

SKF



Annual Report 2014

Financial, environmental and social performance



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Key data

	2014	2013
Net sales, SEKm	70,975	63,597
Operating profit, SEKm	7,801	3,693
Profit before taxes, SEKm	6,668	2,821
Basic earnings per share, SEKm	10.10	2.00
Dividend per share, SEK	5.50¹⁾	5.50
Cash flow after investments before financing, SEKm	1,868	-5,342
Return on capital employed, %	13.9	7.5
Equity/assets ratio, %	29.9	29.8
Additions to tangible assets, SEKm	1,852	1,746
Registered number of employees, Dec 31	48,593	48,401
Average number of employees	46,509	45,220
SKF BeyondZero portfolio revenue, SEKm	5,493	3,324

Number of shares 31 December 2014: 455,351,068,
of which 37,649,081 A shares and 417,701,987 B shares.

1) Dividend according to the Board's proposed distribution of surplus.



Mobile devices and SKF's apps allow for real-time overviews of a manufacturing channel and its maintenance needs.

Cecilia Lack, factory line manager in Gothenburg, and her team can now easily get a full overview of action required and also how maintenance should be carried out most effectively.

Topics related to SKF's annual report

The following topics can be found under Reports and presentations at [skf.com / Investors](http://skf.com/Investors)

- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Carbon dioxide emission data*
- Environmental performance data*
- Manufacturing and other units, Jan 2015
- The compliance table to GRI G4 Guidelines, GRI Index Table*
- SKF Care – Policies and practices*
- SKF Risk matrix*

* Documents reviewed by PwC.

The SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems.

Increased mobility in sales and manufacturing.

All information in files, computers and other documentation, can now be included in one mobile device.



SKF can offer solutions more quickly to its customers by using mobile devices through which they can document, standardize and process the information instantly.

Around 3,500 sales staff and application engineers are equipped with mobile devices. The average productivity has risen by around 10%.

Vision

To equip the world with SKF knowledge

Mission

To strengthen SKF's global leadership and sustain profitable growth by being the preferred company:

- for our customers, distributors and suppliers
- for our employees
- for our shareholders

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

This is SKF



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.

SKF Care guides how the Group operates, see page 11

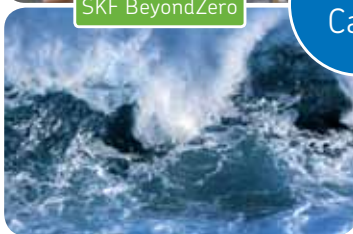
Business Care



Employee Care



SKF
Care



Environmental Care



Community Care

Founded in 1907

SKF was founded in 1907 and rapidly grew to become a global company. As early as the 1920s, the company was well-established in all five continents. SKF is present in nearly all industries, including cars and light trucks, marine, aerospace, renewable energy, railway, metal, machine tool, medical and food and beverage.

Five technology platforms

SKF groups its core technologies on five platforms: Bearings and Units, Seals, Mechatronics, Services, and Lubrication Systems. By utilizing capabilities from all or some of the platforms, the company develops tailor-made offers for each industry, helping customers improve performance, reduce energy use and lower total costs. SKF works with its customers at every stage in the asset life cycle, providing solutions from design right through to maintenance and back to design upgrades.



Sales and manufacturing

SKF is represented in over 130 countries through its own sales companies and over 15,000 distributor locations. The company has around 120* manufacturing units in 29 countries.

Global certification

The Group has global certification to ISO 14001 (environmental management system), ISO 50001 (energy management) and OHSAS 18001 (health and safety) standards. Its operations are also certified

to either ISO 9001 or applicable customer industry standards, e.g. ISO/TS 16949 (automotive), AS9100 (aviation) or IRIS (railway) for quality management systems.

Research and development

The Group's investment in research and development has resulted in numerous innovations, new standards, products, solutions and services. In 2014, SKF recorded 646 (650) invention disclosures and successfully registered 488 (468) first filings of patent applications.

SKF BeyondZero

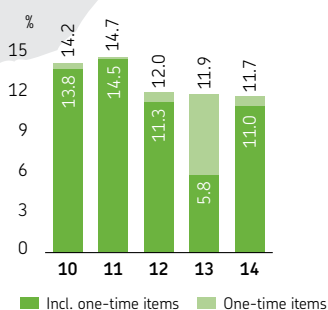
SKF's environmental strategy – SKF BeyondZero – is an integral part of SKF Care and its objective is to create a positive impact on the environment. This is done both by reducing the environmental impact from SKF's own operations, its suppliers and logistics and by providing customers with products and solutions offering superior environmental performance.

* Units with over 20 employees are included.
Structure 1 January 2015

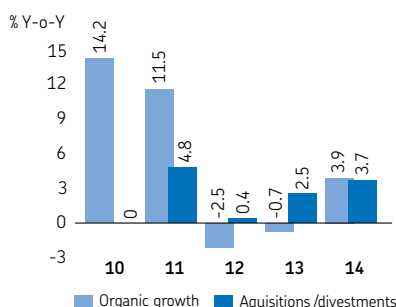
SKF's financial targets

SKF's financial targets are to achieve an operating margin of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 20%. These results shall be obtained by conducting SKF business in accordance with the principles defined by SKF Care.

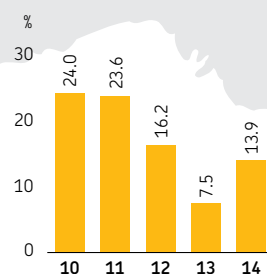
Operating margin



Changes in sales in local currency



Return on capital employed



2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

2014 – a year of change!



Tom Johnstone, President and CEO

The macro environment lacked traction in most regions during 2014. We experienced weak growth and geo-political developments in Europe and a weaker development in many Asian countries and in Latin America. It was North America which showed the most improved macro development as expected.

The overall market demand had an effect on SKF's sales which grew organically by 3.9% in local currencies, weakening as the year progressed and with a very different picture from each of the regions. The strongest growth was in Asia which grew over 8%. From an industry viewpoint our strongest growth in the year was in aerospace, renewable energy and railway in the industrial market and in our automotive business particularly in Asia.

The development and integration of Blohm + Voss Industries (BVI) and Kaydon Corporation, both acquired in 2013, went very well and are on the targets we set when we acquired the companies. BVI has strengthened our presence in the marine industry and particularly in the service business. The tough integration targets for cost and sales synergies we expected from Kaydon have been fully met and we gained a major order from a leading North American turbine manufacturer for supply in both North America and Brazil. As a result we are investing in a new building on our Cajamar campus in Brazil to locally manufacture these products.

The SKF Group delivered a very good operational cash flow of almost 4.7 BSEK driven by a strong focus on reducing net working capital and a strong control on investments. Capital efficiency is one of our key priorities and SKF has launched specific programmes to address each of the key elements of net working capital – inventory, accounts receivables and accounts payables – and we are starting to see the benefits. Net working capital was reduced to 30.6% from 31.7% a year ago.

Operating profit, excluding one-time items, improved almost 10% during the year giving an operating margin of 11.7%. Earnings per share increased to 10.10 SEK.

Based on both the operational performance and the outlook for the Group the SKF Board has decided to

propose to the shareholders a dividend of 5.50 SEK per share to be decided on at the Annual Shareholders Meeting in March, 2015.

Again in 2014, SKF took further steps along the journey towards sustainability in our own activities and operations, and those of our suppliers. As in previous years, this progress has been driven by SKF Care and SKF BeyondZero and is reflected in our continued commitment to global initiatives such as the 10 principles of sustainable business development set out in the UN Global Compact.

2014 – driving our priorities and starting to see the results

The activities and steps we took during the year are based on the four priorities we have to develop our business. These priorities are built around SKF Care – our strategy for sustainability. This Annual Report is also built around SKF Care and the four dimensions of Business Care, Environmental Care, Employee Care and Community Care.

The four priorities are explained in more detail later in this report but in summary they are

- Sustainable profitable growth
- Investments and innovation
- Cost reduction
- Capital efficiency

As you go through the report you will see many examples of the steps we have taken to drive these priorities but let me highlight a few:

We gained a lot of new business during the year. Some examples:

- In aerospace SKF will be the main supplier of main-shaft and gearbox bearings for the new LEAP engine developed by CFM International.
- Within automotive SKF gained the wheel bearing business for the Tesla Model S adding to the existing business and making SKF their main supplier
- SKF is the sole wheel bearing supplier to the new SPA platform for Volvo Cars. The first vehicle from this platform is the new Volvo XC 90 with deliveries starting in 2015
- SKF gained a major order in China for locomotive bearings with a leading Chinese locomotive manufacturer

... and you can read about many more orders in the report.

We acquired two small service companies during the year – GLOi in Sweden and Hofmann Engineering in Canada. Both bring specific expertise to strengthen our service offering.

We continued to step up our investment in technology and to bring this even closer to our customers. The work to build up our Global Technical Centre in Europe continued during the year. The number of patents registered by SKF increased to 488 during the year – a clear sign that our investment in technology is starting to yield results in the development of our products. Now we need to ensure we benefit from these with our customers.

Two new SKF Solution Factories were opened during the year bringing the total number to 29 worldwide. This network enables us to better support our customers and distributors by bringing knowledge, remanufacturing and customization of products closer to them

Manufacturing in China of industrial bearings is being expanded, particularly in Dalian, in both the medium bearing and the large size bearing factory. In addition the manufacturing of super-precision bearings for machine tools has started at Pinghu.

The SKF Campus in Jiading, Shanghai was inaugurated during the year. The Campus hosts the Global Technical Centre, SKF Solution Factory, SKF College and an automotive factory manufacturing hub bearing units.

The North East Asian Distribution Centre in Shanghai's Free Trade Zone was opened enabling us to service our customers in China more quickly and easily. It is built according to the LEED global standard and has a solar power generation system to reduce CO₂ emissions.

The expansion of the lubrication factory in Chodov, Czech Republic was completed. It is the first SKF manufacturing facility to receive LEED platinum certification, reducing energy and water consumption by some 50% compared to conventional factories.

Our Documented Solutions Program (DSP) registers how much we save our customers using SKF knowledge – products, solutions and services and is a key part in proving the value we deliver to our customers. In 2014 our customer approved savings were over 4.0 BSEK bringing the total savings to over 31 BSEK since the programme started eleven years ago.

The SKF BeyondZero portfolio was expanded during the year by the addition of 14 solutions. Sales increased by 65% to 5.5 BSEK. These solutions help make our customers' products and operations more environmentally sustainable by for example reducing energy use or water usage. These solutions also support the development of renewable energy. You can read more about these later in the Annual Report.

The major work regarding our new IT system – UNITE – continued and the first sales unit release was made. As expected with a new system we have experienced a number of challenges. As a result we have revisited the roll out plan with the next pilot being put back until early 2016.

Our focus on cost reduction continued during the year particularly within the purchasing area. The new organization which was put in place in 2013 made great progress during the year and purchasing cost was reduced further. In addition there is a strong focus on regionalizing the supply base and today some 85% of our direct material supplies are made within the regions in which they are used. Our target is to increase this to around 95% within a couple of years.

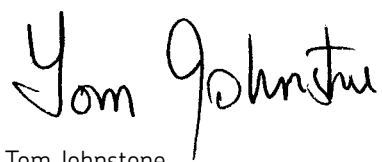
SKF continued to invest in new smart technology. This will be the basis for the next industrial revolution making our operations and our sales processes more effective and efficient. It will also be one of the activities to tackle one of the key concerns from our employees of stress in the workplace. By developing specific apps we are able to get information and knowledge to our employees more effectively and efficiently. Over 8,000 smart devices are presently in use at SKF and our Gothenburg factory has piloted this technology with excellent results. During the year we also launched a number of activities with our customers using SKF apps built specifically on data collection. Today we have 45 apps and more than 530, 000 downloads and updates. I am very pleased that Apple Inc chose to highlight the work SKF does in this area through a number of videos on their website. This shows we are on the right track. The acquisition of GLOi further strengthens our expertise in this area.

2014 – my final year as President and CEO

Despite the rather difficult macro environment SKF developed positively in 2014 taking further steps to implement our priorities and to invest in the future. 2014 was also the last year in which I was the company's President & CEO. For me it has been a fantastic honour to have been in this position for over eleven years. I am very proud of the development we made in this period but this would not have been possible without the support of our shareholders, of our customers, distributors and suppliers and the guidance and support from the SKF Board. However in particular it would not have been possible without the drive and commitment of all the SKF employees around the world. For that I give to all of you my SINCERE THANKS.

I am delighted that the Board has chosen Alrik Danielson as my successor. His tremendous knowledge and experience at SKF, and also from his ten years outside the Group, makes him well placed to lead SKF forward.

I thank you all once again and wish you continued success.



Tom Johnstone

Alrik Danielson – President and CEO as of January 2015

I am very proud and happy to return to SKF and to continue building on the Group's positive developments over the past decade.

I basically grew up in the company and it feels like coming home. Between 1987 and 2005 I worked my way up through the ranks, first in finance and business controlling, later in sales and finally in manufacturing and general management, mostly outside Sweden, both in the automotive, service and industrial markets. My last position at the Group was as President of the Industrial Division. Based on my previous experience I know that SKF is a fantastic company.

There are so many opportunities for SKF to be successful with the vast range of expertise that we have within the Group. Our products and services can be applied everywhere, in all conceivable applications and industries around the world. It is a fantastic industry.

Our most important mission is to deliver superior value to customers in the most cost-effective way possible. It starts with focusing on the customer application and really working throughout the whole value chain in order to offer the best functionality and technologies to make our customers' products and/or processes perform even better. Technology, both in our products and services as well as in our own processes, will continue to be the key to success going forward. In order to do this we started by creating a simplified organizational structure, reducing seven staff functions to four, and created a single industrial market business area, by combining the two Industrial business areas, Strategic Industries plus Regional Sales and Service. We also launched a review of the automotive business to strengthen its profitability and competitiveness.

I would like to thank Tom for his fantastic support during this transitional period and I am looking forward to some very exciting years ahead.



Alrik Danielson





See pages 208–209, SKF's global campaign.

Administration Report

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Reporting approach and scope

The SKF Annual Report 2014 covers the reporting period 1 January to 31 December 2014, if no other information is given. Within the framework of SKF Care, the Group strives towards a fully integrated approach to the many challenges and opportunities presented by sustainability in its broadest sense. As the resulting actions and initiatives are integrated into normal business operations, most are reported in the Business Care section. However, certain aspects which can be better explained under the specific headings of Environmental, Employee and Community Care can be found in these sections.

Annual Report

The SKF Annual Report 2014, financial, environmental and social performance, follows Global Reporting Initiative's (GRI) guidelines and, as for previous years, the GRI compliance table and other more detailed information are available at skf.com together with the report (topics related to SKF's Annual Report). SKF has applied the GRI reporting guidelines to its annual sustainability reporting since 2000.

SKF has been publically reporting sustainability information since 1994. Initially, the information was provided in an entirely separate report, which from 1998 was submitted for third party auditing. From 2002, the Annual Report also included environmental and social information in a separate section which was subject for third party review in accordance with FAR's (the institute for the accounting profession in Sweden) requirements for limited assurance.

In 2011, to better reflect how the business operates, SKF combined financial, environmental and social performance into one single report. In 2013, the reporting approach further

evolved when the Administration Report (including financial, environmental and social aspects) was submitted to the Group's external auditors to achieve reasonable assurance according to ISA and the ISAE 3000 international assurance engagement standard.

With reference to GRI G4, the SKF Annual Report 2014 is prepared in accordance with the Core level, which is confirmed by the external auditors.

Actual environmental and social performance data can be found in the statements, see pages 175–181. A comprehensive overview of SKF's approach to material aspects is included in the document SKF Care – Policies and practices, which can be found at skf.com.

Corporate Governance Report

SKF has chosen to prepare its Corporate Governance Report separately from the Administration Report. See pages 185–193.

SKF's markets

SKF's main addressable markets from a product, solutions and services perspective are described on page 101–107. This covers bearings, products for linear and actuation and motion control, polymer seals, lubrication systems, products for mechanical power transmission and products and services for asset efficiency.



Bearings market



*Linear and actuation
and motion control
market*



*Polymer seals
market*



*Lubrication systems
market*



*Mechanical power
transmission
market*



*Asset Efficiency
Optimization
market*

SKF Care

In this report the Group's financial, environmental and social performances is presented and discussed in a fully integrated format under the four dimensions of SKF Care, the SKF approach to sustainability. The four dimensions are: Business Care, Environmental Care, Employee Care and Community Care. The principles of SKF Care guide how the Group operates.

Business Care



Employee Care



SKF
Care

Environmental Care

Business Care is built on a clear and dedicated customer focus and on delivering a strong, sustainable, financial performance and the right returns for shareholders. These results should be achieved in accordance with the highest standards of ethical behaviour.

Environmental Care focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment. SKF takes specific actions to reduce the impact from its own operations and those of its suppliers and combines this with actions to significantly improve customers' environmental

performance by offering products, solutions and services that have been verified to significantly improve energy efficiency and reduce the environmental impact. These products, solutions and services form the SKF BeyondZero portfolio.

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

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

Stakeholders, material issues and external drivers

Stakeholders

In the normal course of business, and over many years, SKF has worked in different ways to interact with key stakeholder groups, defined by the company as customers, investors, suppliers, employee representatives and representatives from wider society. This allows SKF to better understand different stakeholder perspectives and concerns. Listed below are some examples of how SKF conducts these engagements with various important stakeholders.

Customers

Customer input is sought and received via the sales and marketing operations and activities which the Group carries out – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. In addition, extensive customer perception surveys are carried out regularly, or as requested by SKF's business areas. The input received helps the company to continually improve customer value.

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. The agreements and conclusions from these meetings are acted upon and followed up. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report pages 185–192. In addition, SKF carries out an employee feedback survey in the SKF Working Climate Process (WCP), around every 18 months. The findings from the WCP are used to drive improvements in the working climate and



performance at all levels of 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 develop the company's thinking and approach on many issues. SKF has established working relationships with certain nongovernmental organizations (NGOs) such as the World Wide Fund for Nature (WWF). SKF invites feedback and input from these NGOs about issues such as climate change and other 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 to assure 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.

Specific surveys and interviews in 2014

In accordance with the GRI G4 reporting requirements and in addition to the well-established processes described above, SKF undertook specific surveys and interviews in 2014 with a selection of individuals from

main stakeholder groups. These provided confirmation and further understanding of potentially important aspects for the Group.

The individuals selected represented stakeholders including major strategic customers, employee representatives from staff and union organizations, investors and analysts and representatives from local communities. These individuals were asked to provide qualitative and quantitative feedback on a list of potentially material aspects. This information was gathered through specific on-line surveys, direct discussions with customers and via telephone interviews conducted by a third party. Input from the supplier perspective was collected over the year via audits, training and other interaction carried out in the normal course of business.

Material issues

Having gathered stakeholder input in the various ways described above, the key material issues for SKF have been established by combining this with input from senior representatives from the Business Areas and Group staff functions. This has been further verified with Group management.

