**3,755**	**1,040**	**44**	**678**	**550**	**639**	**804**
Women (Number)	904	217	9	175	81	223	199
(Share of total)	*24%*	*21%*	*20%*	*26%*	*15%*	*35%*	*25%*
Men (Number)	2,851	823	35	503	469	416	605

Training and education

Boundaries
The SKF Group and its subsidiaries, SKF's distributor network and users of SKF's products and services.

Disclosure on management approach
SKF has established a wide range of training and educational programmes aimed at the Group's employees, distributors and customers. These are based on the Group's overall strategy and the specific competency and development needs of the various functions and job roles.

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.

SKF College is the central function in SKF that manages and coordinate tools for learning in SKF. An assortment of development programmes focusing on professional skills (e.g. sales and marketing, engineering, products and platforms, demand chain, manufacturing), leadership skills, personal skills (e.g. negotiation skills, communication skills, time management), and other strategic areas are made available to employees according to the Group's strategies and priorities.

Utilizing different tools and methods – web conferencing, e-learning, classroom setting, group work, projects, and coaching – SKF's learning and development programmes aim at enhancing the quality in learning for employees. Managers' involvement and support through coaching is important for employees to achieve sustained personal and professional development.

The Group has established SKF College campuses in Sweden, USA, Argentina, China, India and Singapore. This enables SKF's global curriculum to be locally adapted and provided in local languages by local trainers.

Downstream, SKF 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.

Scope and data compilation
SKF measures performance reviews and development plans in two main ways. Employees in traditional white collar work roles, such as sales and administration are using a Group-wide learning management system in which training, development plans and performance is managed, around 17,500 employees are in the scope of performance reviews and development plans in this system. This is the scope of the population in the 2016 data below. SKF also follows up on performance reviews and development plans in the a Group-wide employee engagement survey. This survey would cover all SKF employees. The next survey was planned for fourth quarter, 2016, but it has been rescheduled to the second quarter, 2017.

What could externally be referred to as Programmes for skills management and lifelong learning are defined at SKF as individual development plans.

The percentage of employees receiving regular performance and career development is defined at SKF as people receiving formal documented performance reviews. In addition, SKF's general approach to providing on-going performance feedback helps to shape the training and development needs for employees.

Performance reviews

%	2016	2015	2014[2)]
G4-LA11 Performance reviews	75[1)]	—	69
Men/Women		—	69/70

1) For 2016, 13,099 out the scope of around 17,500 employees had their performance reviews finalized by 31 January, 2017.
2) In 2014, the data is aggregated from a Group-wide survey covering all employees. In 2016, the data is derived from the learning management system, covering around 17,500 white collar employees.

Breakdown on employee categories or gender cannot be provided.

Diversity and equal opportunities

Boundaries
The SKF Group and its subsidiaries.

Disclosure on management approach
SKF works to increase diversity in various aspects to reflect and support the Group's diverse customer and manufacturing base and create sustained competitive advantage. The objective is to gain this advantage by utilizing diverse ways of thinking to cover as many aspects as possible. The work focuses on gender, national origin, industry background and other indicators of diversity.

The SKF Group is responsible for setting standards and providing tools that can help the business as a whole to increase diversity, and the operational parts of the business are responsible for addressing diversity effectively and appropriately. The assurance of equal opportunity for all employees is mandated in SKF's Code of Conduct. All SKF's units are accountable for ensuring the effective deployment of SKF's Code of Conduct and this is coordinated and followed up at Group level.

Scope and data
SKF measures the ratio of women in management positions. The data covers all of SKF's units. Local management is defined as a management group for an SKF legal entity with at least two members. The proportion of women in the Group's total workforce was 21%. SKF does not categorize employees or management by age group or minority.

G4-LA12 Local management with at least one woman, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	95	91	95	86	73
Middle East and Africa	60	50	67	67	50
North America	94	85	82	77	85
Latin America	75	67	67	67	64
Eastern and Central Europe	58	55	63	86	60
Western Europe	84	81	90	68	69
Group	**85**	**80**	**83**	**76**	**70**

For the detailed information on the Board of Directors and executive management, please refer to pages 152–153 and 154–155.

G4-LA12 Total percentage rate of women in local management, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	15	22	17	20	16
Middle East and Africa	18	14	17	15	16
North America	20	16	19	18	16
Latin America	17	17	23	19	18
Eastern and Central Europe	26	30	27	30	29
Western Europe	19	19	19	16	16
Group	**18**	**20**	**18**	**18**	**17**

Equal remuneration for men and women

Boundaries
The SKF Group and subsidiaries.

Disclosure on management approach
The SKF Code of Conduct stipulates that all employees are to be treated equally, fairly and with respect. Therefore SKF strives to assure that all remuneration is based on individual performance without any bias from a gender (or other) perspective.