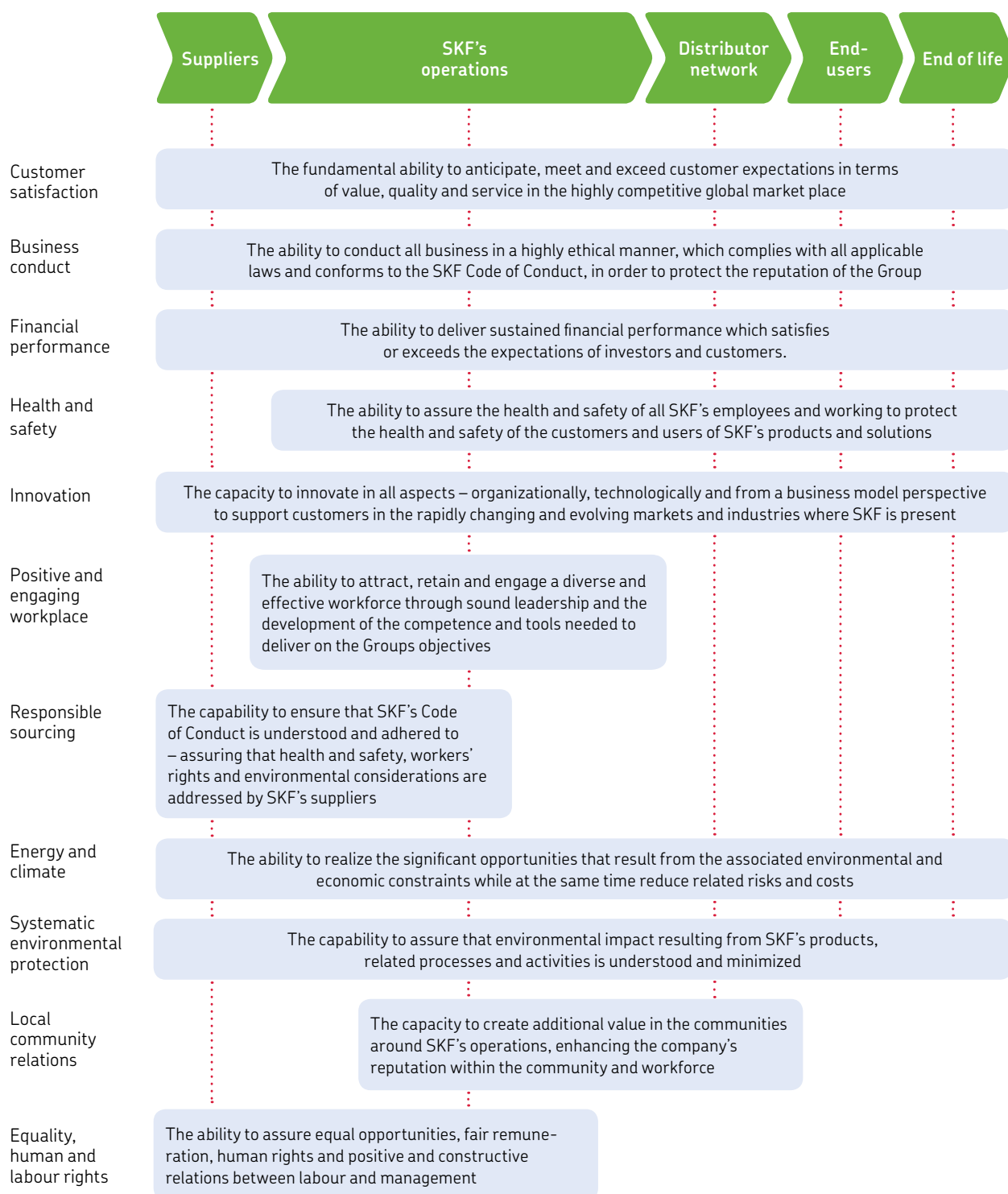
The result of this work is a list of eleven material issues presented on the following pages. Please refer to page 181 in the Social statements for detailed results per stakeholder group on material issues.

Material issues for SKF along the value chain

The material issues and how they relate to the SKF value chain are presented on the next page.

Most of the issues include one or more aspects as defined by the GRI G4 guidelines. Please refer to the GRI G4 Index table in Topics Related to Annual Report for a translation of SKF issues to the GRI G4 aspects.

Material issues over SKF's value chain



External drivers and trends

SKF's strategy is developed and refined through an understanding of the external drivers and trends which impact, or have the potential to impact, the many markets, regions and industries in which the Group operates. SKF's business is highly diversified from a regional and industry perspective. Specific analysis of these drivers and SKF's approach is only possible at the industry level. This information is provided in the detailed industry information provided on pages 33–60 of this report.

A high level overview of the main material external drivers and trends of relevance to SKF can be found in the table below.

Driver	Impact	SKF's approach
Globalization	Shifts economic activity between the regions of the world – leading to changes in customer needs in the different regions and new opportunities to develop suppliers and business partners.	Strengthening sales and marketing activities and bringing industry expertise close to customers. Establishing R&D in each major region and sales and engineering support close to customers. Balancing SKF's overall manufacturing footprint to best support the Group's customers around the world. Centralizing SKF's global purchasing and establishing a global and regional supplier structure.
Global population growth and increasing wealth per capita	Creates demand for innovative products and solutions that help deliver efficiency gains in the full product life cycle, as the world needs to do more with less.	Applying knowledge engineering to improve customer efficiency in every sense; <ul style="list-style-type: none"> • Asset efficiency • Energy efficiency • Resource efficiency
Urbanization	Increases the need of infrastructure such as transportation, energy etc.	Supporting customers in transport sectors, energy and other related industries.
Environmental constraints	Creates growth potential for engineering solutions which help reduce environmental impact across all sectors.	SKF BeyondZero strategy – investing to develop customer solutions that help address this driver while at the same time improving efficiency and reducing environmental impact along SKF's supply chain.
Smart systems	Increases demand for integrated, intelligent systems in all industries coupled with rapid technological innovation in this area – leads to business potential.	Bringing new capabilities and value to SKF's customers by investing in the development and integration of electronic solutions and software. Developing app platforms that enhance customer connectivity and support.

Principles and charters

For many years, SKF has endorsed or subscribed to a number of internationally recognized principles, charters and guidelines which promote sustainable, ethical business practices.



- **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. As required by the ICC Charter, SKF applies a precautionary approach to the provision and calculation of products and services. This means that any technical claim made by SKF regarding product or operational performance shall be based on conservative assumptions.



- **The Organisation for Economic Co-operation and Development (OECD)** has the mission to promote policies that will improve the economic and social well-being 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.

WWF Partnership

SKF's climate strategy was recognized by the WWF as being best in class in its industry when the world leading environmental group included SKF in their Climate Savers programme in May 2012.

The WWF Climate Savers programme is a global leadership platform transforming business and industry by finding companies who are prepared to take the lead on climate and energy solutions. The member companies set sector-leading targets accepted by the WWF for greenhouse gas reduction in their own operations and work with other companies and partners to implement innovative solutions for a clean, low carbon economy. SKF's achievements are annually monitored and verified by

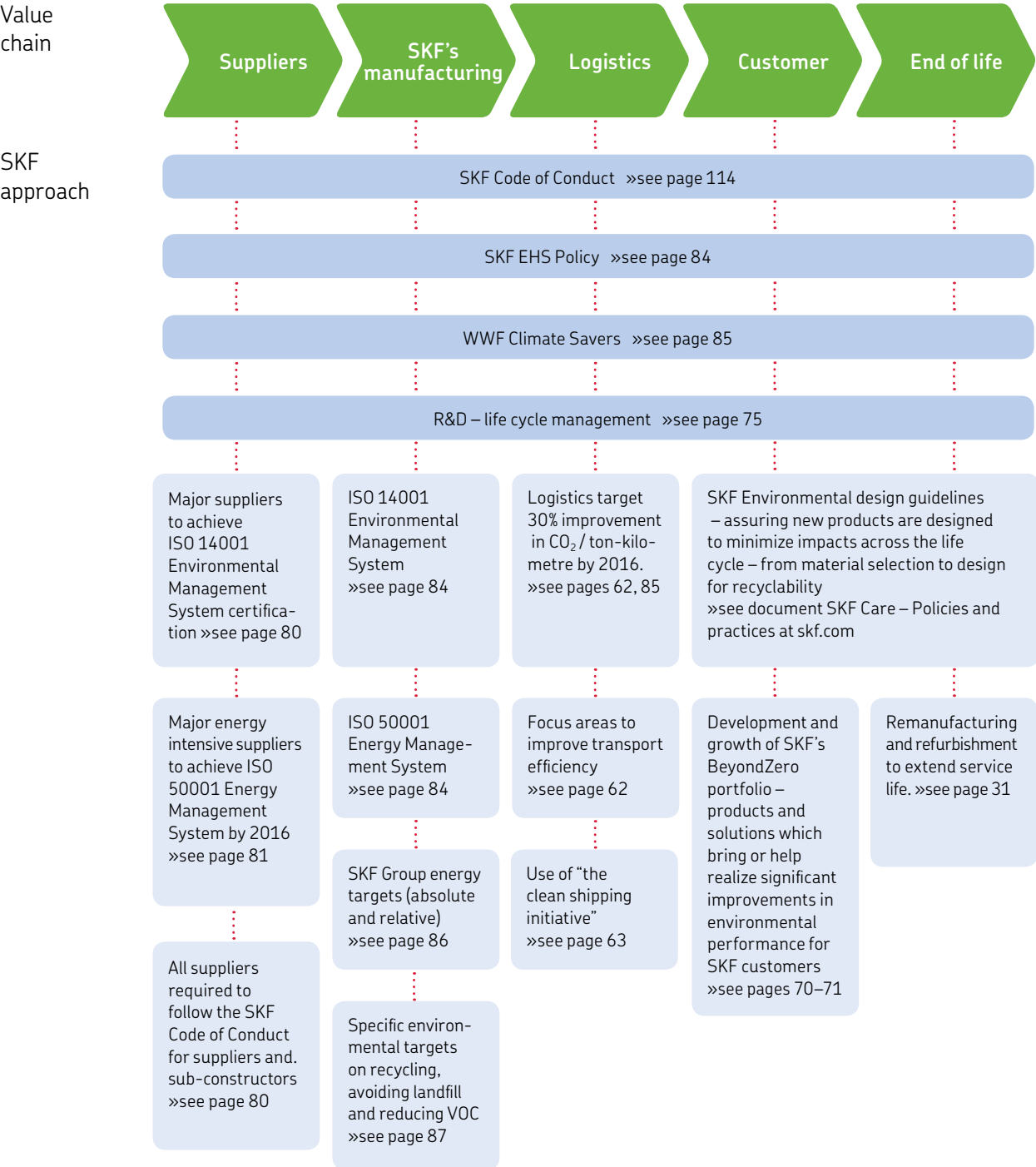
SKF's auditors, ensuring the highest credibility. Read more at wwf.panda.org

SKF is an active partner in this programme, working in various ways with other member companies as well as the WWF to promote energy and carbon efficiency. Since 2013, SKF has introduced the 'Climate Savers award' - an award with which the Group and WWF recognize excellent internal projects and initiatives that contribute to the achievement of SKF's climate strategy. See page 71.



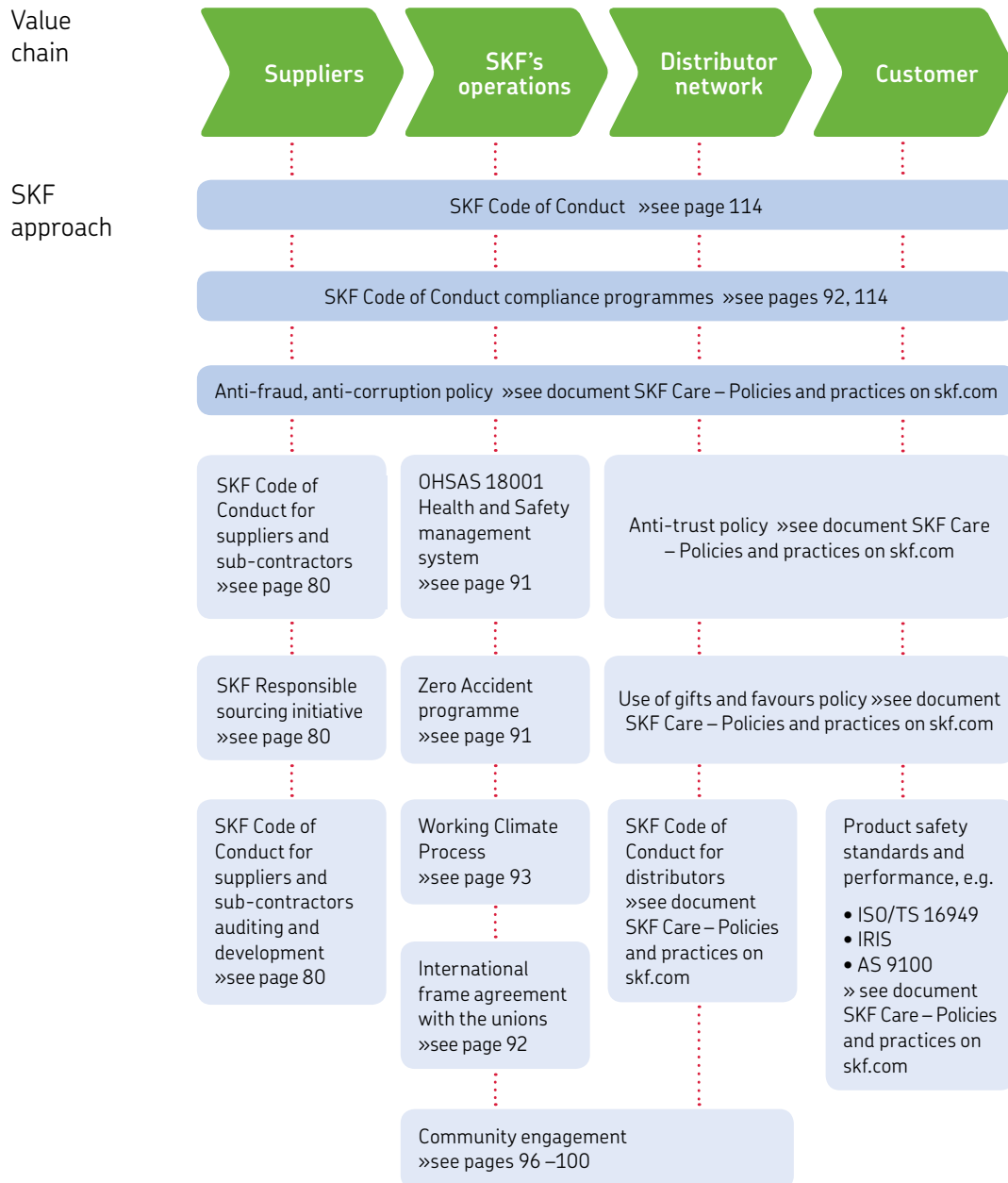
Addressing environmental issues along the full value chain

Different types of environmental impact occur along SKF's value chain. The chart below provides an overview of some of the policies and initiatives which the Group has integrated into its business activities to effectively address and reduce these impacts.



Addressing social issues along the full value chain

SKF works along the full value chain to address issues such as human rights, working conditions, responsible business conduct, equality, diversity and contributions to local communities. The chart below provides an illustration of how this is achieved.



Highlights in 2014

First quarter

Examples of new business

- A three-year agreement worth around SEK 55 million, with Hindustan Aeronautics Limited in India, for the supply of customized bearings for helicopter transmissions and main rotors.
- A five-year contract with Bell Helicopter Textron Inc., USA, worth around SEK 50 million. The contract includes the supply of elastomeric bearings.
- A major contract for magnetic bearings to Turbogaz, a Ukrainian turboexpander manufacturer. See page 51.
- Major orders for condition monitoring solutions from companies based in Sweden, including:
 - pulp and paper manufacturer SCA
 - packaging material company BillerudKorsnäs
 - power company VattenfallThese solutions will help to ensure reliability, availability and performance.
- A three-year contract with Argos, one of the largest cement producers in Latin America to provide services in Colombia. The total value of this new business is around SEK 40 million. See page 46.
- Started delivering transmission seals to Geely Automobile to equip their automatic transmission (6AT). The business is worth over SEK 100 million and is valid for around five years.
- Started supplying energy-efficient tapered roller bearings and ball bearings to the E-powertrain of Volkswagen's first full electric vehicle, the e-up!
- Kaydon Corporation:
Some examples of new orders gained during the quarter:
 - Gas phase filtration media equipment for refinery applications in Saudi Arabia and Mexico
 - Purafil Biological air treatment (BAT) systems for a waste water application in China
 - Custom Filtration System for power generation applications in Korea and USA
 - Slewing rings for the City of Los Angeles transit authority rail project.



Second quarter

- Opened an SKF Solution Factory in Nieuwegein, the Netherlands.
- Held the 9th annual SKF Wind Farm Management Conference in Berlin, Germany. Around 190 industry leaders from 23 countries gathered to discuss and share knowledge.
- Started to manufacture hub units for a number of customers including Volvo Cars, Geely and SGM (Shanghai General Motors) at the new automotive factory on the campus in Shanghai.
- Inaugurated an SKF Campus and the SKF North East Asia Distribution Centre, both located in Shanghai, China and constructed in compliance with LEED standards.



Examples of new business

- A strategic long-term partnership agreement with Envision Energy, China, a leading global provider of wind turbines.
- An agreement worth around SEK 35 million with a customer in the automation industry providing self-pierce riveting equipment and joining solutions. SKF will supply a customized roller screw electro-mechanical cylinder, for long-life high load, high duty cycles.
- Dongfang Electric New Energy Equipment, a leading Chinese manufacturer of wind turbines, received its first international order. SKF was selected as the sole supplier of main shaft bearings for the export order.
- A service contract worth around SEK 20 million from Aurizon, Australia's largest rail freight company.
- Major orders for asset management services in Canada, including a SEK 10 million order from a customer in the oil and gas industry.
- An agreement in Brazil with Bosch Service to jointly promote SKF's vehicle aftermarket product range to 1,800 Bosch Service Centers located in the country. The assortment covers virtually all car and heavy truck models in Brazil.
- Kaydon Corporation:
 - An order for the wind aftermarket, to be delivered in 2014.
 - A contract for three years for gearbox bearings for helicopters.

Third quarter

- Alrik Danielson was appointed SKF President and CEO from 1 January 2015. He has been President and CEO of Höganäs AB since 2005. He worked at SKF between 1987 and 2005 and held a number of executive positions within the Group.
- For the 15th year in a row, SKF has been listed as one of the world's most sustainable companies by the Dow Jones Sustainability World Index (DJSI). In particular, SKF has again been recognized as best-in-class in both environmental reporting and environmental management.
- For the 14th consecutive year, the FTSE Group confirmed that SKF remains a constituent of the FTSE4Good Index Series.
- Investment of around SEK 220 million in a new production facility at the existing SKF Campus in Cajamar, Brazil. It will produce Kaydon slewing ring bearings for wind turbine manufacturers, providing solutions to the Brazilian wind energy segment. Production is scheduled to start in the second half of 2015.
- Two new acquisitions, GLOi, a Swedish alignment technology solutions company and Hofmann Engineering North America, a high-precision machining company located in Ontario, Canada.

Examples of new business

- An order from Doosan Heavy Industries and Construction, South Korea for SKF Supergrip Bolts. In addition, based on close developmental cooperation, the SKF Nautilus bearing was selected for the further development of their 3 MW turbine.
- A contract with a leading Chinese locomotive manufacturer regarding deliveries of traction motor bearings worth over SEK 100 million. Deliveries are expected to start in November.
- A contract with HSD SpA, an Italian customer specializing in electrospindle production. The contract includes super precision bearings, specially designed for electrospindles and engineering support for the wood and light metal industries.
- An order worth around SEK 21 million to carry out maintenance on a shiploader for a major Australian customer in the agriculture industry.
- SKF will start supplying wheel hub bearing units to Tesla Motors electric vehicle Model S and the upcoming Model X.
- SKF is the sole supplier for all front and rear wheel hub bearing units for Volvo's new modular platform called Scalable Product Architecture (SPA) and will start to supply the recently launched XC90.
- SKF signed agreements with Scania to supply wheel bearing units and high-pressure valve stem seals for heavy trucks. The agreements are worth over SEK 360 million.
- Agreements with a leading car manufacturer to supply low friction bonded piston seals, robust MacPherson suspension bearing units, tapered roller bearings and synchronizer cups. The agreements are worth over SEK 160 million with deliveries starting during 2015.

Fourth quarter

- SKF merged the two industrial businesses, Strategic Industries and Regional Sales and Service into one Industrial Market effective as from 1 January 2015. See page 28.
- Expansion of the lubrication system factory in the Czech Republic to support the company's growing lubrication business.
- Signed an agreement to acquire a leading South Africa-based distributor of lubrication systems and equipment.
- An SKF Solution Factory was opened in Birmingham, USA, bringing the total number to 29 worldwide.
- The SKF Distributor College awarded its 250,000th certificate.

Examples of new business

- A first serial order for 30 high-speed permanent magnetic motor unit solutions, launched at the Hannover fair 2013, from Jiangsu Jintongling Fluid Machinery Co., Ltd, a leading Chinese blower manufacturer.
- SKF will be the main supplier of mainshaft and gearbox bearings for the new LEAP engine developed by CFM International.
- An order for bearing sets worth over SEK 150 million and a strategic partnership agreement with Chongqing Gearbox Co., Ltd., a leading Chinese wind power gearbox manufacturer.
- An order for axlebox and gearbox bearings worth SEK 30 million by a leading Chinese customer in the railway industry.
- A significant order from Andritz Hydro to provide special bearing and sealing solutions for a new type of tidal turbine.
- An order worth around SEK 30 million from a major marine transportation solution provider, to deliver online thruster monitoring, remote monitoring, and couplings.
- A one-year contract worth more than SEK 30 million to provide remanufacturing services and roller services to a company in the metals industry in China.
- Started to supply Mazda2, produced in Mexico, with low-friction wheel bearing units.
- Wheel hub bearing units for Daimler's new small SUV, Mercedes GLA.
- Kaydon Corporation
 - Received aerospace orders from helicopter manufacturers for custom thin section bearings.
 - Signed a three-year agreement with a utility truck manufacturer for supply of slewing ring bearings for its aerial device equipment.
 - Received motion control orders from a medical equipment maker for a shower chair that provides easier accessibility.
 - Secured a three-year contract to supply thin section bearings to an offshore oil driller in Scotland.