Scope and data compilation
SKF is implementing common systems and job roles in the countries were SKF has significant operations. The ambition is to be able to report this more and more accurately over time.

G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation
Due to differences in salary systems, SKF does not have this data consolidated centrally for all employees. SKF aggregates base salaries for significant operations in its biggest countries by employee headcount, these are presented in the table below. In total, these operations cover 25,000 employees, blue collar as well as white collar employees. For total compensation, the data coverage is slightly smaller. SKF is implementing common systems and job roles in the countries were SKF has significant operations and the coverage of the data will increase steadily over time.

	Female/Male ratio %	Employees in scope	Coverage of total workforce %
Germany	93	4,949	72%
USA	79	4,288	79%
China	102	3,544	59%
Sweden	101	3,322	100%
Italy	99	2,919	82%
France	102	2,685	84%
India	140	2,621	84%
United Kingdom	83	913	76%
Group	**93**	**25,241**	**56%**

In Sweden, SKF performs salary mapping taking into consideration job roles and seniority. For staff, SKF in Sweden has 17 different job roles and three levels of seniority in each. The latest salary mapping in Sweden showed no significant deviations between men and women when comparing employees within the same roles and level of seniority, the next mapping in Sweden is due 2017.

Across the Group, SKF does not have the same possibility to map all employees in detail as the job roles and categories are defined locally, therefore SKF can only disclose salary ratio between women and men aggregated per country. The ratio varies from one country to the other for various reasons. One example is India where very few women work in manufacturing but are relatively well represented in junior management. This is reflected in the extreme difference where women on average earn 140% of that of men. On the Group total however, there is an indication that while women are relatively well represented in junior management positions (compared to the total population), men are overrepresented in top management.

Although the share of women in the SKF Group in total and in leading positions has increased over the years, increasing the speed with which this ratio improves remains a key challenge.

Labour management relations

Boundaries
SKF Group and its subsidiaries.

Disclosure on management approach
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. The Code of Conduct is the basis of the framework agreement between SKF and the World Union Council, and continual dialogue is on-going to ensure that it works for both SKF and the Union members.

Scope and data compilation
Data is collected using SKF's main consolidation system and reviewed by the controller and human resource office before sent to the SKF Group.

G4-LA4 Minimum notice periods
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. The main purpose of the World Union Council is to make sure that the Global Framework Agreement works in practice. The Council, which includes all 19 countries referred to above 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 with labour and management representatives from all over the world.

SKF reports employees covered by trade union agreements.

SKF employees covered by independent trade union agreement, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	77	81	77	70	70
Middle East and Africa	13	41	23	21	23
North America	88	88	83	88	91
Latin America	75	76	76	77	88
Eastern and Central Europe	91	92	81	86	85
Western Europe	92	95	91	92	94
Group	**86**	**89**	**84**	**84**	**86**

Local communities

Boundaries
SKF reports activities and plans that are aimed at supporting and improving communities close to SKF's local operations.

Disclosure on management approach
SKF's Social Policy aims to promote employees' involvement in commendable local social projects. As part of this, the country management team is asked to prepare and submit an annual Community Care plan. To support the appropriate development of these plans, the SKF Group provides instructions for sponsoring and charitable activities. As a basis for the Community Care plan, local management assesses and defines the support that best caters for the local society's needs and contributes to the community's development. Simplified impact assessments are carried out on high level with reference to SKF's Social policy, however the Group works to improve impact assessments on local level by continuous dialogues with country management.

Scope and data compilation
SKF has 70 country organizations (with a country manager). The focus is on operations that are significant, in terms of number of employees, customers or revenues. SKF mainly engages in community care activities through volunteer work, donations, in-kind giving and sponsorship.

- Volunteer work: Paid-working hours to employees for volunteering at approved projects by the local management.
- Donations: One-off or non-repetitive monetary contribution such as fund raising.
- In-kind giving: Contribution with products or services, such as free bearings or free technical services.
- Sponsorship: Periodical monetary contribution to an institution, organization or project/activity.

G4-SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programmes
34 SKF country organisations reported Community Care activities in 2016 and these make up 90% of the Group's global operations in terms of employees. Please refer to page 46 for examples.
In accordance with the UN Guiding Principles on Business and Human Rights and in addition to established initiatives related to the Code of Conduct, SKF has started to conduct Human Rights Impact Assessments in markets where the Group has significant operations. In 2016 the Group completed impact assessments in India on a country level and at several sites. Based on this pilot work method and building on existing auditing and review processes, SKF will conduct similar assessments across the Group during 2017.