Report on the business

Business Care

Business Care is built on a clear and dedicated customer focus and on delivering a strong, sustainable, financial performance and the right returns for shareholders. These results should be achieved in accordance with the highest standards of ethical behaviour.

Evolving into a more robust company

SKF has evolved into a more robust company with a stronger ability to generate profits and sales growth.

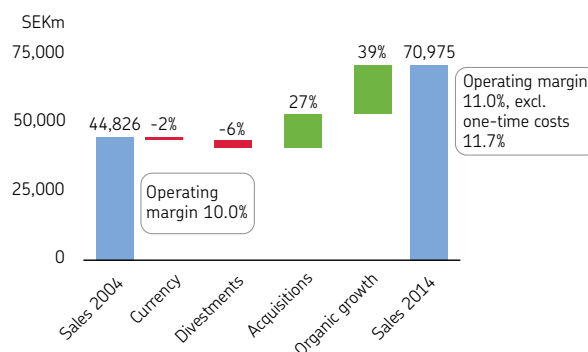
SKF has made important changes to its fixed costs over the years, such as divesting and outsourcing steel and component manufacturing. Important divestments were made covering steel manufacturing operations in 2006 as well as various component manufacturing activities such as balls and rollers, cages and forged and turned rings.

Significant steps have also been taken to increase sales growth through increased focus on faster growing industries and regions, increased investments in R&D and launching new products and the addition of technologies such as lubrication systems. A number of key acquisitions have been made in all five technology platforms enabling the Group to be a better partner to its customers. For example, SKF was not a major player in the automated lubrication systems business less than ten years ago but is now a market leader. From a geographical viewpoint, sales in Asia have nearly doubled as a proportion of Group sales in the last decade. SKF's sales to the industrial market have increased in the same period to around 70% of Group sales. SKF's strength comes from its customer focus, strong distributor network and ability to continuously innovate to develop new products, solutions and services which meet the different customers' needs in the many different industries which SKF serves. It is about creating and delivering value to customers and about being fairly paid for this. See pages 33–60.

Investments have been made in manufacturing facilities in fast growing countries and in best cost countries to support the growth and improve the Group's competitiveness.

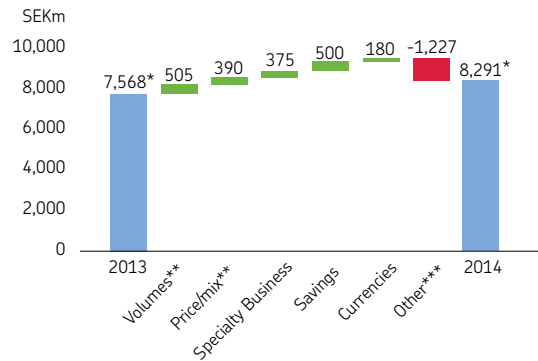
In the last few years, SKF has been investing in smartifying its maintenance service offering, production and sales processes. SKF has over 45 internal and external apps that help make field engineers more efficient in their work – giving them more time to spend with customers – to bearing calculation and alignment apps that provide direct value to SKF customers by improving their own productivity. Smart devices have helped to introduce a whole new way of working for SKF and its customers.

Growth and operating margin 2004–2014



Performance 2014

Main factors influencing the operating profit for 2014 vs 2013



* Excl. One-time items ** Excl. Specialty Business *** R&D, IT, inflation etc.

Positive impacts:

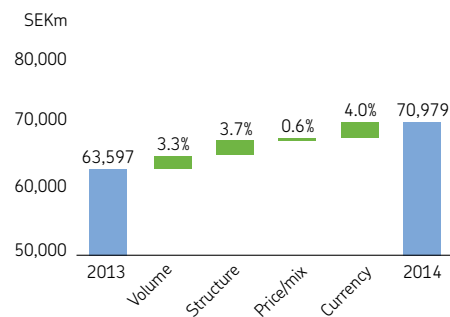
Higher volumes of around SEK 505 million
Price/Mix of around SEK 390 million
Currency of around SEK 180 million
Savings of around SEK 500 million
Specialty Business of around SEK 375 million

Negative impacts:

R&D, S&A, IT and Inflation of SEK 1,227 million

One-time items negatively impacted results by SEK 490 million (3,875). The figure for 2013 included a provision for the European Commission payment of SEK 3,000 million.

Net sales 2013 bridge to 2014



First quarter

Sales developed well over the quarter and were up around ten per cent with organic volumes up by six per cent y-o-y. Sales rose by more than four per cent in Europe with growth reported for light vehicles, trucks, aerospace, energy and railway, while general industry and heavy industry reported weak performances.

Sales grew almost three per cent in North America with healthy developments reported in the railway and energy industries, and in the automotive sector. Sales to the aerospace industry remained at a good level.

Sales in Asia were up over ten per cent, driven by China, due to good sales to the automotive, energy and railway industries. Slightly positive developments were reported in India, good developments in Indonesia, however developments in South East Asia were weak.

Sales increased by around four per cent in Latin America with good developments reported in the service sector in Brazil, while automotive remained weak.

Second quarter

Sales continued to develop well and up almost ten per cent with organic volumes rose by only one per cent y-o-y.

Sales rose by only one per cent in Europe. Sales were weak in West Europe, while sales in Central/Eastern Europe were good. Sales to the aerospace, railway and energy industries continued to develop very well, while general industry and heavy industry remained weak.

Sales rose by three per cent in North America with healthy developments reported by the renewable energy, railway and industrial drives industries. Sales remained on a good level to the aerospace industry with sales to the industrial distribution sector showing some positive signs. Sales to the automotive sector remained relatively unchanged.

Sales were very strong in Asia and up fourteen per cent. Sales developed particularly well in China to the renewable energy, railway, aerospace and automotive industries. There was also good growth in Korea and Indonesia with slight growth reported in India.

Sales increased by only two per cent in Latin America. Sales to the automotive sector were weak, while sales to industrial distributors and the service sector were good.

Third quarter

Sales rose by almost fourteen per cent, while organic volumes only rose by around two per cent y-o-y.

Sales remained relatively unchanged in Europe, while sales continued to be lackluster in Western Europe and in Central/Eastern Europe there were signs of weakening in various markets. From an industry perspective we continued to see good growth in energy, railway and aerospace but other industries remained weak.

Sales rose by three per cent in North America with sales in the industrial sector developing particularly well due to healthy developments in aerospace, energy and drives. Sales to the automotive sector remained relatively unchanged.

Sales remained strong and rose by eight per cent in Asia as a whole. In China, sales to industries such as renewable energy, railway and the car sector remained good, but still a lack of traction in sales to industrial distribution.

Sales in Latin America remained relatively unchanged. Sales to the automotive industry were very weak, in particular in Brazil while the industrial distribution business and the service business continued to develop positively.

Fourth quarter

Sales rose by almost thirteen per cent, and organic volumes were again up by around two per cent y-o-y.

For Europe as a whole, sales rose by only one per cent. In Central/Eastern Europe there were further signs of a weaker demand in a number of markets over the quarter.

Sales rose by two per cent in North America, with the industrial business developing well overall, with a positive development in railways, aerospace, energy and industrial distribution. The automotive business remained relatively unchanged.

Sales were up by eight per cent in Asia. The strongest markets were China and Korea, while India remained unchanged. Demand in China from renewable energy, railway, trucks and the car industry were the strongest and Industrial distribution developed well, however there was still some weakness reported in the heavy industry segment and also a lack of traction in industrial drives.

Sales rose by four per cent in Latin America, with sales volumes remaining unchanged. The industrial distributor business reported a slight decline and the automotive business was very weak, particularly in Brazil.

Strategy and targets

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

This objective shall be met by conducting all aspects of the Group's business in accordance with the principles defined by SKF Care, thereby taking financial, social and environmental considerations into account. SKF's environmental strategy – SKF BeyondZero – is an integral part of SKF Care and its objective is to create a positive impact on the environment. Targets address environmental aspects over the value chain, some of which are presented on these pages.

The Zero Accidents target was launched in 2000 with the aim to eliminate all workplace accidents at SKF. The belief that accidents are preventable and that an accident-free work environment is achievable, has led to substantial progress over the years.

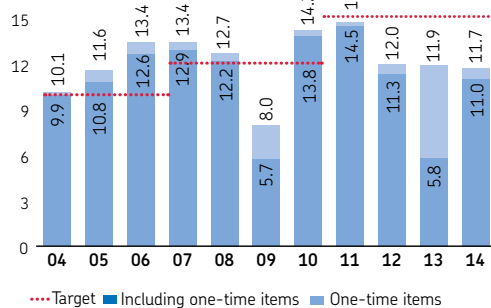
SKF's business strategy for achieving sustainable profitable growth and financial targets includes:

- keeping a clear and dedicated customer focus »see page 30
- deploying the asset life cycle concept »see page 30
- using second brands to reach new markets and customers »see pages 25 and 65
- strengthening the product portfolio through increased investment in R&D and through acquisitions »see pages 25 and 72
- creating and capturing more value by applying the SKF platform and industry approach »see pages 203–205
- realizing a positive impact on the environment by:
 - reducing the negative environmental impact from SKF's operations »see pages 83–89
 - providing customers innovative technologies, products, and services that reduce customers environmental impact »see pages 70–71
- focusing on rapidly expanding industries and regions »see pages 20 and 76
- using Business Excellence to improve efficiency in the business, reduce waste and costs »see page 202
- optimizing capital employed »see page 23
- developing and protecting the SKF brand »see page 65
- attracting and retaining the right people »see pages 90–95

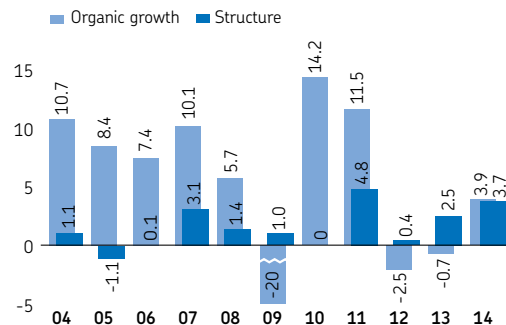
Financial targets

SKF's financial targets are to achieve an operating margin of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 20%. These results shall be obtained by conducting SKF business in accordance with the principles defined by SKF Care.

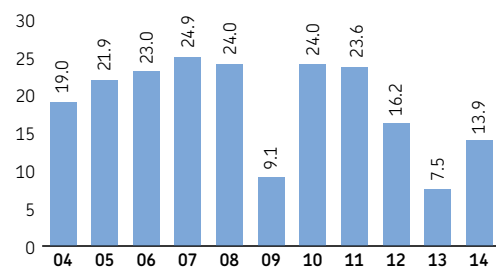
Operating margin, %*



Annual sales growth in local currencies, %

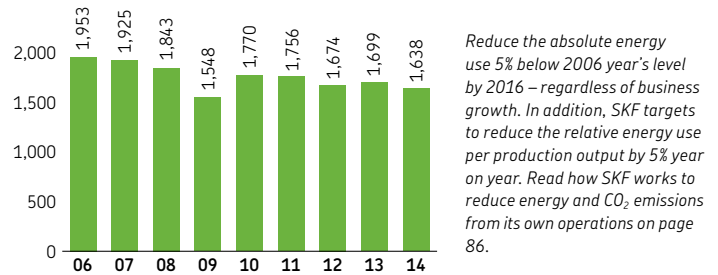


Return on capital employed, %*

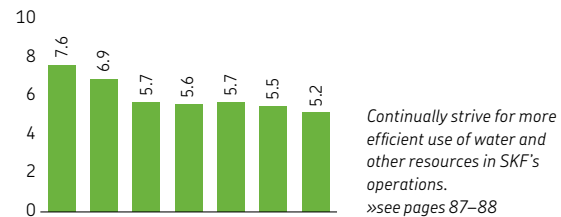


Environmental targets

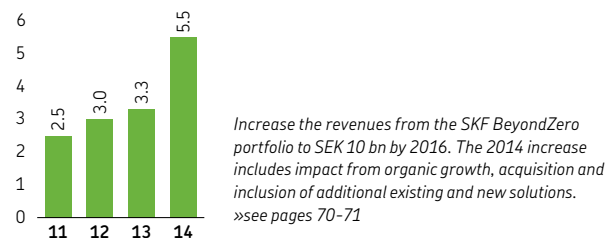
Energy use in SKF's own operations (GWh)



Water use (million cubic metres)

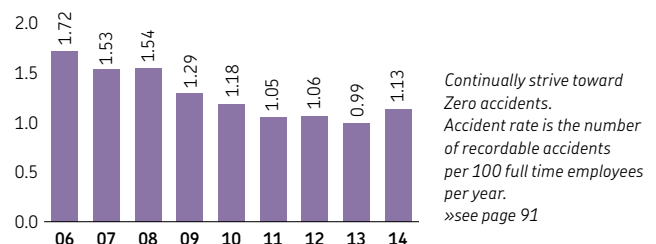


SKF BeyondZero portfolio revenue (SEK bn)



Safe workplace target

Accident rate



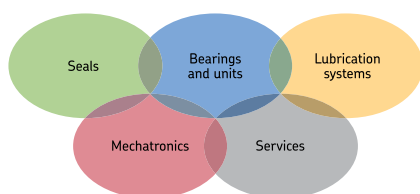
*2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Priorities

To support its strategy, SKF has defined four priorities to be addressed in the short-term. These are sustainable profitable growth, investments and innovation, cost reduction and capital efficiency.

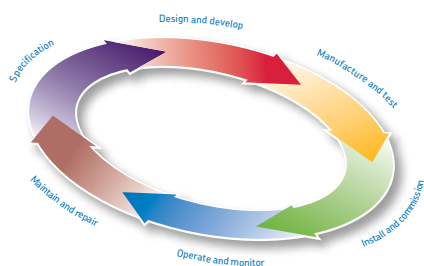


1 Sustainable profitable growth



Technology platforms

Building on the five technology platforms. SKF uses the capabilities of all or some of the five platforms to develop tailor-made offers for each customer's industry. See pages 33–60 and 203.



Asset life cycle and service

Implementing the asset life cycle concept. During each phase of the asset life cycle, SKF technologies and services help customers to optimize machine design and performance, reduce energy use and lower the total cost of ownership. Solutions for the end-user can be implemented in the OEM's business and vice versa. See page 30.



SKF BeyondZero portfolio

Extending the SKF BeyondZero portfolio. To deliver value by offering products with superior energy use and environmental performance. See pages 70–71.



New products and solutions

Developing and delivering new products and solutions which bring benefits to customers. Developing breakthrough technologies. Steady improvement in existing products often comes from customer requests, while breakthrough innovation mostly comes from SKF's research built on a wide-ranging knowledge of customer industries. See page 66.



Second brands

Using its second brands to reach new markets. With second brands such as PEER, General and Hyatt, SKF addresses markets it may otherwise not be present in. See pages 61 and 65.

PEER BVI Macrotech
Lincoln QPM ABBA
GLO Baker ALS S2M
Cirval GBC Economos
Vogel SNFA Kaydon

Acquisitions

Strengthening the company with complementary acquisitions. SKF has acquired 26 companies since 2003 whereof two in 2014. Total net cash outflows from acquisitions 2003–2014 was SEK some 22,500 million. In 2014 total net cash outflows for acquisitions were SEK 69 million.

Acquisitions 2014

In 2014, SKF acquired two companies to strengthen its service offer, GLOi, a Swedish-based alignment technology solutions company and Hofmann Engineering North America, a specialist engineering services company located in Ontario, Canada.

GLOi

GLOi was founded in 2010. Its annual sales were SEK 6.3 million in 2013, with seven employees at the time of acquisition. GLOi has developed and launched an integrated shaft alignment solution based on the iOS software platform used by iPads and iPhones. The company serves a similar customer base to that of SKF, including Marine, Steel, Mining, Pulp and Paper, and Hydrocarbon Processing.

Hofmann Engineering North America

Hofmann Engineering North America is a high-precision machining operation based in Cambridge, Ontario. It was started in 2011, and annual sales were SEK 32 million in 2013, with 16 employees at the time of acquisition. The company predominantly serves OEM customers handling large components in North America, mainly in Canada. Its offerings include large pinion and gear solutions, precision grinding, and custom engineering projects.

2 Investments and innovation

New factories and capacity

- Announcement of investment of SEK 220 million in a new factory at SKF's existing SKF Campus in Cajamar, Brazil. The 6,600 m² facility, which will employ up to 150 people, will produce Kaydon slewing ring bearings for wind turbine manufacturers providing solutions to the Brazilian wind energy segment.
- Inauguration of expanded lubrication systems manufacturing facility in the Czech Republic. The building has been designed with a focus on reducing the building's overall environmental impact, including more efficient energy and water usage and choice of more sustainable building materials. This has contributed to the building being awarded the US Green Building Association's highest possible LEED Platinum rating. »see page 89
- In Pinghu, China, investments of SEK 34 million have been made to upgrade a workshop area of some 1700 m². Included are a new bearing channel and central services for the manufacture of super-precision bearings for the machine tool industry in China and India.
- The medium sized bearing factory in Dalian was extended by 4,480 m² and production of cylindrical roller bearings has been started. Start of production of medium deep groove ball bearings will commence during Q1 2015, bringing additional capacity and flexibility to the factory.
- Production of spherical roller bearings will start at the large sized bearing factory in Dalian in the first half of 2015.

New SKF Solution Factories

SKF opened two new SKF Solution Factories during the year, in the Netherlands and the USA. At the end of the year there were a total of 29 locations worldwide. »see page 31

New Global Technical Centres

In addition to the centres in Asia, SKF started to build a new technical centre in Europe in 2014. The establishment of the centre reinforces SKF's strategy to be close to its important customers to focus on market specific product innovations, leveraging all of SKF's five platforms – bearings, seals, mechatronics, lubrication systems and services.

New Campus

The new SKF Campus in Jiading, Shanghai was inaugurated in June 2014. The campus includes a new factory for wheel bearings for passenger cars, relocation and expansion of the Global Technical Centre China (GTCC), an SKF Solution Factory and an SKF College. The new factory will mainly manufacture

hub bearing units for the automotive market primarily in China. The campus will also support SKF Group best practices within global technology and processes while enabling SKF to further strengthen local supply and engineering services to customers in China. The new campus is expected to employ around 900 people by the end of 2015, of which around 400 will be part of GTCC. Activities at GTCC include product development, engineering services, global metallurgy and chemistry laboratories, manufacturing process development, testing and product investigation. The SKF Campus is close to several of SKF's major customers, as well as technical universities and engineering institutes.

New SKF Logistics Service unit

SKF inaugurated its logistics service unit in China (Shanghai) Pilot Free Trade Zone (FTZ), in June 2014. The unit integrates trade, logistics and account settlement and covers the North East Asia region. It is a green building constructed in full accordance with LEED Gold standard, see page 88. Its solar power generation system can produce 815,000 kWh of electricity and reduce CO₂ emissions by 400 tonnes annually. In addition, water use can be reduced by around 2,000 m³.

New IT infrastructure

SKF is working on a new IT infrastructure to create and deploy improved, aligned processes and solutions across the SKF Group and leverage new system technology. With this global implementation, SKF will be able to bring its knowledge, services, products and solutions to its customers in a more coherent and effective way.

Before the end of 2014, two pilot projects were installed. The first project was implemented at the end of 2013 – a purchasing module, enabling global contract management and quotation functionality. The second implementation was a complete sales and service solution for SKF's Finnish operation, which was installed in summer 2014. The new system replaced old common systems and local solutions. Both pilot projects resulted in valuable experiences that will support the preparations for coming roll outs. The next conceptual design phase will be finalized during 2015 and thereafter implementation in Europe will follow.

Both development and implementation is led by a dedicated programme organization, working in close liaison with business. The UNITE programme was initiated in the second half of 2012 and spans all key process areas – sales and customer relationship management, purchasing and supplier relationship management, finance, demand chain and manufacturing. The implementation



The new SKF Logistics Services unit in Shanghai, China.

will take place in a stepwise approach over a number of years and includes the establishment of best practice processes to enable business efficiency and growth.

The expenses 2014, including licenses, were around SEK 920 million (600) whereof around SEK 755 million (475) were capitalized.

Mobility and SKF apps

At the end of 2014, SKF had over 45 apps, each dedicated to helping customers with calculations, training, data collection, product selection, information and learning about SKF.

Through mobility, SKF is creating a web of connectivity where people, systems, apps and machines achieve unparalleled levels

of productivity and efficiency. As an example, SKF is already giving operators mobility access with apps connecting realtime to machines, thus allowing right information for the operator at the right time. Other examples include the SKF Shaft Alignment app. This app allows technicians to measure alignment of machinery, through connection to a sensor, allowing a visualization of steps needed to bring that particular machine into proper alignment. As a third example, SKF's sales people see a general efficiency gain in using tablets with customized SKF apps being able to bring SKF knowledge to customers and through solving customer problems on a daily basis.

3 Cost reduction

SKF announced changes at the start of 2015, which aim to strengthen the Group going forward

The main changes included:

- Merging the two industrial businesses, Strategic Industries and Regional Sales and Service into one Industrial Market as of 1 January 2015. This aims at further improving SKF asset life cycles to all customers and industries and improving productivity.
- Rationalization of staff functions.

In total this will improve white collar productivity with an estimated total reduction of 1,500 employees worldwide, representing a 7.5% productivity improvement over the next two years. The estimated cost for this will be around SEK 1 400 million and the full-year saving around SEK 1 200 million. Most of this programme will be implemented in 2015. These restructuring costs are not included in the 2014 results.

Separate reporting of cost-cutting programme from 2012 will be discontinued

This programme aimed at reducing the company's annual costs by SEK 3 000 million by the end of 2015. The total cost for this programme was expected to be around SEK 1 500 million for the period 2012 to 2015.

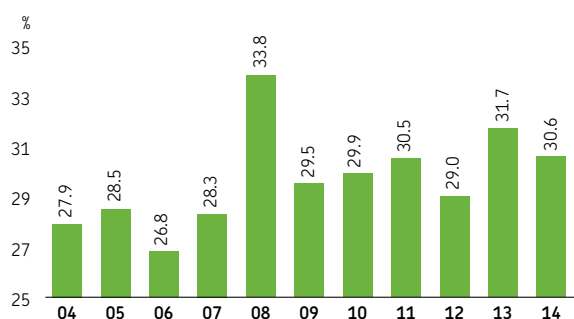
Total costs expensed for the programme amounted to around SEK 1,030 million as of 31 December 2014, of which SEK 690 million in 2013 and 2012. Total savings from the programme in December 2014 amounted to around SEK 1,300 million, compared with cost level in 2012.

This programme mainly consisted of manufacturing consolidation, the Group's global footprint and reducing purchasing costs, mainly through standardizing and rationalizing the supplier base. Both these activities will continue over the course of normal business.

4 Capital efficiency

Net working capital

The target is 27% net working capital of sales.

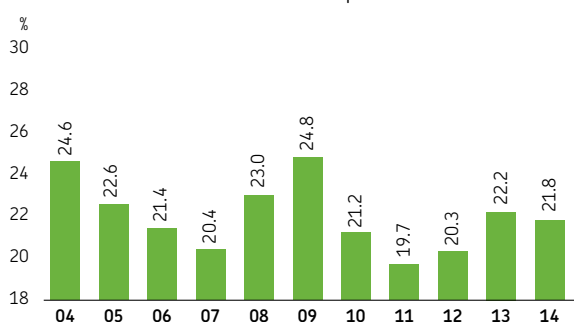


Inventory to sales will be reduced through flexibility, product range optimization, and by improved forecasting and planning of manufacturing. Trade receivables will be improved by reducing outstanding receivables and trade payables by improved payment conditions.

As per cent of net sales	2014	2013
Inventories	21.2	21.5
Trade receivables	17.8	17.6
Trade payables	-8.4	-7.4
Net working capital	30.6	31.7

Property, plant and equipment / Sales

Property, plant and equipment as a percentage of sales are at the desired level for the Group.



Business model

SKF's vision

To equip the world with SKF knowledge. To take all the knowledge gained over more than 100 years to develop and deliver products, solutions and services which enable customers to be more successful and profitable in their business.

SKF's knowledge

SKF's knowledge can be defined as the combination of the following three dimensions:



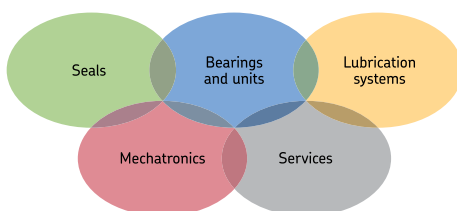
The geographic dimension

SKF is a global company with a local presence. Wherever customers are located, local expertise, supported by global industrial specialists and technical experts, combine their skills to make a specific offer for customers, which meets their local needs. The global experts draw upon knowledge and success from similar industries worldwide.



The customer dimension

SKF's customers can be found in most industries. Each customer and industry has different technical and commercial challenges. Working in so many different industries enables SKF to both develop specific products, solutions and services for each industry and also to take knowledge from one industry and apply it to another.



The technology dimension

SKF's five technology platforms are Bearings and Units, Seals, Mechatronics, Services and Lubrication Systems. SKF's specialist teams in each platform work closely together with the industries and sales organization to develop and deliver new products and advanced integrated solutions to meet customers' needs.

How SKF does business

Servicing customers' needs

SKF serves customers in around 40 different industries and considers the trends and needs of each industry as well as the environmental impact throughout the entire asset life cycle when developing existing and new products, solutions and services. The majority of these are the result of gradual, evolutionary improvements to existing offerings, the remaining part is the result of breakthrough technology projects. SKF typically makes the evolutionary changes in response to customer demand, while its breakthrough innovations are driven by technological change and its own research. Many customers involve SKF in their own development processes years before production begins, so that they can benefit from SKF's application and industry knowledge. Many of SKF's products are specifically designed for a particular customer or industry.

Buying SKF's products

Customers' requirements and purchasing patterns determine whether SKF delivers its products to customers directly or through its network of distributors. Many customers choose to buy both from distributors and from SKF directly, depending on what products or services they need and the logistical needs of their supply chains. Most large OEMs buy directly from SKF while most end-users and smaller OEM's are served through industrial distribution.

Strategic account management

SKF works with major customers through dedicated "strategic account management" at both a global and local level. This way of working ensures that SKF gains a deep knowledge of its customers' processes, technology and requirements enabling development of products and solutions which help support the

customer's business ; it also helps identify where customers can replicate their use of SKF's solutions in other parts of their organizations. SKF uses the knowledge it gains from this way of working for R&D in new offers, and to establish best practice across the industries it serves.

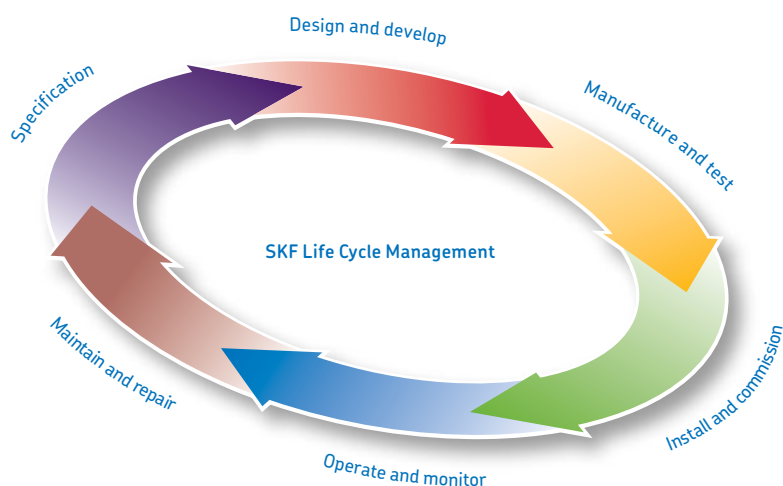
Platform and customer industry approach

The platform and customer industries approach is SKF-specific and based on combining strong technology focus from the platforms and strong customer focus from the industries.

SKF has defined about 40 customer industries in which it operates. Examples of these industries include the cars and light trucks, wind power, railway, machine tool, medical, food and beverage, and the pulp and paper industries, see page 33–60. Based on a strong understanding of current and future customer needs and challenges, SKF utilizes the capabilities of all, some of or only one of its platforms to develop tailor-made offers for each of its customer industries. In this way, SKF can offer its customers specific products and solutions with improved performance, reduced energy use and reduced total cost, while giving SKF greater added value and better price quality.

Life cycle management approach

The cost of acquiring a machine is often only between 10–15% of the total cost of using that machine throughout its operating life from specification to decommissioning. The remaining 85–90% is related to operations and maintenance. Therefore a full life cycle perspective is important to help customers increase machine uptime, reduce maintenance and energy use and lower the total cost of ownership of their equipment. SKF works with its customers at every stage in the asset life cycle, providing solutions from design right through to maintenance, and back to design upgrade.



Delivering value at each phase of the asset life cycle

During each phase of the asset life cycle, SKF technologies and services help customers to optimize machine design and performance, reduce energy use and lower the total cost of ownership.



The SKF Solution Factory in Jiading, Shanghai, China.

Knowledge centres – SKF Solution Factory

To make it easier for medium and smaller OEM customers and end-users to access knowledge, SKF has set up a global infrastructure of knowledge centres, each called an SKF Solution Factory. The centres are equipped with engineering expertise covering SKF's five technology platforms. It offers local products and services such as machined seals, machine tool spindle repair and remanufacturing based on the customer's needs in the area where the SKF Solution Factory is located. It also incorporates a number of Remote Diagnostic Centres, which collect and analyse information about the condition of customers' assets, to keep machine downtime to a minimum. Another competence area is asset efficiency optimization, where SKF

offers optimization of machine performance to enable a plant to increase production while maintaining or even reducing costs at the same time. SKF also has a global network of remanufacturing centres. Remanufacturing a bearing can lead to savings of up to 50% of the cost of replacing it with a new product.

SKF Solution Factory create an inspiring environment for SKF's employees involved in the sales process, such as application and sales engineers, industry and platform specialists, and service engineers.

SKF opened two new SKF Solution Factory during the year, in the Netherlands and the USA. At the end of the year SKF had 29 facilities worldwide and aims to have a total of around 50 facilities by 2016.

Delivering value to customers

SKF's customers can be found in various industries including material handling, mining and cement, pulp and paper, wind energy, food and beverage, medical and health care, aerospace, railway, construction, cars and trucks. Addressing so many different industries enables SKF to develop specific products and services for each industry, and also to take knowledge from one industry and apply it to others.

The value SKF delivers is determined by the customer and can come from various ways.

▷ Firstly, it can mean providing unique technical solutions.

One example is a new generation of SKF Mudblock Seals for off-highway vehicles, which increases service life with up to 50% and reduces friction with up to 20%. It is specifically developed for oil-lubricated applications in harsh environments and tough operating conditions.

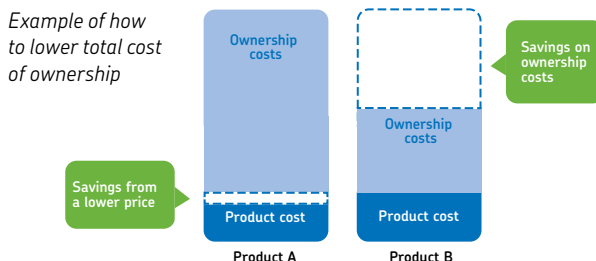
▷ Secondly, it can come from SKF's special understanding of customer requirements to offer specific solutions to support these needs.



This is illustrated by the solution for GrainCorp, a leading global agribusiness that was faced with serious problems when their ship-loader slewing bearing began failing. GrainCorp has operations on five continents including extensive assets and operations in Australia, where they provide solutions for the accumulation, freight, storage, port handling and processing of grain. In 2014, the

company's Gladstone port shiploader slewing bearing began failing. The large size of the bearing (4.7 meters in diameter) and the heavy weight of the shiploader's upper structure (200 tonnes), coupled with it being on a wharf, made the replacement very complex. SKF in partnership with Sandvik Mining Systems and Construction, provided a turnkey project to replace the bearing, which included a design, construction and installation of a purpose-built lifting system and the installation of the new bearing and a centralized lubrication system.

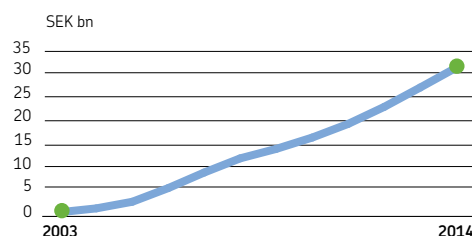
▷ Thirdly, it can come from reducing customers' total cost of ownership through improved life, reduced unplanned downtime, improved efficiency, increased performance to name some examples.



Measure and confirm

For many customers, SKF uses its Documented Solutions Programme (DSP) tool to measure and confirm the value that it delivers to a given customer. The DSP tool is an interactive software program that shows customers savings that can be realized by utilizing SKF solutions, and confirming the value that these solutions bring. The program helps customers find where they can take costs out. It is also a way to show that price is only the easy-to-see part of the picture. The key is obtaining figures to prove total cost of ownership. As part of this programme, SKF has collected 56,300 approved cases that show proven, quantifiable value in over 25 industries. Customer benefits are:

- Understanding the financial benefits that the SKF solutions bring
- Predicting and measuring the actual total savings



From 2003 to 2014, SKF provided SEK 31.5 billion in approved savings for customers. In 2014, the figure was more than SEK 4 billion.

SKF has also developed a methodology to measure environmental benefits during customer use phase. This method is used to calculate avoided emissions by SKF's customers using SKF's solutions compared to baseline – defined as the most common alternative on the market. If the solution can provide significant environmental benefit it is subject for inclusions in the SKF BeyondZero portfolio, read more on page 70–71.

SKF's business

SKF's organization is customer-focused and serves around 40 different industries. This chapter describes SKF's business and gives the company's view of the overall market in 26 of the main industries where it operates.

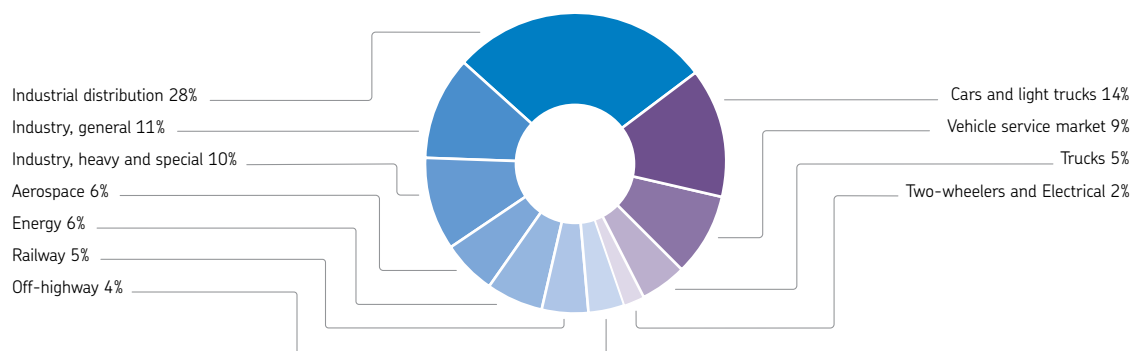


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Overview customer industries 2014

Net sales by customer industry



Industrial distribution

Sales through industrial distributors.

Industry, general

Automation, machine tool, industrial drives (fluid machinery, industrial electrical motors and generators, material handling and industrial transmission and driveline services), medical and health care.

Industry, heavy and special

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

Aerospace

Aircraft and helicopter builders (system integrators), aero-engine, gearbox, and other aircraft systems manufacturers.

Energy

Renewable energy (wind, solar and ocean) and traditional energy (oil and gas and traditional electric power generation).

Railway

Passenger (high-speed vehicles, metro cars and light rails), locomotives (diesel and electric) and freight cars.

Off-highway

Construction, agriculture and forestry and fork lift trucks.

Cars and light trucks

Cars and light truck manufacturers (OEMs) and their sub-suppliers.

Vehicle service market (VSM)

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

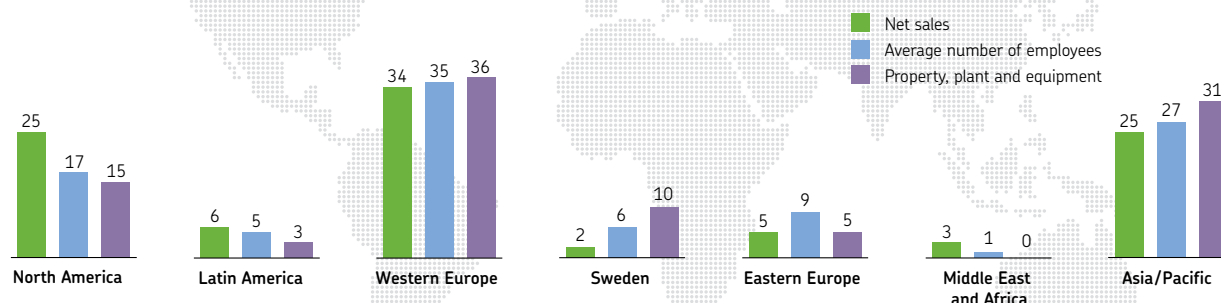
Trucks

Truck, trailer and bus manufacturers (OEMs) and their sub-suppliers.

Two-wheelers and Electrical

Motorcycles, scooters and skates. Home appliances, portable power tools and electric motors.

Geographic distribution 2014 of net sales, average number of employees and property, plant and equipment (per cent).



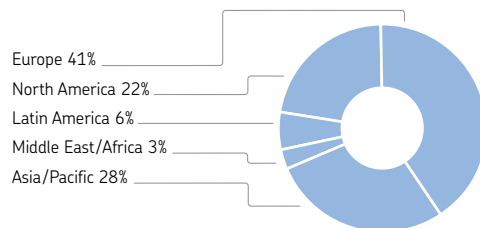
SKF's business areas

In 2014 SKF carried out its business in four business areas

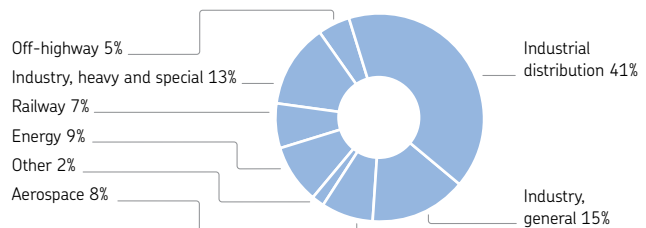
Two of the business areas cover the industrial market together:

- ▷ SKF Industrial market, Strategic Industries »see page 36
- ▷ SKF Industrial market, Regional Sales and Service »see page 38

Net sales by geographic area



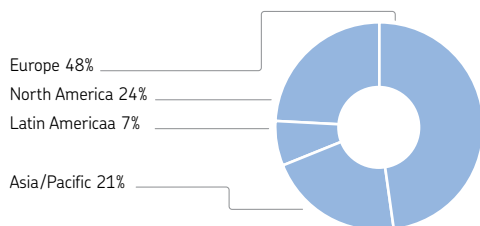
Net sales by customer industry



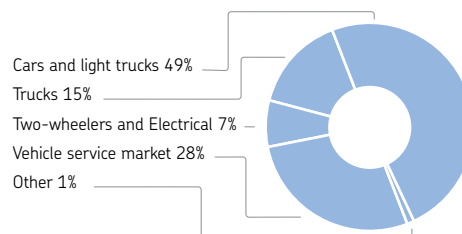
The third business area mainly covers the automotive industry:

- ▷ SKF Automotive »see page 54

Net sales by geographic area



Net sales by customer industry



The fourth business area includes Kaydon Corporation, PEER Bearing Company, General Bearing Corporation and SKF Logistics Services:

- ▷ SKF Specialty business »see page 61

New business structure in 2015

As of 1 January 2015, SKF is merging its two industrial business areas, Strategic Industries and Regional Sales and Service. The change will enable the benefits of the SKF asset life cycle to be applied to industrial customers in a more efficient manner, through a simplified organizational structure. It will also strengthen SKF's focus on organic growth and profitability.

SKF will operate through three business areas:

- ▷ Industrial Market
- ▷ Automotive Market
- ▷ Specialty Business

Industrial market will include the business units handling Industrial distribution, Industry General, Industry, Heavy and Special, Energy, Railway and Off-highway.

Automotive Market will include the business units handling Cars and Light trucks, Heavy trucks, Vehicle Service Market and Two-wheelers and Electrical business.

Specialty business will include: Kaydon Corporation, PEER Bearing Company, General Bearing Corporation and the Aerospace and Linear Actuation Technology business units.

Group Management as of 1 January 2015. See page 196.



SKF Industrial Market Strategic Industries

SKF Industrial Market, Strategic Industries consists of seven business units with full responsibility for sales to OEMs and end-users, as well as management of business development, manufacturing and engineering. These business units are: Aerospace, Renewable Energy, Traditional Energy, Industrial Drives, Precision, Railway and Off-highway and Lubrication. The business units' focus is to meet customer needs in managing their assets' total life cycle – where SKF products, services and solutions help to improve productivity, reliability, energy efficiency and maintenance of assets.