Human rights

This includes the aspects non-discrimination, freedom of association and collective bargaining, child labour, forced or compulsory labour, assessment and human rights grievance mechanism.

Boundaries
The requirement to protect salient human rights for people working in the SKF Group and its subsidiaries as well as for suppliers, subcontractors and distributors is defined in SKF's Code of Conduct, and related policies.

Disclosure on management approach
Relevant human rights and related aspects for SKF includes health and safety, non-discrimination, freedom of association and collective bargaining, avoidance of child, forced or compulsory labour and the provision of effective grievance mechanisms. The protection of these rights is managed by the deployment and follow-up processes and procedures of SKF's Code of Conduct. This is a Group policy to which all other policies are subordinate and owned by Group People, Communication and Quality. This function carries out risk-based internal audits on subsidiaries responsible for implementation and performance. All SKF employees are provided with training in the SKF Code of Conduct in ways such as e-learnings, introduction and awareness training and classroom training. Ethics is also included in management training programmes at all levels.

SKF has taken steps to address the specific requirements set out in the UN Guiding Principles on Business and Human rights. The Code of Conduct was updated in 2014 in light of the Guiding Principles. Further work is on-going to update and improve the overall due diligence process around human rights as encouraged by the Guiding Principles.

With reference to the UK modern slavery act 2015, SKF works continuously to ensure that slavery and human trafficking is not taking place in company operations or supply chains. The SKF Code of Conduct and the SKF Code of Conduct for Suppliers and Sub-contractors are policies published by the Group which define required standards of ethical behaviour within SKF's global operations and the Group's suppliers. The policies are based on UN Guiding Principles for Business and Human Rights and external principles and charters such as, ILO Declaration on Fundamental Principles and Rights at Work, OECD Guidelines for Multinational Companies and the UN Global Compact. For more detail and SKF Group's statement in relation to the UK modern slavery act, please refer to SKF.com/care.

G4-HR3 Total number of incidents of discrimination and corrective actions taken
Nine cases related to discrimination or harassment were substantiated. Four of the cases led to verbal or written warnings and two led to people having to leave the company.

In addition, a number of harassment or discriminatory cases were reported which led to training, counseling or coaching on the SKF Code of Conduct.

G4-HR4 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights
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 119 for a description on SKF World Union Council's work related to collective bargaining agreements.

G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour
The issue of child labour is included in both SKF's internal and supplier audits. In 2016, 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 on page 139 in this report.

G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour
The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2016, no cases of forced or bonded labour have been identified.

G4-HR9 Total number and percentage of operations that have been subject to human rights assessments
SKF's units are subject to human rights assessment and due diligence as part of the internal policy audit programme (including the Code of Conduct, Environment, Health and Safety). All SKF's units are subject to audit within a three-year interval using a risk-based approach.

Ethics and compliance

Boundaries
SKF addresses ethics and compliance across the full value chain. Clearly the strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship. However, SKF works to find practical ways to ensure that the issue is addressed further upstream and downstream.

Disclosure on management approach
SKF's Ethics and compliance programmes cover a wide range of areas related to the SKF Code of Conduct as described on page 38 in this report. These statements focus on the aspects as described in GRI G4 guidelines: corruption, anti-competetive behaviour and compliance. SKF 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.

G4-SO4 Communication and training on anti-corruption policies and procedures
All (100%) of SKF's employees have been communicated SKF's Anti-Fraud and Anti-Corruption policy.

In 2016, SKF has trained 16,521 employees (94% of scope) in anti-corruption with a new e-learning which was launched during the year. The training is mandatory for about 17,500 staff employees. Completion rate broken down by region, employee category and governance body members cannot be provided.

G4-SO5 Confirmed incidents of corruption and actions taken
SKF's internal audit department has investigated and closed 17 cases related to fraud and/or corruption during the year, five of which were carried over from 2015. Seven were unsubstantiated. Disciplinary consequences have been taken for ten confirmed cases. Two employees received warning letters and nine employees left the company as a result of the investigations. Investigations are on-going on four cases.

G4-SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes
Please refer to page 56, Risks and uncertainties in the business.

G4-SO8 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations
No significant fines have been paid and no non-monetary sanctions have occurred during the year.

Social grievance mechanisms

Boundaries
This section covers all social grievance mechanisms as SKF works to resolve potential and actual grievances under the SKF Ethics and compliance programme.

Disclosure on management approach
The SKF Ethics and compliance programme covers all topics in SKF's Code of Conduct. Please refer to page 38 for an overview. The SKF Code of Conduct is available in Topics related to Annual Report at skf.com/ar2016.

SKF 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. SKF employees can also raise concerns to a Group-level reporting mechanism. 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. A new reporting line has been recently launched and as awareness of this channel is heightened, it is likely that reported cases will increase.