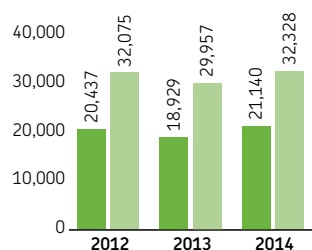
SKF Industrial Market, Strategic Industries' offer is based on the know-how and manufacturing of a wide range of bearings – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and super-

precision bearings – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

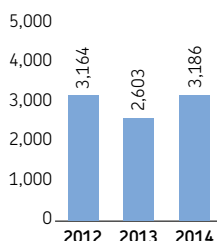
Net sales in 2014 amounted to SEK 21,140 million (18,929), an increase of 11.7%. Sales including intra-Group sales totalled SEK 32,328 million (29,957). The operating profit was SEK 3,186 million (2,603), with an operating margin of 9.9% (8.7). The operating profit was affected by one-time costs of around SEK 290 million. The increase in net sales was attributable to organic growth of 8.4%, structure -1.9% and currency effects of 5.2%.

Sales, SEKm*

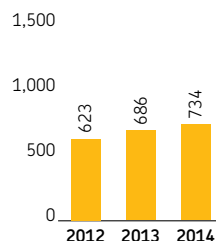
■ Net sales
■ Sales incl. intra-Group sales



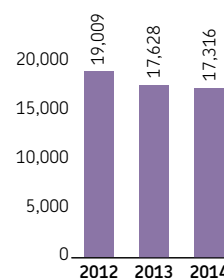
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2014.

Interview with Rakesh Makhija

President, SKF Industrial Market, Strategic Industries

What were your major successes over the year?

Our focus has been on driving our three-pronged strategy towards being a 'Value, Cost and Innovation Leader'. We have made considerable progress on all these fronts. We have achieved double-digit growth in an otherwise weak market environment in most parts of the world, including Asia. This has been possible through close collaboration with key customers and working with them to support their asset life cycle requirements. Service is becoming an increasingly important component of the asset life cycle strategy and we are continuing to make good progress in delivering 'real value' to our customers.

We are driving a number of cost reduction programs based on a foundation of Lean and Business Excellence. We have made significant progress with initiatives like Manufacturing Supply Optimization (MSO) and Integrated Cost Reduction (ICR), and we see these as an important part of our 'Cost Leadership'

ambition. The MSO program has delivered real savings at many units and we are very encouraged to spread this across all our manufacturing units.

During the year we also launched a number of new products and programs. A couple of examples being the Wind Quality Standard (WQIS), a standard equivalent to that in the automotive industry for driving traceability, cleanliness and ultimately higher quality norms in the Wind Power industry, and a new 1.7 Million km Taper Bearing Unit (TBU) for railway passenger cars, which increases the life of this bearing by more than 40% over the previous industry standard.

“ We have seen very positive developments in terms of sales in China, especially for the railway and renewable energy segments. ”



You have been talking about SKF Insight, a wireless self-powered sensor. How is this adding value to your business?

We believe that SKF Insight is a game changer and fits very well with our asset life cycle management strategy. We have seen very positive results in how Insight technology can add value for customers by reducing costs, extending maintenance intervals and, very importantly, helping to predict failures before they actually occur. At this stage we have pilots running with a few railway customers, as well as with wind energy customers. So far the pilot schemes are going well and according to plan. More tests are scheduled with more customers in 2015, both in Europe and elsewhere.

Can you mention some highlights from the year?

2014 was a very good year, with notable market successes and recognition from key customers for the value that we brought to their businesses. Some examples of these are:

- A number of strategic partnership agreements in China with Envision Energy, Chongqing Gearbox and for the high-speed railway segment.

- Nanjing Gear Box voted SKF as its Supplier of the Year 2014, for the second consecutive year.
- A strategic collaboration with Seakeeper, a leader in active gyro stabilizer technology for boats, which needed an individual, high precision, bearing solution. Our engineering teams worked closely with Seakeeper to deliver a solution that fully meets the requirements of this critical application.
- Our Aerospace factory in Valenciennes was presented with the Best Supplier Performance award by Snecma. Of the 400 suppliers that Snecma works with, only 10% receive this award.
- We opened a new LEED certified Lubrication System manufacturing facility in Chodov, Czech Republic.
- Long-term agreements for the LEAP engine programme.



SKF Industrial Market Regional Sales and Service

SKF Industrial Market, Regional Sales and Service (RSS) delivers a full range of products and solutions to both OEMs and end-users in all of SKF's industries, including its 'focused industries' – Food and Beverage, Marine, Metals, Mining, Mineral Processing and Cement, and Pulp and Paper. The business area is responsible for managing and working with SKF's industrial distributors, present in around 7,000 locations worldwide.

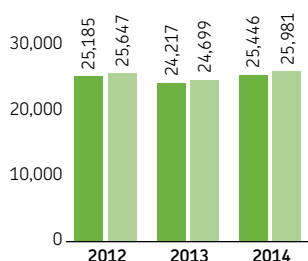
RSS is responsible for developing SKF's service platform technologies and solutions. It runs five Condition Monitoring Centres, which design and produce world-leading hardware and software. SKF Solution Factories and Remote Diagnostics Centres are another essential part of the RSS offering. RSS also manufactures seals and provides sealing solutions for the industrial market.

RSS is present in more than 100 countries. The organization is divided into geographical areas: North America, Latin America, North Europe, West Europe, Central and Eastern Europe, Middle East and Africa, China and Asia Pacific.

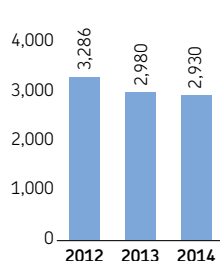
Net sales in 2014 amounted to SEK 25,446 million (24,217), an increase of 5.1%. Sales including intra-Group sales totalled SEK 25,981 million (24,699). The operating profit was SEK 2,930 million (2,980), with an operating margin of 11.3% (12.1). The operating profit was affected by one-time costs of around SEK 90 million. The increase in net sales was attributable to organic growth of 1.8%, structure 0.5% and currency effects of 2.8%.

Sales, SEKm*

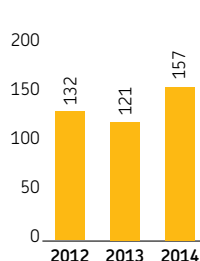
■ Net sales
■ Sales incl. intra-Group sales



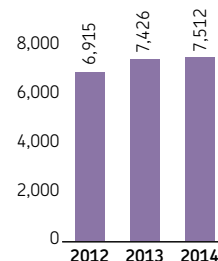
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2014.

Interview with Vartan Vartanian

President, SKF Industrial Market, Regional Sales and Service

How do you ensure SKF's offering effectively meets customers' needs?

SKF has huge technological capabilities. Our main challenge is ensuring we have in-depth understanding of our customers' needs in order to apply our technology in the right way. This is where life cycle management comes into play: working with both end-users and OEMs gives us deep insight into each of our industries, and we are constantly looking for ways to cross-fertilise from one industry to another. This approach to the market helps us maintain strong customer relationships, allowing us to move the conversation beyond products to underlying issues like total asset efficiency and total life cycle cost.

We have processes in place to ensure that we continuously invest in bringing innovative solutions to market. We use the SKF Solution Factory network to deliver these globally in a

systematic and consistent way. This well-organised network helps us identify where we have developed a solution for one customer in order to replicate for others in the same industry.

How do you add value to your customers' operations?

Broadly speaking we do this in three main areas: maximising uptime; improving production efficiency and reliability; and reducing energy use. Our primary aim is to deliver the solutions best suited to helping our customers achieve their targets.

Through our Documented Solutions Program, customers have confirmed that our solutions helped them save more than SEK 4 billion in 2014, bringing our all-time DSP total to more than SEK 31 billion. I am very proud of this achievement.

“Our aim is to simplify our customers' decision making while enhancing their asset efficiency and productivity.”



What major trends will impact the way SKF supports its customers in future?

The Internet of Things, connectivity, mobility, cloud computing and big data present major opportunities for us, and we are already prepared to capitalize on them. For example, within our Remote Diagnostic Centres we analyze huge amounts of customer application data to provide relevant information for enhancing our customers' operations, and improving their reliability.

We are entering a new era where it is possible – and feasible – to fully integrate major parts of the IT infrastructure, covering everything from condition monitoring to enterprise resource planning. At SKF we already offer our customers industrial mobile solutions, cloud-based services and solutions, and integrated maintenance systems. We make our knowledge available to our customers at any time of day, anywhere in the world. Our aim is to simplify our customers' decision-making while enhancing their asset efficiency and productivity.

What opportunities and challenges do you currently face?

Different people within a customer organization have different responsibilities and priorities. A major challenge for us is finding the right decision-makers – people responsible for the bottom line who understand the full value of what we can deliver. We strive to ensure that we have strong relationships with our customers so that we're in a position to reach these people. The more we involve them, the more we progress from being a product-based company into being a knowledge engineering company.

We also have a major opportunity to scale up our service offerings within all of the industries that we serve. To achieve this, we need to replicate our successes from one industry to the next. We also need to continue investing in the latest technology – everything from sensors to wireless technology, software and visualisation – as well as in SKF Solution Factory, which is the infrastructure that we use to deliver them.

Industrial Distribution 28% of net sales



SKF's distributor network

SKF has the largest industrial distributor network in its industry. SKF does not own its network but works closely with independent distributors who add value through their proximity to customers in all industries; their markets and industry knowledge; and their

complementary product offers and ability to fully support customers in various ways, especially regarding service levels. A network of around 7,000 industrial distributor locations reaches over one million customers worldwide. Customers are both end-users and mid-size OEMs. The network has expanded over the years with the addition of specialized distributors in different product categories – for example, lubrication systems and mechatronics – and in different industries such as agriculture and marine. Authorized distributors can receive “Certified Maintenance Partner” status if they provide added value to customers by offering machine inspections, entry-level maintenance and reliability services. SKF is also developing a network of Certified Rebuilders with specialized training and knowledge in motor and pump repairs, with an emphasis on conformance with exact SKF specifications and standards, root cause failure analysis, bearing installation, lubrication and condition monitoring.

Supporting activities and programmes

Industrial distribution is primarily driven by customer needs to receive punctual and reliable deliveries, and to have easy access to a wide range of products and advanced technical expertise and services provided 24/7. SKF supports its distributors in various ways to strengthen all stages in the supply and value chain.

Some examples are the development programme “More with SKF”, connection to the Web Customer Link (WCL), the Distributor Interconnectivity Programme (DIP), Vendor Managed Inventory (VMI), and the SKF Distributor College.

- “More with SKF” is the framework for how SKF works with its distributors. It is a systematic programme of sales planning and opportunity management that enables SKF and its distributors to remain focused on profitable growth, working together to meet customers' needs. It contains a set of tools for distributors in several categories like branding, sales and marketing, supply chain, product range management, people development, e-business, quality and value generation.
- Web Customer Link (WCL) connects over 3000 distributors worldwide. Distributors can find information about SKF's products and place orders, and the system issues invoices and commercial documents to the distributor following each order. WCL is available through both the web and as a mobile app for Apple iOS and Google Android smart phones or other devices.
- The Distributor Interconnectivity Programme (DIP) aims at lowering distributors' administration costs, optimizing capital employed and providing a better service level. This is mainly accomplished by improving inventory management and introducing collaborative forecasting. In 2014, SKF introduced a



An SKF authorized distributor's showroom in Sitra, Bahrain.

new Vendor Managed Inventory (VMI) system as part of the DIP programme. The system recalculates data on a daily basis and proposes purchase orders to replenish inventory to the highest service levels and reduce distributors' inventory management costs. To date SKF has implemented VMI with major distributors in its Nordic region and in the USA, reaching service levels to end-customers of 98% for planned items in each of these markets.

- SKF Distributor College is an e-learning platform, whose users can attend various courses online. It offered 44 courses in 23 languages in 2014. A new inventory management course was launched during the year, as well as a course on bearings for high temperature applications. At the beginning of 2015, the 250,000th SKF Distributor College certificate was awarded to an employee of an authorized SKF distributor. The first certificate was awarded in 2002.
- The SKF Distributor Value Programme helps to identify and measure the value distributors deliver to their customers. It is based on the same methodology as the SKF Documented Solutions Programme (DSP). See page 32. The most frequently recorded customer benefits are reduction in down-time due to availability of proper spare parts, inventory level optimization and savings on administration costs.



An SKF authorized distributor's showroom in Abu Dhabi, United Arab Emirates.



Distributor saved SEK 875,000 in six months

An authorized SKF distributor needed to increase its market visibility, improve product availability and ease the workload for its personnel. To do this the distributor implemented More with SKF, an SKF initiative to strengthen all stages in the supply and value chain, from SKF and its distributor all the way to the customer. It also introduced SKF Stock Profiler which provides information about the stock and a Vendor Managed Inventory (VMI) system that recalculates data and places purchase orders to replenish inventory to the highest service levels and reduce inventory management costs. In six months the company achieved documented savings of SEK 875,000. It managed to significantly increase availability to one of its largest OEM customers and improve sales to them by over 70%.

Industry, general 11% of net sales

Including: Automation, Machine tool, Industrial drives (Fluid machinery, Industrial electrical motors and generators, Material handling, Industrial transmission and driveline services), Medical and Healthcare.



Automation Market overview

The global industrial automation market has almost doubled over the past decade, which is almost twice as fast as overall industrial production. The industry is driven by a need for greater flexibility to manufacture different

products on the same production line, with improved reliability, higher precision and energy savings.

The market is gradually shifting, especially in Europe and the United States, from using pneumatic or hydraulic drives, to electromechanical drives, as they require much less energy. This shift represents a potential growth for electromechanical robotic joining tools of 20 to 30% annually, depending on the application.

SKF's offer and role in the market

SKF supports the automation industry at the very early design phase of industrial robots, commonly used in material joining and forming processes on assembly lines. The process of joining various types of materials using different joining technologies is heavily used in the automotive and aerospace industries.

To meet the growing demand for electromechanical robotic tools, SKF supplies customers with a complete electromechanical actuator solution that integrates products, solutions and services from SKF's technology platforms. Compared with pneumatic or hydraulic processes, it requires only a fraction of the energy needed for the materials joining process. In some cases energy savings of over 90% have been achieved by manufacturers using SKF's solution. SKF also supplies planetary roller screws and the inverted roller screw. It has several important features such as acceleration and speed far beyond the limits of ball screws, a high level of shock resistance, and superior motor downsizing, helping customers improve production flexibility and precision, machine reliability and achieve further energy savings.



Machine tool Market overview

A key driver for market development in the machine tool industry is global industrial production. The machine tool market has almost doubled over the last 20 years and machine tools can be found in most production processes.

The trend is that manufacturers are demanding more customized technology solutions to reach greater speed and precision, as well as easy-to-operate machines. End-users want to achieve higher productivity and reduce the total cost of ownership. Solutions that provide reduced energy use, improved working conditions and reduce the impact on the environment, are highly attractive in the market and are key drivers.

SKF's offer and role in the market

To meet these demands, SKF works with manufactures and end-users to optimize machine tools to run faster, for longer and in a cleaner way during their entire operating life. SKF does this by offering engineering consultancy, simulation and design validation, advanced condition monitoring technologies, predictive and proactive maintenance programmes, hands-on maintenance training and a range of products tailored around spindle operation and machine tool motion. These products include super-precision bearings, lubrication systems and coolant pumps, customized sealing solutions, linear drive and guiding systems.

With SKF Spindle Services, present in 21 locations worldwide and predominantly an integrated part of SKF Solution Factory, SKF can offer customers specialized engineering analyses for spindle upgrading, reconditioning, and replacements for all spindle brands and designs.

In 2014 SKF launched several new solutions for the machine tool industry, such as the SKF Machine Tool Observer MTx, for actively monitoring, observing and logging the performance history of machine tool spindles, grinding machines and other



Customized electromechanical solution for riveting equipment

SKF will deliver a custom roller screw electro-mechanical cylinder to a company providing advanced self-pierce riveting equipment and joining solutions to the automotive industry. SKF's solution is cost-effective and provides energy savings, high load capacity, high duty cycles and long life. In addition, supporting the growing trend for assembly line 'build to order' flexibility, the customer is able to provide a compact system that is clean in its environment. This is particularly important for vehicles' final paint finish.

rotating equipment. SKF also started to manufacture super-precision bearings in Pinghu, China, to better serve the world's largest market for machine tools.

One example of new business in 2014 is the contract SKF won with HSD SpA, an Italian company specializing in electrospindles production. The contract includes super-precision bearings, specially designed for electrospindles and engineering support for the wood and light metal industries. Another example is a contract with a Chinese specialist in high-speed motor spindles. It includes the supply of super-precision bearings and engineering support.

Industrial drives

(Fluid machinery, Industrial electrical motors and generators, Material handling, Industrial transmission and driveline services)



Fluid machinery

(industrial fans, pumps and compressors)

Market overview

The fluid machinery market is driven by many different industries including oil and gas, hydrocarbon processing and water industries, as well as vari-

ous facilities such as airports, hospitals and shopping malls. The industry focuses on the important need for constant equipment efficiency improvement and reduced total cost of ownership. The development of the industry is also influenced by environmental standards and legislation, the need to lower energy use and maintenance costs. The market has shown strong organic growth for a number of years and this is expected to continue.

SKF's offer and role in the market

SKF supports manufacturers and end-users with a variety of solutions, including, engineering services in the design process, advanced hybrid bearing technology, monitoring offers and magnetic systems. One example is the magnetic system solution

for aeration blowers in wastewater facilities for which SKF received orders from customers in both the USA and China during 2014. The aeration process can demand as much as 80% of the plant's total energy use and SKF's high speed permanent magnet motor and magnetic bearings can reduce energy use by up to 40%.

SKF also offers bearing solutions for harsh operating conditions. For example, compressor applications that need to handle corrosive process gases require highly resistant solutions such as SKF's bearings for sour gas compressors. This solution provides high reliability and can improve the bearings' service life from months to years with its corrosion-resistant technology.

Other examples of the use of advanced bearings are for sub-sea pumps and cryogenic pumps. Reliability and availability are critical requirements for refineries and liquefied natural gas plants. SKF's cryogenic pump bearings meet these needs by enabling exceptional performance in tough conditions, as well as protection against corrosion, wear and fatigue in extreme temperatures. With SKF's solutions, companies can more than triple the bearing's service life and significantly extend mean time between repairs. These solutions also drastically improve the total cost of ownership and energy efficiency.

Some examples of business during the year are a large order of bearings and condition monitoring from a major Chinese fan and blower manufacturer and a three-year agreement with a global compressor manufacturer.



Industrial electrical motors and generators

Market overview

Electric motor-driven systems account for more than 40% of the world's electricity use, and therefore improvements in their design have a major impact on global energy demand.



SKF supplied solutions for 54-tonne pumps used in London's new sewage system

SKF supplied US-based Georgia Iron Works with engineering support including modelling and calculation and a range of bearings and lubrication systems, for its largest-ever built wastewater pumps for London's Lee tunnel. The pumps need to process major flows of wastewater and withstand the contamination and wear of foreign bodies contained in the sewage. In addition, it is extremely challenging to maintain and service the pumps since the pumping station operates 80 metres under ground.

Mandatory minimum energy performance standards for industrial motors, already introduced in most of the markets, will drive the electric motor industry's major changes.

SKF's offer and role in the market

To support customers in complying with these regulations, as well as achieving their own sustainability targets, SKF provides various solutions to motor manufacturers and end-users. For example, SKF Energy Efficient deep groove ball bearings support motor manufacturers and motor repair facilities to significantly reduce friction losses in the motor, whereas SKF and Lincoln automatic lubrication systems, such as the new SKF TLMR series, help keep friction in electric motor-driven systems to a minimum.

SKF also provides different insulation solutions, like the INSOCOAT and hybrid bearings, to avoid damage that can occur when an electric current passes through the bearing. The rings in INSOCOAT bearings are coated with an insulating ceramic layer, while in SKF's hybrid bearings insulation is provided by the ceramic rolling elements themselves.

SKF's Electrical motor test and monitoring equipment that analyzes machine system power quality and provides data on driveline efficiency, includes portable devices such as the Baker AWA-IV static-state motor analyzer and the EXP4000 dynamic-state machine system analyzer.

One example of new business in 2014 was an order from ASML Taiwan (a subsidiary of Dutch-based company ASML), the world leader in photolithography systems for the semiconductor industry. SKF will supply a monitoring system that assures the regular operation of 32 critical motors that drive the Make-up Air Units (MAU). If a MAU fails, clean room conditions cannot be kept and production quality is compromised. The order included sensors, portable and stationary instruments, data acquisition and diagnostic software, integration with the customer's existing systems, training and diagnostic services.