LA16, HR12, SO11 Number of grievances about labour practices, human rights and impacts on society filed, addressed, and resolved through formal grievance mechanisms
SKF's central functions on ethics and compliance received 211 (160) cases during 2016 – of which 63 (40) were substantiated, investigated and closed. Most of the cases led to training on the topics and people involved. A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved. Please refer to G4-HR3.

In addition to the cases managed by the central functions, many grievances related to ethics and compliance are managed by local SKF units which are not escalated to the Group.

SKF's internal audit function has also investigated misconduct related to fraud and corruption, please refer to cases reported under indicator G4-SO5.

Suppliers

Boundaries
SKF addresses supplier impact on the environment, human rights, labour practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers and uses a risk based approach to focus auditing and other efforts.

Disclosure on management approach
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. In addition to potential suppliers, existing direct material suppliers (making up 90% of spend) in high risk regions are required to undertake an on-site Code of Conduct audit conducted either by SKF specialists or third party auditors. The 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. No such termination was necessary during 2016.

Scope and data collection
In 2016, over 122 audits have been carried out. These include first audits, follow-up audits and third party audits. The most common deviations found are related to health and safety, work hours, compensation and other employment practices. The data reported in these statements are consolidating SKF's finding into GRI's designations.

NOTE: In SKF Annual Report 2015, all deviations found and closed 2012–2015 were reported. In 2016, this report includes audit findings 2016 and the cases which have been escalated the central Responsible Sourcing Committee, most cases are dealt with in the operations with procurement staff, category manager and supplier.

EN32, LA14, HR10, SO9 Percentage of new suppliers that were screened using environmental, human rights, labour and society impact
All new suppliers are screened using these criteria. In 2016, 30 out of 51 potential suppliers to SKF did not pass SKF's criteria to become a supplier, directly related to Code of Conduct risks.

EN33 Significant actual and potential negative environmental impacts in the supply chain and actions taken
In 2016, 21 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to remediate these. Two of these cases have been escalated to Responsible Sourcing Committee.

LA15, HR 11 Significant actual and potential negative labour and human rights impacts in the supply chain and actions taken
In 2016, 181 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. 11 deviations in this category have been escalated to the Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency.

SO10 Significant actual and potential negative impacts on society in the supply chain and actions taken Supplier code of conducts audits
In 2016, no case of significant deviations with negative societal impact has been identified. One case of falsified records has been found and escalated to Responsible Sourcing Committee. This case is not considered to significantly impact society, but is a critical deviation related to business ethics.

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 2016. The annual accounts and consolidated accounts of the company are included on pages 8–35 and 50–117 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, 2016 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, 2016 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.

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.

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 financial statements.

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

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Valuation of intangible assets	
Refer to Note 10 of the consolidated accounts for the related disclosures As of 31 December, 2016 intangible assets amount to SEK 19,568 million for the group. Out of this total, an amount of SEK 11,137 million relate to goodwill and SEK 2,585 million to other intangible assets 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 56 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, 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 assessment 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 1–7, 36–49, 118–139 and 152–157. Other information further includes those documents listed on SKF's website in "Topics related to SKF's annual report". Beyond other information in this document the company publishes a yearly report "SKF in brief 2016" that we expect to have access to after the date of the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of 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 Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. 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 2016 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 fulfil 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 Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Gothenburg, 6 March, 2017
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in Charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant

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 2016 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 *Sustainability Reporting Guidelines* (published by The Global Reporting Initiative, GRI) 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 RevR 6 *Assurance of Sustainability Reports* issued by FAR. 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 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, 6 March, 2017
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 (including members of Group Management) 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. Evaluation of the model used to calculate CO_2 emissions, including the SKF BeyondZero portfolio,
h. Analytical procedures of the information stated in the Sustainability Report,
i. Assessment of the company's declared "in accordance" option according to the GRI guidelines,
j. Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.

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 2016:
- Annual Accounts Act Chapter 6, § 6, section 3 »see page 55.
- Annual Accounts Act Chapter 6, § 6, section 4 »see page 54.

Swedish Code of Corporate Governance
The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July, 2005. The Code has been revised several times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

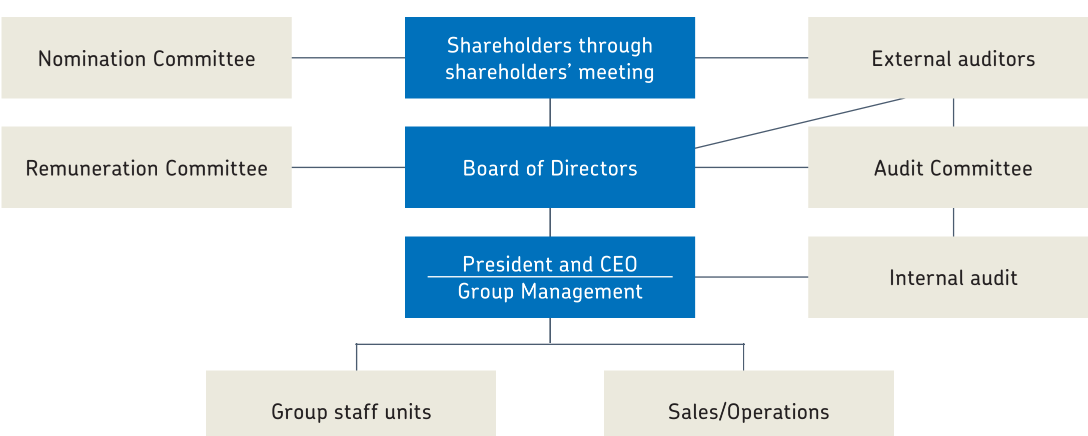
It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2016 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.

Nomination Committee
At the Annual General Meeting of AB SKF held in the spring 2016, 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 2016 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 2017. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 16 September, 2016, 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 2017:
- Marcus Wallenberg, FAM
- Ramsay Brufer, Alecta
- Anders Algotsson, AFA Försäkring
- Anders Jonsson, Skandia

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2017:
- 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 fee to the Auditors
- proposal for Auditor
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2018

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2017.



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, Aerospace, and Business and Product Development. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are four Group staff units; Group Finance and Business Transformation, Group Technology Development, Group Legal and Sustainability and Group People, Communication and Quality, see pages 152–153 in the Annual Report 2016. 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.

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.

Ten Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2016. 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 remuneration of the Board members decided upon by the Annual General Meeting 2016 can be found in the Annual Report 2016, 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	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey	•	•
Jouko Karvinen (resigned March, 2016)	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•
Alrik Danielson		•
Nancy Gougarty	•	•

The Board of Directors as of 31 December, 2016

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 Lena Treschow Torell

Board member since 2007
Born 1946

Education and job experience
Ph.D. (University of Gothenburg). Professor at University of Uppsala and at Chalmers University of Technology. Vice President at Chalmers 1995–1998. Research Director of the Joint Research Centre, European Commission, Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of IVA 2009–2011. Chairman of the European Council of Academies of Applied Sciences and Engineering 2008–2012.

Other assignments
Board member of SAAB AB and Investor AB. Chairman of Chalmers University of Technology.

Shareholding (own and/or held by related parties) 5,000 SKF B

3 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

4 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, Alecta, Nefab 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

5 Joe Loughrey

Board member since 2009
Born 1949

Education and job experience
Bachelor of Science degree in Economics and African Studies (University of Notre Dame). Several managerial and executive positions within Cummins over 35 years, the last as vice Chairman of the Cummins Inc. Board 2008–2009, President and Chief Operating Officer of Cummins Inc. 2005–2008 and President of Cummins Engine Business 1999–2005.

Other assignments
Chairman of the board of Hillenbrand Inc., of Oxfam America and of the Lumina Foundation for education. Member of the board of the Vanguard Group, Hyster-Yale Materials Handling Inc. and The V Foundation for Cancer Research. Member (previous chairman 2009–2012) of the Advisory Council of the College of Arts and Letters and Chair of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.

Shareholding (own and/or held by related parties) 10,000 SKF B

6 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

7 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

8 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, Mjärdevi Science Park AB and Vricon Systems AB.

Shareholding (own and/or held by related parties) 1,000 SKF B

9 Alrik Danielson

President and Chief Executive Officer of AB SKF

For more details, see page 153.

10 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

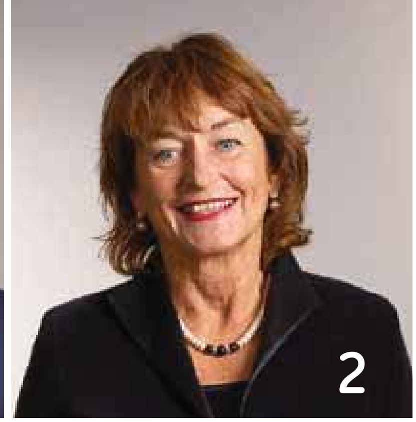
Auditors

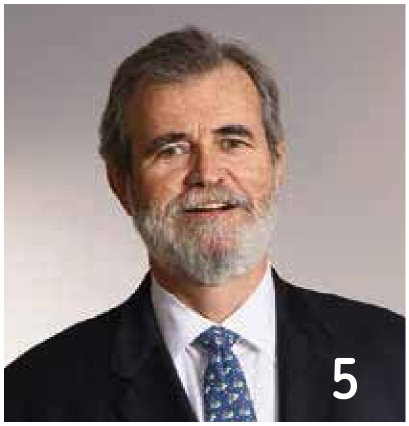
Peter Clemedtson

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
2nd vice Chairman Unionen, SKF, Gothenburg