Material handling

(conveyors, cranes, elevators and escalators)

Market overview

The material handling industry is influenced by the growth in globalization, which is changing the patterns of travelling, consumption, and goods

supply. This in turn increases shipment of bulk and cargo volumes between continents. The industry is also driven by growing urbanization and the need to expand infrastructure to be able to handle a larger population.

These trends are driving development in the material handling industry towards improved reliability and greater efficiency in equipment as diverse as conveyors, port cranes, elevators and escalators.

SKF's offer and role in the market

The SKF Life Cycle Management philosophy and approach means that SKF is involved in the full machinery performance from the design and development at the OEM all the way through to maintenance and repair at the end-user. For example, with space at a premium in the real estate industry, elevators are now designed with the machine room in the elevator shaft and are shifting to gearless direct drive designs. This trend challenges maintenance access and SKF has developed sealed bearing solutions with a service life of up to 20 years, which is equivalent to an elevator motor replacement. Other trends in material handling are automation of equipment and reduced manual maintenance, where employees no longer have to be exposed to dangerous environments. As energy demand is increasing, so is the need for reducing material handling equipment's energy use and noise generation. SKF is a supplier of solutions for rotating equipment in demanding environments, and its material handling solutions include a range of spherical roller bearings, housings and seal arrangements for conveyor pulleys designed to increase mean time between failure of the bearings. SKF also supplies a number of deep groove ball bearing variants for idler rollers that extend equipment operations and lowers operational costs by reducing energy use. SKF provides a number of service solutions such as condition monitoring, alignment services and central lubrication systems to support proactive maintenance and cut manual maintenance requirements. Proactive maintenance solutions bring value to the crane industry where equipment is difficult to access during routine maintenance and in industries where maintenance windows are short. One example of business gained in 2014 is a major contract for 72 slewing bearings for ship to shore cranes from a leading Indian crane manufacturer.



Industrial transmission and driveline services

Market overview

The industrial transmission market is driven by many different industries. Smaller gearmotor types are found in many industries, especially in material handling, while larger gearboxes are

more frequently used in the heavy industry sector.

The designers of industrial gear units can face different challenges such as, variable speed and torque, high torque at constant speed, heavy external and/or shock loads, and highly contaminated or poor lubrication conditions. SKF's goal is to meet these demands by optimizing operational reliability and performance, while enhancing cost-effectiveness.

SKF's offer and role in the market

SKF works with manufactures and integrators of gearboxes in the development phase for more efficient and reliable machinery and equipment. One example is SKF's seals portfolio where

the range of metric rubber outside diameter radial shaft seals, HMS5 and HMSA10, is growing to better match customers' equipment.

When the electric motor, coupling and gearbox are installed in a driveline, there is still considerable potential to be attained in efficiency gain. SKF helps customers select the most suitable maintenance strategy for their installed driveline, provides driveline health status assessments during production, and offers the most suitable spare parts when the assets need repairing. As drivelines degrade over time, especially when pushed beyond their design parameter, SKF offers engineering and design support, including root cause analysis capabilities, and in certain cases driveline re-engineering. SKF also offers condition monitoring equipment and expertise to further optimize the driveline equipment.

SKF's solutions are designed for each phase of a driveline's life cycle to help customers achieve operational reliability, minimal service requirements, optimized maintenance procedures and reduced energy use. Customers include companies such as manufacturers of drives, rolling mills, cement mills, mining companies, paper mills, chemical processing plants and food producers.



Medical and Healthcare Market overview

The medical industry is evolving around an increasingly ageing population, obesity, more healthcare being carried out at home, a growing population in emerging countries and the need for more flexible and automated

equipment. The industry is highly regulated with strict safety standards and medical norms. Taken all together, this puts demands on the market to cut healthcare costs and improve technology, productivity and service performance.

The medical and healthcare industry has enjoyed steady growth over the past decade and the global market is expected to continue growing.

SKF's offer and role in the market

SKF is a development partner to many medical equipment manufacturers and supports customers in optimizing medical equipment design. SKF's products are used to provide linear and rotational motion for applications ranging from imaging, surgery, laboratory automation, life support, dental, ophthalmic and hospital equipment. These solutions include electromechanical actuation for lifting, rolling bearings and linear rails for turning and guiding functions, engineered machined seals for separating media, and associated control components. SKF also provides testing support during design, pre-production and production to comply with industry norms and standards. SKF increased its presence in the medical and healthcare industry, particularly within thin section bearings and slewing ring bearings with the acquisition of Kaydon in late 2013. Kaydon is the market leader in bearings for the medical computed tomography equipment market and many new businesses have been established as a result of this new product portfolio. One example is the ongoing work with the US-based company Reliance Medical LCC, see the customer case below.

Considering the obesity trend in the healthcare market SKF launched the telescopic pillar series CPMT for the procedure chair market at the China Medical Equipment Fair(CMEF) in 2014.



Solution based on new telescopic pillar and thin section bearings

SKF is supplying Reliance Medical LCC with a solution for their special procedures chair based on SKF's telescoping CPMT lift and thin section bearings from Kaydon. This solution gives a very stable platform for plastic surgery, dermatology and ENT(Ear-Nose-Throat) procedures. The pillar is able to lift up to 450 kg and has an extremely short retracted length and high lifting range. Its low retracted length allows easy access, even for wheelchair patients, while the high extended height accommodates the tallest practitioner, lessening fatigue.

Industry, heavy and special 10% of net sales

Including: Heavy industries (Metals, Mining and Cement, Pulp and Paper), Marine and Food and Beverage.

Heavy industries

(Metals, Mining and Cement, Pulp and Paper)

With a growing population, increasing urbanization and expanding middle classes in many countries, there are underlying reasons for growth in the heavy industries sector. In 2014 however, the heavy industries sector faced a challenging business environment.



Metals

Market overview

The metal industry is split into ferrous (e.g. steel) and non-ferrous (e.g. aluminium) production. Ferrous production accounts for the majority of the industry's turnover. China is the largest steel producer in the world, followed

by Japan, the USA and Russia. Iron ore and energy price levels, as well as governmental regulations impact steel producers. The industry is driven by the need for improving profitability, safeguarding and further improving material quality and workers' health and safety, as well as reducing the negative impact it has on the environment.

SKF's offer and role in the market

SKF is a technical development partner for the world's leading OEMs and service partner to end-users in the metals industry. The company supplies a wide range of solutions including bearings, seals, services and lubrication systems. SKF's services and solutions offering manages the entire asset life cycle for achieving higher productivity, reliability and energy efficiency for its customers.

One example of new business in 2014 is a new contract signed with an existing customer, ArcelorMittal, one of the world's leading steel and mining companies. SKF customized and supplied 30 electromechanical actuators for the company's steel

plant in Bremen, Germany. These actuators are used for mould adjustment in its continuous casting operation. SKF's solution is compact, flexible and reliable and ensures precise, reliable adjustment of the width of its output steel.

SKF won a number of awards from customers in 2014, including runner up in Tata Steel's all category Best Vendor award.



Mining and Cement

Market overview

The mining and cement industry is diverse, encompassing aggregates (crushed stone, sand, gravel), cement, coal, metal ore and industrial minerals production. The industry uses a variety of processes and machinery such as

haul trucks, shovels, blast drills, grinding mills, kilns and presses, and is exposed to extreme temperatures, heavy loads and contaminated and wet environments that make machinery difficult to maintain and repair.

SKF's offer and role in the market

SKF provides the mining and cement industries with a wide range of products and services that contribute to improved productivity, reliability, reduced environmental impact and improved worker health and safety. The company has close relationships with manufacturers and end-users worldwide and is increasing its presence with engineering, procurement and construction consultants to get more SKF solutions specified and installed in new mine developments.

End-users in this industry remain focused on increasing productivity and cost-cutting, creating opportunities for SKF's many solutions for increasing reliability, productivity and profitability.



Extended contract with cement manufacturer Argos

Argos, one of the largest cement manufacturers in Latin America, wanted to standardize its processes to further reduce operational costs in maintenance and purchasing. To achieve this Argos decided to extend both its service and product agreements with SKF. Firstly, the current condition-based maintenance contract was extended in its scope to include new predictive maintenance technologies and methods more focused on reliability engineering. Secondly, the Trouble Free Operations (TFO) supply agreement for bearings, was extended to also include seals and power transmission products, as well as training and technical assistance in major shutdowns. Argos managed to significantly cut maintenance costs in 2014, by reducing maintenance downtime, implementing best practices and cutting purchasing and logistics costs.



Pulp and Paper Market overview

The pulp and paper industry is among other things, influenced by population and economic growth and challenged by increasing environmental regulation, volatility in raw material and energy prices, changes in usage pat-

terns like reduced demand for newsprint and accelerating use of electronic media. The major paper producing countries are China, the USA and Japan, while pulp production is dominated by the USA, China, Canada and Brazil.

SKF's offer and role in the market

SKF has a long history of involvement with, and product development for, the pulp and paper industry. SKF is a leading supplier of bearings and associated products, lubrication systems and services to both equipment manufacturers and pulp and paper mills. SKF service and technology offerings, including Integrated Maintenance Solutions and SKF Client Needs Analysis – Asset Management, help pulp and paper customers around the world to maximize productivity through improved reliability and in cutting costs. In 2014, SKF received large orders for condition monitoring systems and services from mills in Austria, China, Japan, Portugal and Sweden. These highlight the trend towards relying on SKF for timely and accurate data that allows informed operational decisions to be made. Celbi, a Portuguese bleached eucalyptus kraft pulp (BEKP) manufacturer and subsidiary of Altri Group, also extended its technology partnership with SKF for three more years. SKF will continue to advise on and facilitate improvements in productivity and maintenance procedures at the plant.

Special machinery

Marine and Food and Beverage



Marine Market overview

The marine industry accounts for much of the world's transportation and about 80% of world trade (volume) is carried out by a fleet of around 50,000 commercial ships. The transportation sector is highly dependent

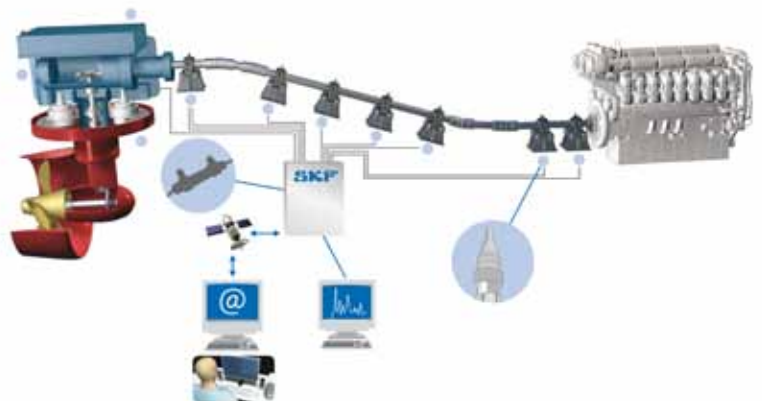
on the business climate. There is a trend to invest in larger container ships, to achieve greater carrying capacity and to reduce the cost and emissions per unit of transportation. Also, the global energy demand drives strong growth for vessels supporting offshore oil and gas exploration. As a vessel out of operation for just one day can cost a ship operator hundreds of thousands of dollars, high reliability and availability are important. Rising fuel costs and tough environmental and safety regulations influence the industry to develop more predictable, reliable and fuel-efficient vessels. By using condition monitoring and condition-based maintenance, ship operators can maximize time at sea and reduce the operational costs of their vessels. Greater efficiency in the systems are achieved through redesigning propulsion systems such as thrusters and pods and developing hybrid technologies like diesel electric or gas electric propulsion systems.

SKF's offer and role in the market

SKF focuses its expertise and knowledge on the industry's needs to reduce operating and maintenance costs, improve health, safety and environmental issues and increase the availability of the vessel to help maximize fleet availability and critical equipment reliability in service.

Remote monitoring and diagnostics solutions to Edison Chouest Offshore

SKF will provide US-based, Edison Chouest Offshore (ECO) with a solution for monitoring and diagnostics of the main propulsion line on a large fleet of vessels. This includes the thrusters, diesel generators, electric motors, main drive shafts and auxiliary equipment and will enable ECO to optimize maintenance while significantly reducing the risk of unexpected failures and consequential costly downtime. SKF was selected as a partner because of its extensive expertise in rotating equipment, remote diagnostics and specialist knowledge of the marine industry.



SKF's main focus is on offshore supply vessels, workboats, tankers, and passenger and cruise ships. In early 2013, SKF increased its presence in the marine industry through the acquisition of the German-based ship components manufacturer Blohm+Voss Industries and now provides products and services for every stage in the life cycle of the machinery from design, manufacture and installation to operation and maintenance. Offers include integrated product and service solutions for propulsion systems, including key components in large two-stroke engines, thrusters, electric pods and gearboxes, as well as couplings and shaft line transmission products. It also offers a wide range of specialized condition-based maintenance services for different types of vessels. One such example is the emission monitoring system, Turbulo BlueMon, introduced in 2014. It records all relevant emissions on board ships and couples these values with the vessels position data, based on GPS signals. This way of keeping track of emissions, makes the compliance with regulations easier and makes possible seamless auditing and verification of emissions from ships. Other services provided are alignment services, 3D measurements, on-site machining and machinery mounting solutions.



Food and Beverage Market overview

The food and beverage industry is one of the largest manufacturing sectors in any country and also a significant employer. An average 25% of income is spent on food and non-alcoholic beverages. This industry is less cyclical than others.

Government regulations to ensure food safety are ever-increasing. One of the main challenges is to ensure the availability, reliability and overall efficiency of assets, often with limited resources. More and more, companies are being pressurized to set environmental targets around reducing energy, water, greenhouse gas emissions and waste of all kinds.

SKF's offer and role in the market

SKF has many ways to support food and beverage manufacturers to meet their food safety, business and sustainability targets. This includes everything from a range of relubrication-free bearing technologies, to automatic lubrication systems, food grade lubricants, high efficiency sealing solutions and electro-mechanical cylinders that can save up to 90% of energy when replacing pneumatic systems. SKF also offers asset management services which help reduce unplanned downtime and improve overall equipment efficiency (OEE), which contributes to CO₂ reductions and impacts other sustainability drivers such as reduced waste.

SKF develops new technologies and services which deliver enhanced environmental benefits and also offer real business values, in areas such as total cost of ownership, increased line efficiency, reduced risk of food contamination and improved people safety. This was highlighted during the food and beverage sustainability conference in Birmingham, UK in 2014, where SKF was lead sponsor and presenter.

Implementing technologies that have proven to be successful in the end-user market is of great value for OEMs. SKF works closely on both new designs and improving existing ones, in line with hygienic design, food safety, waste and cost optimization throughout the asset lifecycle.



SKF provides predictive maintenance solution to McCain Foods

The US-based food processing company McCain Foods started using SKF's predictive maintenance program – SKF Machine Health Reporting Program (MHRP) – in their production of french fries, in 2014. MHRP collects machine data, which is then analyzed by experts from SKF and McCain and turned into a proactive maintenance plan. This way, unforeseen stoppage with lost production can be avoided. For example in the first few months after installation, vibration data showed problems with the cutter pumps. By changing the parts immediately, rather than run until failure, McCain saved USD 25,000 by avoiding secondary failures on other related equipment.

Aerospace 6% of net sales



Market overview

The aerospace market has almost doubled every decade over the past 40 years. This trend is expected to continue as the industry is driven by increased global travel, especially related to Asia. The need to renew ageing fleets due to tougher environ-

mental legislation and fuel price pressure, has led to the evolution of lighter, more durable aircraft using composite materials, as well as a new generation of quieter and more fuel-efficient engines.

In the coming years India and China in particular, are likely to drive growth as their domestic markets are expected to expand and create a greater demand for single-aisle, regional aircraft and helicopters.

In the aerospace industry an engine or helicopter model can have a lifetime of up to 50 years and relations between manufacturers and their suppliers are therefore often long-term. Flight performance and safety are critical issues. Products need to operate reliably in highly demanding conditions and call for very specific engineering and manufacturing knowledge.

SKF's offer and role in the market

SKF provides main aircraft, helicopter, engine and system manufacturers with highly-engineered, customized solutions, including main-shaft and transmission bearings, airframe bearings, composite, seals and precision elastomeric devices. SKF also provides airlines and maintenance repair and overhaul customers with maintenance and repair services, carried out under international certification standards and quality approval, supporting the customer throughout the product lifecycle. In addition, SKF provides major aircraft builders with cockpit control equipment such as pedals, throttle control units, side stick and other Fly-by-Wire solutions.

SKF supports the main players in the industry in the development of their new flight programmes. About two-thirds of SKF's aerospace business relates to aircraft applications and the rest to helicopter applications.

Several new agreements were signed in 2014, among which, a three-year agreement worth around SEK 55 million, with Hindustan Aeronautics Limited in India, which includes the supply of customized bearings for helicopter transmission and main rotor. In the USA Bell Helicopter Textron Inc. signed a five-year contract, worth around SEK 50 million for the supply of elastomeric bearings. Long-term agreements were also renewed with partners such as GE Avio SrL, Rolls-Royce, AgustaWestland and Techspace Aero as well as a reinforced partnering with Boeing with a new contract for advanced sealing solutions.



SKF will supply mainshaft and accessory gearbox bearings for the LEAP engine

The LEAP engine has been developed by CFM International. SKF has a long business relationship with CFM International and has contributed knowledge in manufacturing technology, design and testing of mainshaft and accessory gearbox bearings throughout the development of the engine. SKF will be the main supplier of mainshaft and accessory gearbox bearings. The LEAP engine is expected to use 15% less fuel compared to current engines, and meet the latest requirements in terms of noise regulations, CO₂ and NO₂ emissions. So far, more than 7,800 orders have been placed around the world, and LEAP has become the reference engine in its thrust class. The LEAP engine is scheduled to enter into service in 2016.

Energy 6% of net sales

Including: Wind energy, Ocean energy and Solar energy



Renewable energy Market overview

The global wind energy market experienced a major recovery in 2014, partially due to good growth in China, the largest wind energy market in the world, as well as strong development in several new emerging wind markets, like Brazil.

Technology is developing rapidly, which demands improved wind turbine efficiency to reduce the Lifetime Cost of Energy (LCoE) of windfarms. Larger turbines, of 6-10 MW, for offshore usage are now entering the market.

With large volumes of windfarms no longer under warranty, there is an ongoing major growth in the aftermarket, where predictive maintenance based on condition monitoring and vibration analysis is becoming a market standard. Solar energy is one of the fastest-growing sectors of the global energy market.

Ocean energy, harnessing energy from waves and tidal streams, is still in the early stages of development, with ongoing field-testing of prototypes and first arrays. This emerging industry is still challenged by high LCoE and active developments on improving competitiveness through new technological features.

SKF's offer and role in the market

SKF is a supplier and development partner to most leading manufacturers of wind turbines and wind gearboxes, as well as a supplier of products and services to the emerging wind aftermarket.

SKF provides a continuous flow of new development solutions to the industry, finding new ways of overcoming the technological challenges faced on wind turbines. Some examples of SKF-developments for the wind industry include the hybrid bearing with ceramic balls or rollers to cope with electric erosion in wind generators; high capacity cylindrical roller bearings for increased carrying capacity in wind gearbox application; black oxidation on roller bearings for improved running-in capability during initial usage period; the SKF Nautilus mainshaft unit providing a stiff arrangement, coping with axial and radial loads at exceptionally low friction, and SKF WindCon, providing early data on the condition of mechanical parts of a turbine to take service actions before any failures occur.

Over the year the SKF Wind Industry Quality Standard was introduced to the wind energy market, which aims at setting the course for a more reliable and productive wind industry. Here, SKF is developing a process for built-in quality in product realization and processes, including traceability, non-destructive testing, engineering change management as well as several other features for ensuring best performance quality towards the wind industry.

In 2014, SKF signed several new agreements with leading wind turbine manufacturers, including a major long-term agreement, worth SEK 1.2 billion, for slewing ring bearings for supply to the USA and Brazil. The contract is a result of SKF's acquisition of Kaydon Corporation in late 2013. Kaydon's offering complements SKF's product portfolio in the wind segment very well, enabling SKF to expand its offering to its customers worldwide.

New supply agreements were signed with leading wind turbine and wind gearbox manufacturers, such as Chinese companies Envision Energy and Dongfang Electric New Energy Equipment. The latter received its first international order and SKF was selected as the sole supplier of main shaft bearings for this export order. Some examples of strategic partnership agreements signed in 2014 include Longyuan – China's largest Independent Power Producer (IPP) and wind farm owner and operator, as well as Chongqing Gearbox Corporation, a leading manufacturer of wind gearboxes in China.

Traditional energy

Including: Oil and gas and Traditional electric power generation



Oil and gas Market overview

The oil & gas industry has experienced dynamic change over the past ten years. New drilling technologies, such as horizontal drilling, have opened up new resource formations onshore, while offshore drilling vessels are now

able to safely explore ultra-deep water basins.



Strategic partnership agreement with leading Chinese manufacturer of wind gearboxes

For several years SKF has been a major supplier and development partner to the leading Chinese manufacturer of wind gearboxes, Chongqing Gearbox Co Ltd. This cooperation was expanded in the latter part of 2014 when SKF received an order in excess of SEK 150 million to supply bearing sets for the 1.5 MW and 2.0 MW Chongqing wind gearboxes. In addition, SKF and Chongqing Gearbox Co Ltd reached agreement about longer-term cooperation and signed a Strategic Partnership Agreement in December 2014. Under this SKF will share knowledge through seminars and innovation solutions and act as a 5-platform product supplier to provide full life cycle service support for the Chongqing gearbox range.

Responding to the demand for greater asset reliability, improved operational performance and heightened environmental stewardship, has resulted in a favourable investment climate. Global capital investment in this industry has doubled since 2000.

SKF's offer and role in the market

There are three basic sub-industries in the oil & gas industry: exploration and production (upstream), transportation and storage (midstream), and refining and marketing (downstream). SKF has been a strategic partner to manufacturers and end-users for more than 80 years in all these industries.

SKF is gaining market share with its bearing and seal offers for downhole drilling motors. The integration of Kaydon's slewing ring bearings range, coupled with SKF's expanded seal range, also enables more complete offers to manufacturers of critical drilling equipment that operate on the surface. For production assets placed on the sea floor, SKF offers a new generation of ball and roller screws, special fluid handling seals for valves, hybrid bearings for subsea pumps and magnetic bearings for subsea compressors.

The global expansion of liquefied natural gas (LNG) raises dependency on gas pipeline infrastructure reliability and new investments in offshore production platforms. This brings opportunities for SKF's broad portfolio of condition monitoring products, condition-based maintenance services, lubrication systems and Kaydon's mechanical seals for compressors.

The need for new LNG export and import terminals with specialized transport ships, has increased demand for SKF's hybrid and magnetic bearing systems for pumps, compressors and expanders. One example of business in this area from 2014 is the contract to supply turboexpander manufacturer Turbogaz, with SKF S2M Magnetic Bearings, see the customer case below.

New refineries are being built in non-OECD countries and existing refineries in the OECD are being reconfigured to handle new types of feedstocks, ranging from heavier oil to liquid-rich gas. This development triggers large-scale investments in plant-wide condition monitoring systems, lubrication systems and asset management services. In 2014, SKF received combined

orders worth over SEK 100 million, for an integrated condition monitoring and protection system at a large petrochemical complex in Asia and a similar system for a new refinery in the Middle East.



Traditional electric power generation

Market overview

Increasing demand for energy world-wide continues to be a driver for new power plant construction and the renewing of ageing plants and equipment. The majority of the world's

power plants today are coal-fired, followed by combined cycle gas plants and nuclear power plants. However, there is a distinct trend to move from coal to natural gas where abundant local supplies offer a more economical fuel source, notably in the USA. This fuel shifting can result in lower CO₂ emissions, around 50% less than coal. Other OECD countries are investigating access to the expanding global LNG supply chain and/or the development of local shale gas resources to take advantage of the same trend. Non-OECD countries, such as India and China, continue to invest heavily in new coal-fired plants.

SKF's offer and role in the market

SKF is a strategic partner to manufacturers and end-users, offering a single source for integrated solutions designed to increase operational efficiency and asset reliability. SKF's expertise is instrumental when specifying and designing power plant applications together with OEMs, such as pumps, compressors, steam and gas turbines, conveyors and crushers. Once installed, SKF offers a range of condition monitoring tools and software, training, maintenance and repair services to help power plant owners and operators extend plant service life and reduce the total cost of operations. A few examples in 2014, are an order for SKF Supergrip Bolts for turbine couplings from the Korean energy company, Doosan Heavy Industries and a three-year contract extension for condition based maintenance services to a major independent power producer in the USA.



SKF S2M magnetic bearings to Turbogaz

SKF is supplying turboexpander manufacturer Turbogaz, with SKF S2M Magnetic Bearings. Turboexpanders for natural gas are constantly exposed to gas and harsh environments, which can accelerate wear and failure. SKF's magnetic bearings provide low maintenance needs, as no mechanical contact occurs in the bearings and no lubrication is required. This enables low maintenance, which is vital as the turboexpanders are installed on remote natural gas treatment plants where maintenance is difficult.

Railway 5% of net sales



Railway Market overview

Industrial production, growing global urbanization, increased global concern for emissions, rising fuel prices and continued liberalization of the railway market, is driving growth in the railway industry.

The market is made up of two main sectors: goods transportation, covering the freight wagon and freight locomotive market and the passenger transportation sector, covering intercity transportation and urban transport (commuter, metro and light rail). The annual production of freight wagons makes up around one quarter of the total volume, while the remaining part comprises locomotives and passenger transportation.

Overall the railway industry is expecting continued growth in the coming years. There will be a continued or even accelerated growth in urban transport systems globally as a consequence of urbanization. High speed trains in China, have grown quickly. However, growth in the Chinese high speed sector is likely to level off, while the aftermarket is anticipated to grow in the next four to five years.

SKF's offer and role in the market

SKF has enjoyed steady growth, above the industry's average, in the railway industry over the five past years.

SKF is a global supplier to the railway industry, focusing on servicing both the freight and mass transit markets. SKF supplies OEMs and end-users with a wide range of solutions across the SKF technology platforms, covering wheelset bearings, axleboxes, drive system bearings, lubrication systems, sealing solutions and condition-monitoring. SKF also offers aftermarket services such as remanufacturing services, on-site engineering services, product training and upgrades.

There is a significant need to extend maintenance intervals in the industry, along with greater efforts to avoid unnecessary downtime without compromising safety. To support the industry, SKF offers condition-monitoring systems, which provide an early warning of change in the operating conditions of bearings and other mechanical parts. One example is SKF Insight, a self-powered sensor bearing, launched in 2013. It allows for wireless communication of information about the condition of the bearing via the SKF network of Remote Diagnostic Centres. This will help SKF's customers to extend maintenance intervals further and reduce the operational cost of rolling stock. SKF Insight is currently being piloted by three European railway customers and more customers are expected to be added in 2015.

In 2014, at the global exhibition Innotrans, SKF launched two innovations in bearing technologies. One was a tapered roller bearing unit (TBU) for passenger rail, which extends the maintenance interval from current 1.2 mkm to 1.7 mkm. The other a TBU for the freight market, which enables customers in the mining industry to carry higher loads, 45 ton axle load compared to the existing capacity of 35.5 ton, and increase safety in operations. At the same event, SKF introduced the first wireless full bogie monitoring system, SKF Multilog On-line System IMx. The system enables customers' maintenance departments to swiftly evaluate the condition of all rotating components in motors, gearboxes and wheelset bearings, to improve the trains' maintenance and availability.

Two examples of new major contracts in 2014 are for traction motor bearings at a value of over SEK 100 million to a leading Chinese locomotive manufacturer and a large order from the Russian freight car manufacturer, Tikhvin Freight Car Building Plant, see customer case below.



Improved reliability and uptime for freight cars

The Russian freight car manufacturer, Tikhvin Freight Car Building Plant has developed a new generation of freight cars for the domestic market. SKF is providing technical support as well as Compact Tapered Bearing Units (CTBU) for axle boxes from the SKF Tver factory. The SKF CTBUs functions at a lower operating temperature than other solutions, which reduces stoppages caused by overheated axleboxes. This means improved reliability and uptime for freight cars. The order is worth around SEK 120 million.

Off-highway 4% of net sales



Off-highway Market overview

Increasing urbanization continues to drive demand for earthmoving, tunneling, road building and other construction equipment. The need for greater food supply and increased mechanization in developing economies is also driving demand for agricultural machinery.

During 2014 the overall demand for off-highway equipment was relatively unchanged compared to 2013. The demand for new construction vehicles was slightly higher, while the agricultural industry was influenced by the sharp fall in some global crop prices due to high output in previous years, which led to a lower level of investment in new agricultural machinery in 2014.

Common challenges in construction and agricultural industries include developing machines that enable increased productivity, reduced operating costs and reduced emissions to soil, air and water. All off-highway segments, including construction, agriculture, forestry and fork lift trucks, are affected by stricter safety and environmental legislation, as well as fuel price pressure. Consequently, there is an increasing demand for electric, hybrid, or traditional drivetrains and products, which weigh less, are more efficient and have integrated wireless technology linking the equipment, managers, operators, dealers and OEMs together.

SKF's offer and role in the market

SKF supplies manufacturers, distributors and end-users with a wide range of solutions across the SKF platforms covering bearings, seals, lubrication systems as well as actuators. For optimizing efficiency in drivetrains, SKF's application engineering experience and internally developed simulation tools, enable quick, accurate assessment of real-life fuel efficiency and CO₂ emission reduction. SKF's solutions also use the appropriate bearings and seals that support friction reduction and downsizing. One example is the new generation of SKF Mudblock cassette seals for oil-lubricated wheel-end applications, launched in 2014. The design extends the seal service life by preventing the ingress of contaminants and by retaining the lubricant inside the bearing. It can also reduce friction by up to 20% compared with equivalent products on the market. This provides customers with better asset reliability and increased efficiency.

To meet the demand for electric and hybrid drivetrains, SKF develops solutions for electric motors and generators. One example is SKF's hybrid and INSOCOAT product portfolio, protecting equipment from electric erosion.

SKF received several orders for slewing bearing applications from different Chinese manufacturers of tunnel boring applications, considerably strengthening SKF's position on this market over the year.



Easy installation and flexible tractor user interface design

Valtra has used SKF's steering unit on its largest tractor model series' reverse-drive system (TwinTrac) for several years. SKF's steering unit has now also been adopted for smaller tractor series.

The main advantages include easy installation and flexible tractor user interface design. Thanks to SKF's Steering unit the steering wheel can be moved to different locations very easily. Cab construction is now simplified, because there is no need for hydraulic steering hoses. The steering unit has worked very well overall and Valtra has received positive comments from its customers.



SKF Automotive

SKF Automotive consists of five business units that offer and deliver a full range of products, solutions and services to both OEMs and aftermarket customers. The business units are: Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

SKF Automotive serves manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket, supporting them with innovative and sustainable solutions. In addition, SKF Automotive provides energy-saving solutions for home appliances, portable power tools and electric motors.

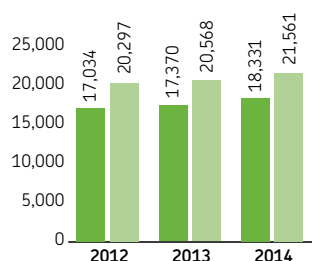
SKF Automotive develops and manufactures bearings, seals and related products and services. Typical products include hub bearing units, tapered roller bearings, small deep groove ball bearings, steering column bearing, suspension bearing units, magnetic bearings, scotseals, shaft seals, bonded piston seals, valve stem seals, actuators and monitoring devices. Solutions

customized for electric motors, driveline, e-powertrain, engine, steering, suspension and wheel-end applications. For the vehicle aftermarket, the business area provides spare parts to cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – packed together in one box for an easy and complete repair.

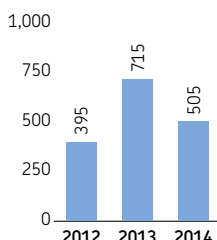
Net sales in 2014 amounted to SEK 18,331 million (17,370), an increase of 5.5%. Sales including intra-Group sales totalled SEK 21,561 million (20,568). The operating profit was SEK 505 million (715), with an operating margin of 2.3% (3.5). The operating profit was affected by one-time costs of around SEK 260 million. The increase in net sales was attributable to organic growth of 2.0% and currency effects of 3.5%.

Sales, SEKm*

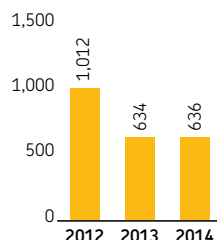
■ Net sales
■ Sales incl. intra-Group sales



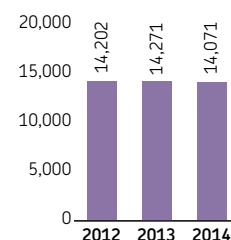
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2014.

Interview with Tryggve Sthen

President, SKF Automotive

What were your major successes and challenges during the year?

Our order intake continued to be very strong. We also continued to receive many prestigious quality awards and good responses from customers during quality audits. For example, one customer said that they think we set a new and even higher quality standard. The area we have seen our strongest growth in is still Asia and we are gaining market share there. In China we had all-time-high sales and we signed new strategic partnership agreements with important customers. These types of agreements give us the competitive edge to grow faster with our customers, capturing and creating value and to help develop vehicles with optimized performance. We saw very good growth in Japan as well.

For example, a leading Japanese car manufacturer awarded us several new contracts for different applications leading to a stronger relationship and larger business volumes.

We have started our first flexible manufacturing channel at our Jakarta factory with the capacity to easily switch production from deep groove ball bearings to wheel hub bearing units. This enables us to support our customers' different needs much quicker and more cost effectively.



“Our strongest growth is still in Asia and we are gaining market share there.”

Interview with Stephane Le-Mounier

President, SKF Automotive as of 1 January 2015

What are your priorities to develop the business?

We will work on being even closer to our customers to quickly react to their needs and support their vehicle development. We will also be focusing on developing connectivity solutions, for example built-in technology in connection with bearings and devices that can provide information to the driver indicating a truck's performance. This can enable the truck fleet owner to plan maintenance activities and drive more economically. To give an example, I can mention the wireless tyre pressure monitoring system designed to measure and indicate the air pressure in the wheel. If the pressure is wrong tyres

wear faster and the truck will consume more fuel.

Another priority area is to continue to cost optimize how we develop products.

We will also be working on strengthening our position in the aftermarket, especially with distribution and logistics. The product range will be optimized to fit the needs to last the life of the vehicle. Our relationship with mechanics continues to be strongly in focus, ensuring that we are the trusted partner with the trusted parts, creating loyalty to the SKF brand through the whole value chain. To manufacture parts quickly, flexibly and cost-effectively will be a major focus going forward. We will continue to install flexible manufacturing channels and to find ways of maintaining a high performance level while reducing costs. All our factories benchmark against set criteria to show how they are improving, this also provides a good base to learn from each other, ie to replicate successes.

Eliminating waste in all we do is built into our ways of working and we will relentlessly focus on this to save time and money. Having a strong focus on the right leadership empowering people and teams is a key factor for success.



“Eliminating waste is built into our ways of working and we will relentlessly focus on this to save time and money.”

Cars and light trucks 14% of net sales



Market overview

Global car production has increased by almost 50% compared to ten years ago. There are now more than one billion cars on the roads worldwide. China, India and South East Asia are home to around half of the world's population and with booming economies, a growing middle class and low vehicle penetration rate; they are expected to be the key sources of growth for the industry. China is the country where most cars are produced accounting for around 25% of world production. Asia as a region accounts for almost half of the total production, followed by North America and Europe, accounting for around 20% each.

In 2014, the worldwide production of passenger cars increased by 2.84% and around 87 million vehicles were manufactured globally.

Increasing global energy demands, ambitious governmental CO₂ reduction targets and growing customer demand for smart, energy-efficient products, are driving the development of solutions that reduce or eliminate fuel consumption and carbon emissions. Telematics and connectivity solutions are also increasing to include smart ways of helping drivers drive safely and efficiently.

Therefore, the industry is significantly investing in developing cars that run on alternative fuels like clean diesel, bio diesel, ethanol, hydrogen, compressed natural gas, or using hybrid technology, combining conventional combustion engines and electric motors or fully electric cars. In addition, as the traditional internal combustion engine technology is likely to continue to propel the majority of cars in the near future, major investments are still being made to make this technology more efficient. Car

manufacturers are focusing on engine downsizing and boosting as well as developing projects for direct injection systems and turbo-charging applications, hybrid drivelines and alternative solutions, such as stop-start systems. There is also an increasing focus on development of high performing automatic transmissions. The new 8, 9 and 10 gear transmissions combined with double clutches and the new generation of smaller engines with electronic control of the automatic transmission, contributes to reducing emissions. Connectivity solutions will contribute with more intelligent systems signaling to the car's control system to auto-correct while driving, keeping car passengers and pedestrians more safe on or off the roads.

SKF's offer and role in the market

SKF is a strategic partner to major car manufacturers worldwide. Lead time for developing new generations of vehicles is fairly long and SKF is involved in the development process years before production starts.



SKF supplies solutions to Volkswagen's first full electric car

SKF is supplying customized tapered roller bearings and SKF eDrive Ball Bearings to the electric motor and gearbox of Volkswagen's first full electric vehicle, the e-up! The solutions help to reduce the friction and noise in the E-powertrain, enabling an extended driving range for the vehicle. The SKF eDrive Ball Bearing is part of the SKF BeyondZero portfolio.

Automotive products are designed specifically for a certain customer and a particular application. One such example is the front and rear wheel hub bearing units for Volvo's new modular platform called the Scalable Product Architecture (SPA). SKF is sole supplier and will start to supply the recently launched XC90 in the first quarter of 2015. Another example is the supply of wheel hub bearing units to Tesla Motors electric vehicles Model S and the upcoming Model X. With these agreements SKF is Tesla's major bearing supplier for the gearbox, e-motor and wheels. In 2014 SKF also started to deliver transmission seals to Geely Automobile to equip their automatic transmission (6AT). The business is worth over SEK 100 million and is valid for around five years.

SKF has developed a wide range of products for reducing fuel consumption and emissions. This is achieved mainly by reducing the friction, weight and size of the solutions, but also by integrating sensors. One example is a new low friction grease for hub bearings launched in 2014. It reduces friction by around 9% compared to standard solutions, cutting both CO₂ emissions and fuel consumption. A car using the low friction grease saves 0.15 grams CO₂ per km. When based on an annual mileage of 14,500 km, the saving is 2.9 kg CO₂ per vehicle. Another example is the energy efficient bearing for hybrid and full electric motors, the SKF eDrive Ball Bearing. It reduces friction and noise in the e-powertrain and enables an extended driving range for the vehicle. This solution is supplied to different electric vehicles. A few examples are Volkswagen's first full-electric vehicle, the e-up! and Mercedes-Benz SLS AMG Coupé Electric Drive. Both the grease and the bearing solutions are part of SKF's Beyond-Zero portfolio. See page 70–71.

Another focus area is to simplify product assembly by integrating components into modules and units. One example is the SKF Rotostat engine crankshaft seal with a sensor, which unitizes six different components into one unit.

New products and solutions are developed and thoroughly evaluated through the dedicated Racing unit to deliver engineering support to the motorsport market segment as well as top car segment. This knowledge can then be further adapted for high volume manufacturing and offered as new solutions to automotive clients. SKF's cooperation with the Scuderia Ferrari Formula One team spans some 67 years – the longest technical partnership in the history of Formula One. A special focus in the last few years has been on supporting them to develop energy recovery systems. Besides major Formula One championship teams, SKF also supplies most of the motorsport series, including the new full electrical series in the various fields of chassis, suspension, engine, gearbox and transmission. The 2014 season marked SKF's 17th year in NASCAR as both a technical partner and sponsor. This has further strengthened the name recognition and exposure of the SKF brand particularly in North America. The partnership with Penske Racing has also enabled SKF to test products under the harshest conditions in both the NASCAR and IndyCar series.



SKF delivered wheel-end solutions for Mazda

SKF delivered the first low-friction hub bearing units to Mazda Motor Corporation during the year. SKF Low Friction Hub Bearing Unit reduce friction by up to 20% compared to a standard unit, contributing to reduced fuel consumption and environmental impact. The bearing units will equip the recently launched Mazda2 model and other models to be launched during 2015.

Vehicle Service Market 9% of net sales



Market overview

The overall aftermarket is driven by the continually ageing global car population with long retention times and an increasing amount of electronic devices that require repairing or replacing, which calls for extensive product knowledge. The after-

market is also influenced by growing global e-commerce.

SKF's offer and role in the market

SKF provides spare parts for cars, trucks and two-wheelers, serving installers through a network of distributors and dealers, which grew around 3% in 2014 compared to 2013. The product offer consists of components and kits – service components bundled together to carry out a complete repair. SKF serves the industry with a product portfolio covering more than 20,000 kits, an increase of 9% in 2014 compared to 2013, comprehensive local sales forces and distributor networks, technical support, hands-on training and an efficient logistics and delivery set-up. SKF also supports its global distributor network with applications such as smart stock management programmes, fitting instructions and other specific product information.