Shareholding (own and/or held by related parties) 0

Activities of the Board of Directors
The Board held eight meetings in 2016. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	7/8
Lena Treschow Torell	6/8
Peter Grafoner	7/8
Lars Wedenborn	8/8
Joe Loughrey	8/8
Jouko Karvinen (resigned March, 2016)	1/8
Baba Kalyani	7/8
Hock Goh	7/8
Marie Bredberg	8/8
Alrik Danielson	8/8
Nancy Gougarty	7/8
Jonny Hilbert	8/8
Zarko Djurovic	7/8
Kennet Carlsson	8/8
Virpi Ring (left March, 2016)	3/8
Claes Palm (appointed April, 2016)	5/8

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 2016 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.

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 and Lars Wedenborn.

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 2016. 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
Jouko Karvinen (left March, 2016)	1/2

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 member Marie Bredberg.

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 2016. 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

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.

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): 20,000 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

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 2013, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2017. 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 2016 been involved in matters besides the audit and audit services other than the audit assignment for 2016. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2016 amount to SEK 13 million.

Financial reporting

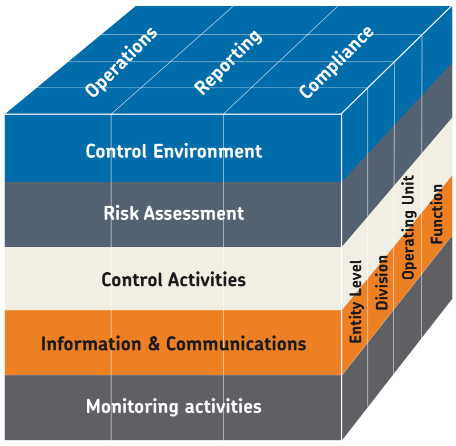
The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

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 2016 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with four Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. In 2016 SKF updated the review of the internal control framework performed in 2015 to ensure alignment with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:



The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year. These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 6 March, 2017
The Board of Directors

Auditor’s report on the Corporate Governance Report

To the general meeting of the shareholders in AB SKF (publ), corporate identity number 556007-3495.

Engagement and responsibility
It is the board of directors who is responsible for the corporate governance statement for the year 2016 on pages 144–150 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit
Our examination has been conducted in accordance with FAR’s auditing standard RevU 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions
A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Gothenburg, 6 March, 2017
PricewaterhouseCoopers AB

Signature on Swedish original

Peter Clemedtson
Auditor in charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant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Group Management as of 31 December, 2016

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 within SKF
President, SKF Industrial Division and several other positions.

Board member
Association of Swedish Engineering Industries

Shareholding in SKF
20,000 SKF B

2 Christian Johansson

Chief Financial Officer and Senior Vice President
Born 1963

Bachelor of Science in Business Administration, Stockholm University INSEAD (Fontainbleau, France).
Employed since 2015

Shareholding in SKF
3,000 SKF B

3 Stéphane Le Mounier

President, Automotive and Aerospace
Born 1965

Degree in Mechanical Engineering, Remiremont Technical College, France, Masters degree in International Sales and Marketing, ESV, University of Haute Alsace, France and Post-Graduate diploma in Finance and Controlling, ESSEC, Paris, France.
Employed since 1988

Previous positions within SKF
Director Business Unit Aerospace and several other positions.

Shareholding in SKF
1,932 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 within SKF
President and CEO SKF USA Inc and several other positions.

Shareholding in SKF
0 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 within SKF
Vice President, SKF Industrial Market, President SKF China, Business Unit Director SKF Aerospace, and several other positions.

Shareholding in SKF
3,854 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 within SKF
President Specialty Business, President SKF Second Brands Bearings, as well as several other positions.

Shareholding in SKF
2,361 SKF B

7 Luc Graux

President, Bearing Operations
Born 1963

Master of Business Administration, University of Houston, USA, Master of Science in Mechanical Engineering, University of Houston, USA and Bachelor of Science in Mechanical Engineering, University of Compiegne, France.
Employed since 1991 and 1987–1989

Previous positions within SKF
Director Manufacturing and Product Lines and several other positions.

Shareholding in SKF
840 SKF B

8 Victoria Van Camp

President, Business and Product Development
Born 1966

Master of Science in Mechanical Engineering, PhD in Machine Elements; Luleå University of Technology, Sweden.
Employed since 1996

Previous positions within SKF
Director Industrial Market Technology and Solutions, Director of Product Innovation Lubrication BU, as well as several other positions.

Board member
PREERA

Shareholding in SKF
0 SKF B

9 Bernd Stephan

Senior Vice President, Technology
Born 1956

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

Previous positions within SKF
Director Business Unit Renewable Energy and several other positions.

Shareholding in SKF
1,746 SKF B

10 Carina Bergfelt

General Counsel and Senior Vice President, Legal and Sustainability
Born 1960

Master of Law, Lund University.
Employed since 1990

Previous positions within SKF
Legal Counsel, Secretary to the Board since 1996.

Board member
The Association of Exchange listed Companies.

Shareholding in SKF
3,868 SKF B

11 Kent Viitanen

Senior Vice President, People, Communication and Quality
Born 1965

Business and Economics, School of Business, Economics and Law, University of Gothenburg.
Employed since 1988

Previous positions within SKF
Director Renewable Energy and several other positions.

Board member
Chalmers University of Technology and Gothenburg University School of Executive Education.

Shareholding in SKF
140 SKF A and 2,975 SKF B

Seven-year review – SKF Group

SEKm unless otherwise stated	2016	2015	2014	2013	2012[2]	2011	2010
Income statements							
Net sales	72,787	75,997	70,975	63,597	64,575	66,216	61,029
Operating expenses incl. associated comp.	–65,260	–69,029	–63,174	–59,904	–57,261	–56,604	–52,577
Operating profit	7,527	6,968	7,801	3,693	7,314	9,612	8,452
One-time items in operating profit	–17	–1,687	–490	–3,875	–440	–100	–190
Operating profit excl. one-time items	7,544	8,655	8,291	7,568	7,754	9,712	8,642
Financial income and expense, net	–788	–1,134	–1,133	–872	–906	–680	–903
Profit before taxes	6,739	5,834	6,668	2,821	6,408	8,932	7,549
Taxes	–2,530	–1,760	–1,918	–1,777	–1,592	–2,708	–2,253
Net profit	4,209	4,074	4,750	1,044	4,816	6,224	5,296
Balance sheets							
Intangible assets	19,568	21,485	22,138	19,023	9,800	10,157	10,194
Deferred tax assets	3,806	3,185	3,350	2,015	1,835	1,299	1,151
Property, plant and equipment	15,746	15,303	15,482	14,095	13,086	13,076	12,922
Non-current financial and other assets	1,688	1,607	1,862	1,276	1,188	1,494	1,411
Inventories	15,418	14,519	15,066	13,700	12,856	14,191	12,879
Trade receivables	13,462	11,777	12,595	11,189	10,084	10,713	9,859
Other current assets	14,219	11,857	11,146	9,693	11,908	8,444	5,985
Total assets	**83,907**	**79,733**	**81,639**	**70,991**	**60,757**	**59,374**	**54,401**
Equity	27,683	26,282	24,404	21,152	22,468	22,455	19,894
Provisions for post employment benefits	13,945	13,062	13,978	9,902	9,881	8,634	7,093
Deferred tax provisions	1,380	1,373	1,717	2,207	481	938	1,309
Other provisions	2,224	2,095	2,083	5,011	1,676	1,836	2,162
Financial liabilities	23,650	23,825	26,105	21,344	15,675	13,613	12,175
Trade payables	7,100	5,671	5,938	4,740	4,189	4,698	4,476
Other liabilities	7,925	7,425	7,414	6,635	6,387	7,200	7,292
Total equity and liabilities	**83,907**	**79,733**	**81,639**	**70,991**	**60,757**	**59,374**	**54,401**
Key figures[1] (in percentages unless otherwise stated)							
Operating margin	10.3	9.2	11.0	5.8	11.3	14.5	13.8
Operating margin excl. one-time items	10.4	11.4	11.7	11.9	12.0	14.7	14.2
EBITA, SEKm	8,016	7,522	8,289	3,998	7,552	9,860	8,602
EBITDA, SEKm	9,895	9,826	10,192	5,586	9,145	11,402	10,444
Return on capital employed	11.9	10.9	13.9	7.5	16.2	23.6	24.0
Return on equity	16.5	15.7	21.4	4.6	21.6	29.7	28.4
Net working capital, % of sales	29.9	27.1	30.6	31.7	29.0	30.5	29.9
Net debt/equity	84.4	99.9	126.6	117.3	72.5	72.3	80.2
Turnover of total assets, times	0.89	0.92	0.95	0.97	1.07	1.16	1.19
Gearing	55.3	56.7	60.5	59.2	52.8	48.9	48.6
Equity/assets	33.0	33.0	29.9	29.8	37.0	37.8	36.6
Net cash flow after investments before financing, SEKm	7,717	6,416	2,137	–5,390	3,045	3,974	–2,782
Investments and employees							
Additions to property, plant and equipment, SEKm	1,869	2,063	1,852	1,746	1,968	1,839	1,651
Research and development expenses, SEKm	2,246	2,372	2,078	1,840	1,607	1,481	1,184
Patents – number of first filings, SEKm	191	461	488	468	421	325	251
Average number of employees	43,508	44,305	46,509	45,220	44,168	42,886	40,206
Number of employees registered at 31 December	44,868	46,635	48,593	48,401	46,775	46,039	44,742

1) See page 156 for definitions. SKF has applied the new 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/.
2) 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules.

Three-year review[1)]

SEKm unless otherwise stated	2016	2015	2014
Industrial			
Net sales	50,756	54,132	51,226
Operating profit	6,103	6,229	7,191
Operating margin	12.0	11.5	14.0
Assets and liabilities, net	39,352	40,987	42,776
Registered number of employees	36,306	37,659	39,363
Automotive			
Net sales	22,005	21,842	19,716
Operating profit	1,424	739	610
Operating margin	6.5	3.4	3.1
Assets and liabilities, net	9,337	8,977	9,323
Registered number of employees	7,060	7,506	7,965

1) Previously published amounts have been restated to conform to the current Group structure. For more information refer to Note 2 in the consolidated financial statements

Per-share data[1)]

SEK per share unless otherwise stated	2016	2015	2014	2013	2012[3)]	2011	2010
Earnings per share	8.75	8.52	10.10	2.0	10.23	13.29	11.28
Dividend per A and B share	5.50[2)]	5.50	5.50	5.50	5.50	5.50	5.00
Total dividends, SEKm	2,504	2,504	2,504	2,504	2,504	2,277	1,594
Purchase price of B shares at year-end on NASDAQ Stockholm	167.6	137.2	164.9	168.7	163.2	145.60	191.60
Equity per share	57	54	51	44	47	47	42
Yield in percent (B)	3.3[2)]	4.0	3.3	3.3	3.4	3.8	2.6
P/E ratio, B (share price/earnings per share)	19.2	16.1	16.3	84.2	16.0	11.0	17.0
Cash flow from operations, per share	15.7	17.0	10.5	11.6	12.5	12.4	12.3
Cash flow, after investments and before financing, per share	16.95	14.09	4.69	–11.84	6.69	8.73	–6.11

1) See page 156 for definitions.
2) According to the Board's proposal for the year 2016.
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	53,278	83.2	15,330,356	3.4
1,001–10,000	9,472	14.8	26,131,577	5.7
10,001–100,000	953	1.5	27,436,153	6.0
100,001–	323	0.5	386,452,982	84.9
	64,026	**100**	**455,351,068**	**100**

Source: Holdings, Modular Finance as of 31 December, 2016.

Definitions

Average number of employees
Total number of working hours of all employees, divided by the normal total working time over the year.

Basic earnings/loss per share in SEK
Profit/loss after taxes less non-controlling interests divided by the ordinary number of shares.

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

Debt
Loans and net provisions for post-employment benefits.

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

Equity per share
Equity excluding non-controlling interests divided by the ordinary number of 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 at year-end.

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

Net debt
Debt less short-term financial assets excluding derivatives.

Net debt/equity
Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year-end.

Net working capital as % of annual sales
Trade receivables plus inventory minus trade payables as a percent of a 12-month rolling net sales.

One-time items
Significant income/expense that effects comparability between accounting periods. This includes, but is not limited to, restructuring costs, impairments and write-offs, currency exchange rate effects caused by devaluation and gains and losses on divestments of businesses and assets.

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

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

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

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

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 year-end.

Return on capital employed
Operating profit/loss plus interest income, as a percentage of 12-month rolling average of total assets less the average of non-interest bearing liabilities.

Return on equity
Profit/loss after taxes as a percentage of 12-month rolling average of equity.

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 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 5% above the risk-free interest rate.

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General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Wednesday, 29 March, 2017. 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 Thursday, 23 March, 2017, and must notify the company at the latest by Thursday, 23 March, 2017 via the internet, www.skf.com, or by letter to:

AB SKF
c/o Computershare AB, "AB SKFs årsstämma 2017"
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 Thursday, 23 March, 2017. 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 2016. 31 March, 2017 is proposed as the record date for shareholders to be entitled to receive dividends for 2016. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Wednesday, 5 April, 2017.

Financial information and reporting

Publishing dates for financial reports in 2017:

Year-end report 2016	2 February
Annual Report 2016	7 March
First-quarter report 2017	27 April
Half-year report 2017	21 July
Nine-month report 2017	31 October

The reports are available in Swedish and English on 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.

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