SKF has more than tripled its sales in the past 20 years. To meet the market's growing demand, SKF is focusing on expanding its distributor network and product range, especially in Latin America and Asia. SKF has a good position in India with around 350 distributor locations and a growing network in China. In Brazil, SKF reached a partnership agreement with Bosch Service

during the year, where SKF's entire aftermarket range will be available at 1,800 service centres throughout Brazil, see customer case below.

SKF is strengthening its support for mechanics through training, easy on-line access to parts information and mounting support. One example in 2014 is the introduction of training trucks in Europe to create one-on-one training for automotive and heavy-duty technicians. This concept has been used in North America since 2010 and in China since 2013. In North America SKF has successfully interacted with over 100,000 professional technicians across the USA and Canada. This helps SKF to build strong brand equity with the end-user and successfully create "pull-through" demand from installers to distributors.



Aftermarket partnership with Bosch Service in Brazil

SKF and Bosch Service have signed a partnership agreement to jointly market SKF's vehicle aftermarket product range in Brazil. SKF's range covers virtually all cars and heavy truck models in Brazil and will reach the entire country through Bosch's network of 1,800 authorized vehicle repair centres. SKF was chosen for its extensive product portfolio, technical support for mechanics, as well as its reliably quick logistics through local SKF Distributors.

Trucks 5% of net sales



Market overview

In 2014, the worldwide medium and heavy truck market (over 6 tonnes) declined by around 2%, with 2.7 million vehicles manufactured globally. Asia as a region accounts for just below 60% of global heavy and medium truck production, whereas North and South

America cover just over 20% and Europe slightly less than 20%. In total there are currently approximately 20 million medium and heavy commercial vehicles on the roads globally.

The transport industry is cyclical in the short-term and demand is typically affected by fuel prices and new emission regulations. In the longer term, however, growth is closely related to an increasing need for transport as economies and e-trade grow.

Over the past few years, governments worldwide have been launching new regulations, such as Euro 6 in Western Europe and the upcoming State-4 emission norm in China, to reduce exhaust emissions from trucks and buses. This drives the development of solutions that reduce fuel consumption and carbon emissions. In addition customers focus on total cost of ownership which continues to drive the need for virtually maintenance-free vehicles in all markets.

Another increasing demand is in the connectivity area, for solutions with intelligent systems that provide data to the truck driver or fleet operator to plan for maintenance intervals and optimize driving the truck and trailer in a safe, eco-friendly and cost-efficient way. These tougher demands on the industry continue to open up many opportunities for SKF. One example of a connectivity solution is the tyre pressure monitoring system, where a signal from the tyre indicates wirelessly to a monitoring system display in the dashboard to notify the driver it is time to put air in the tyres. The wrong tyre pressure wears down tyres much faster and increases fuel consumption.

SKF's offer and role in the market

SKF serves the global truck, bus and trailer market with modules, bearings, seals, mechatronic and lubrication systems for the truck and bus wheels, driveline, powertrains, steering systems and trailer axles.

SKF is an engineering partner to global manufacturers and suppliers and is expanding its presence and market share especially in the BRIC countries, partly due to the trend where more global truck manufacturers establish manufacturing operations and partnerships in these countries and more reliable technology is requested by its end customers, such as logistic operators. To support its customers, as well as truck and fleet owners worldwide, SKF has established Group Technical Centres in China and India, extensive manufacturing footprint, a widespread network of distributors and strong local sales force with application engineering worldwide.

SKF's virtually maintenance-free and energy-efficient solutions help to reduce the total cost of ownership and improve vehicle fuel efficiency and reduce emissions. One example is the SKF Gear Bearing Unit, a solution for truck engines. It has high load carrying capacity, which enables increased power density and engine downsizing for heavy trucks. Another example is the SKF Energy Efficient tapered roller bearings, which reduce bearing friction by more than 30% and improve the efficiency of gearboxes and final drives.

SKF is working with the EU project "Convenient" to develop and implement new low friction solutions for the wheel-end and final drive for trucks. The target is to reduce fuel consumption of long-haul trucks by 30%. It is estimated that these solutions will create an annual saving of around 1 ton of CO₂ per truck.

SKF has won several new significant contracts during the year, one example being a long-term agreement with Scania for the supply of unitized wheel bearings as well as high-pressure valve stem seals to Scania in Europe and Latin America, see customer case below. Another example is within the fast growing electric bus segment in China, where SKF provides SKF Split Truck Hub Unit from its factory in Jinan, to be used by major electric bus manufacturers, such as Yutong Bus.



SKF signed an agreement worth SEK 360 million with Scania

As a result of a long-term engineering partnership with Scania, SKF signed two agreements in 2014, worth around SEK 360 million for the delivery of unitized wheel bearings and high pressure valve stem seals. These SKF bearings can be assembled quickly and cost-effectively and allow for longer maintenance intervals, reducing the total cost of ownership for truck owners. SKF's high pressure valve stem seals are designed to withstand the extreme pressure levels generated by modern-downsized and turbo-boosted engines. Deliveries will start in mid-2015.

Two-wheelers and Electrical 2% of net sales



Two-wheelers Market overview

Asia accounts for two-thirds of the global two-wheeler market. The market increased by 9% in 2014, and around 15 million two-wheelers (excluding bikes) were manufactured.

Like in other automotive segments, the development is highly dependent on fuel prices that drive the development of fuel-efficient solutions.

SKF's offer and role in the market

SKF is a partner for major manufacturers providing robust and energy-efficient solutions for engines and transmissions, chassis and suspensions, wheel assembly and racing applications. One example is the SKF One Way Clutch solution for two-wheelers that reduces weight and improves reliability. The assembly is faster as this unit replaces many loose parts. Another example is the floating piston introduced in 2014. It is an integrated sealing module for the pressure reservoir of shock absorbers for motorcycles, mountain-bikes, snowmobiles and ATV (All Terrain Vehicle/Quad) and provides low friction for a better riding feeling and a longer suspension life.

SKF has a solid market position in the motorcycle industry. To meet the demand in one of its main markets India, SKF has a dedicated DGBB factory for two-wheelers in Haridwar and an engineering team in the SKF Global Technical Centre in Bengaluru. In 2014, SKF was awarded with the Certificate of Appreciation from Honda for achieving the requested quality and delivery targets in 2013/2014.

The scooter industry continued to grow in volume. SKF remains committed to working with major motorcycle companies through strong technical partnerships. In addition, SKF works with several companies in the field of motorsport, more precisely the Ducati Racing Team in the Superbikes and Moto GP series and with Betamotor, a leader among Trial and Enduro world teams.

Electrical Market overview

Customers in this market include manufacturers of home appliances, electric motors for use in consumer goods, portable power tools and skates. The development in this industry is driven by energy efficiency legislation and growing customer demand for energy and cost-efficient solutions. The production of home appliances is mainly found in China, South Korea, Poland, Turkey, Russia, Italy, Germany, Mexico and Brazil, where China and South Korea are growing in importance. This is a significant change in balance compared to five years ago, when most of the manufacturing of appliances was in Europe, China and North America.

The home appliance and electric motor markets have been consolidating over the past six years and this continued in 2014. The market was also affected by a slowdown in Europe and customers continued to announce plans to restructure their business and reduce capacity or move capacity to Asia Pacific where the market is growing.

SKF's offer and role in the market

SKF is present in most countries where production is taking place and provides the industry with energy-efficient solutions such as the SKF Drum Support Unit, which reduces energy use with energy-efficient bearings and low friction seals and enables exact alignment of the shaft. Another benefit is the mechanical integration of the washing tank and housing, which reduces the number of parts in the washing machine.

SKF's fork seals holds the pressure in extreme racing

SKF's fork seals are mounted in many high-end motorcycles today and are also a premium choice in the aftermarket. Customers appreciate the better feel they give in the front wheel's movement, the reduced vibration in the handlebars and better riding comfort, while at the same time there is higher reliability. A Japanese customer, Showa, used SKF's seals in their fork applications for bikes racing in the 2015 Dakar rally, a demanding environment for product performance and reliability.



Specialty Business



In 2014, the following units were included in Specialty Business:

- Kaydon Corporation
- PEER Bearing Company
- General Bearing Corporation
- SKF Logistics Services

Kaydon Corporation

Kaydon completed its first full reporting year as part of the SKF Group, having been acquired in October 2013. Kaydon continues to operate under its own brands endorsed by the SKF Brand. See page 65.

During 2014 the company achieved its sales and costs synergies as planned, with sales higher year-over-year and in local currency. The bulk of Kaydon sales were generated in North America, but there is an expanding presence in both Asia Pacific and in Latin America. This includes the construction of a 6,600 m² facility on the SKF Campus in Cajamar, Brazil which was begun in October of 2014. The facility will start by mid 2015 to produce Kaydon slewing ring bearings for wind turbine manufacturers providing solutions to the North American and Brazilian wind energy segments.

Kaydon's product offer is highly complementary with SKF's product portfolio and enhances SKF's offering to its customers

Net sales in 2014 amounted to SEK 6,058 million (3,081), an increase of 96.7%. Sales including intra-Group sales totalled SEK 9,290 million (6,009). The operating profit was SEK 1,030 million (395), with an operating margin of 11.1% (6.6). The operating profit was affected by one-time costs of around SEK 10 million. The increase in net sales was attributable to organic growth of 2.7%, structure 83.5% and currency effects of 10.4%.

worldwide. Kaydon serves a number of segments that are less represented in SKF's current customer base and provide an opportunity to expand its product offering to those customers.

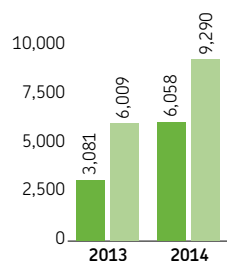
Kaydon Corporation is a leading designer and manufacturer of bearings and velocity control products such as industrial shock absorbers, gas springs and vibration isolation products. Its specialty products include custom rings and seals as well as environmental services which includes filters and filtration systems. These products and services are used by customers in a variety of industries such as aerospace, medical, semicon, wind energy, material handling and machine tool. Kaydon is a leader in its product categories, such as split bearings and thin section bearings, with highly engineered, performance-critical products.

PEER Bearing Company

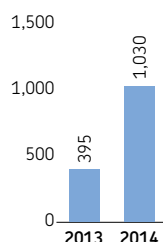
PEER serves industries such as agriculture, material handling, heating, ventilation, air conditioning and mechanical power

Sales, SEKm*

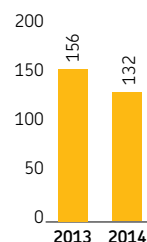
■ Net sales
■ Sales incl. intra-Group sales



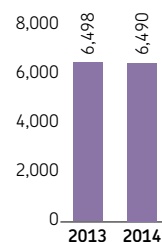
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2014.

transmission. The company manufactures deep groove ball bearings, tapered roller bearings, agricultural bearings and mounted unit bearings.

While affected by the unfavourable trend of the Agricultural market in general, PEER strengthened its position with many US and European Agricultural customers through their increased approval of PEER's new products. As a result, 2014's sales were slightly higher than 2013.

PEER celebrated its 10 Years "Supplier Hall of Fame" in the John Deere Achieving Excellence program. This Partner-level status is their highest supplier rating and was awarded to PEER for outstanding performance. PEER was also validated by a leading US Engineering Procurement Consultant for products used in a high-end baggage handling system with worldwide opportunities.

PEER Bearing Company was acquired in 2008 and operates under the PEER brand.

General Bearing Corporation (GBC)

GBC mainly serves OEM and aftermarket customers in the truck, trailer, automotive and industrial transportation markets. The company manufactures ball bearings, tapered roller bearings and precision rollers.

As a result of new program launches, very favourable truck market growth in the USA and greater sales in Asia, 2014's sales were significantly higher year-over-year measured in local currency.

GBC continued to increase its global presence by maintaining high levels of service and quality and offering global support for its customers new programme developments. General Bearing Company was acquired in 2012 and operates under the General and Hyatt brands.

SKF Logistics Services

Logistics is the management of the flow of components and goods in the most effective and efficient ways, from suppliers to SKF and from SKF to its customers. SKF reaches over 50,000 customer sites, with short lead-times through its global transportation network and local and regional warehouses. SKF can deliver the next day in many regions. SKF's expertise and activities in this area are a key competitive advantage for the Group.

SKF Logistics Services supplies services to the Group related to integrating information, transportation, material handling, inventory management, warehousing, packaging and security. As SKF has the critical mass to distribute goods worldwide, it also helps other companies to optimize their integrated logistics solutions, giving them a competitive edge in terms of costs, services and flexibility. SKF is able to offer global air, ocean, road and railroad transportation, international SKF Logistics Services units and local warehouses, packaging and inventory management. SKF has been providing third party logistics services for more than ten years.

To ensure product availability, SKF has regional SKF Logistics Services units located in Belgium, the USA, Uruguay, Singapore and Shanghai. The regional warehouse in Shanghai and the local warehouses in Brazil and Mexico have moved to new facilities and became fully operational during 2014, resulting in improved productivity, service level and environmental, health and safety standards.

SKF is continually striving for lower energy use, reduced waste and lower emissions, both at warehouses and within transportation. This is done, for example, by introducing solar panels at warehouses and using biogas trucks for transportation wherever possible. SKF's climate strategy, launched in 2012, includes the target to reduce CO₂ emissions per tonne-kilometre by 30% below 2011's level by 2016, from all transportations by SKF Logistics Services, read more below.

Certification

All members of the WCO (World Customs Organization) endorse the SAFE Framework of Standard (FoS) Global Trade, which builds on the best practices of customs authorities and industry partnerships to strengthen supply chain security. These certifications enable SKF shippers and importers to access the FAST lanes via mutual recognition of the existing Customs Security Programs.

SKF is an active partner and participates in this programme in various countries. The programmes are managed by SKF Logistics Services together with the local SKF country umbrella unit.

So far the units that are certified are Belgium, Canada, France, Sweden, Germany, Singapore, Italy and Switzerland.

Environmental impact from transport and distribution

SKF Logistics Services handles a large part of SKF's transport, mainly distribution to customers, but also inbound transport between SKF's suppliers and factories. The emissions generated from logistics related to SKF are included in the targets defined in the climate strategy, see page 85. The target is to reduce CO₂ emissions per tonne-kilometre by 30% by 2016 compared to 2011. CO₂ emission per tonne-kilometre is an accepted measure of the carbon efficiency of logistics.

SKF Logistics Services measures the emissions of the air, ocean and express shipments on a global level. For road transportation, the Group mainly reports emissions from its network within Europe. The scope changes rapidly over time and this is one of the reasons why SKF is using transport works efficiency (CO₂ per tonne-kilometre) as the main performance indicator in the target explained above. For a lot of road transportation outside the scope, there are difficulties in obtaining reliable data from logistics providers.

The monitoring includes emissions of carbon dioxide (CO₂), carbon monoxide (CO), nitrogen dioxide (NO₂), sulphur dioxide (SO₂), particles (PM) and hydrocarbons (HC). The total CO₂ emissions from SKF Logistics Services development are presented below.

Actions and results (excl. express)	2014	2013	2012	2011
Tonne-kilometre (millions)	1,877	1,974	2,086	2,131
CO ₂ emissions (tonnes)	38,675	38,606	51,192	51,803
CO ₂ emissions (gram per tonne-kilometre)	20.6	19.6	24.5	24.3

The total CO₂ emissions 2014 were more or less unchanged and transportation works was slightly lower than 2013. The overall reduction in CO₂ per tonne-kilometre from base year 2011 is 15%.

The SKF Group and SKF Logistics Services are focusing on a number of key areas to reach the targets set and to reduce total emissions from transportation, such as:

- Reducing the total amount of transport (eliminate waste)
- Shifting towards more efficient transport modes
- Improving efficiency in the transport chosen

To minimize the total emissions from transports, SKF Logistics Services is working with incentive schemes and strategic plans to increase fill rate, which was 79% for 2014, improved planning and routing of trucks, increased consolidation of air/sea transport, demand latest technology and fuel types etc.

Focusing on more efficient transport modes is another contributing factor to achieve SKF's emission targets for logistics and distribution. The most obvious is to replace air shipments to less polluting transport modes.

In 2014 SKF Logistics Services re-routed its transports in Spain, where all pre-haulage (from shipper to terminal) from Zaragoza to Barcelona has changed from road to rail mode, and pre-haulage in Germany was changed from road to rail – from Schweinfurt to Hamburg and Bremerhaven. Trucks are only used in exceptional cases. These actions resulted in a significant improvement of transport efficiency – reducing the length of transportation and introducing a more efficient transport mode. For these closed lanes the total emission was reduced by 27%

and the emission per tonne-kilometre was reduced by about 40%. During 2014, SKF Logistics Services also initiated a pilot project to investigate the potential of rail solutions from Europe to China. This is under evaluation.

SKF Logistics Services collaborates with customers, peers and other organizations such as the Clean Shipping Initiative and KNEG (Climate Neutral Transports) to contribute to improving the environmental performance of the transport sector. Read more on skf.com

Business travel

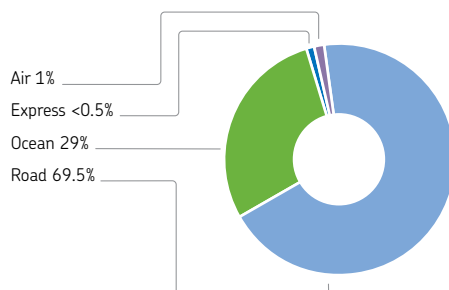
Another aspect of logistics is business travel. For a multinational organization such as SKF, business travel is a necessary activity and one that inevitably results in CO₂ emissions. The global nature of the Group's business means that air travel accounts for by far the largest CO₂ emissions in business travel.

SKF monitors CO₂ emissions from its air travel to and from Europe, USA and China. China was added to the scope of reporting 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. SKF is a global company and meeting in person is often an important contributing factor in establishing effective global collaboration. However, the need for travel is always questioned and when alternative ways of meeting are appropriate they are used.

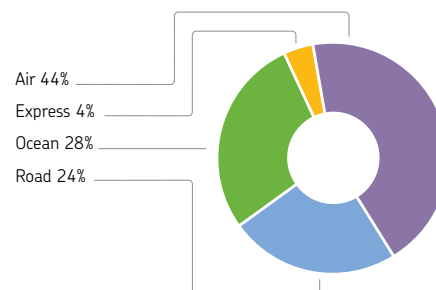
The total reported CO₂ emissions from air travel in 2014, using the new extended scope, including China, amounted to 24,236 tonnes, 18,569 tonnes according to the previous scope (16,336). SKF has invested in alternatives for business travel over the years. Virtual online meeting rooms and telephone conferences are utilized extensively and video conferencing facilities are available at most SKF locations.

Global and local travel policies exist to reduce the use of air travel when alternatives, such as trains, are viable.

Percentage of shipped weight
per transport mode 2014



Percentage of carbon emission
per transport mode 2014



Awards



SKF's products, solutions and services are highly esteemed.
The following is a list of some of the awards received by the Group in 2014:

Best Available Energy Saving Practice Implementation Leader 1st place and honorary certificate by Ministry of Energy of the Russian Federation for SKF Railway & Off-Highway Factory, Tver

Best supplier award by Nanjing Gearbox Company, China

Best supplier award by Shanghai Hanbell Precise Machinery Co., Ltd, China

Best supplier award by Weg Electric Motor Manufacturing Co., Ltd, China

Best supplier award for outstanding performance by Kirloskar Pneumatic Company Ltd., India

Best Technical and Service Award 2013 from the customer Envision Energy, China

Best Vendor – Runner Up, Tata Steel, India

Boeing Performance Excellence Award

Certificate of Appreciation by Honda, India for quality and delivery performance

Excellent Engineering Development Award by Shanghai Automobile Gear Works (SAGW), China

Excellent Quality Supplier award from Hino Motors, a Toyota Group company, Japan

Excellent Supplier Award, ABB Marine

General Motors (GM) Customer Care and Aftersales On-Time Shipping Platinum Certificate of Excellence Award, USA

General Motors (GM) Supplier of the Year award, Republic of Korea

General Motors (GM) Supplier Quality Excellence Award, Argentina

General Motors (GM) Supplier Quality Excellence Award, Brazil

General Motors (GM) Supplier Quality Excellence Award, Germany

General Motors (GM) Supplier Quality Excellence Award, USA

Honorary certificate, best sustainability report by FAR (the institute for the accounting profession in Sweden)

iF Product Design Award 2014

LEED Platinum certification for SKF LBU Chodov factory by US Green Building Council

Marine Supplier of the Year Award 2014, Rolls-Royce Marine

Mont-Blanc trophy 2013, Descours & Cabaud

Outstanding Performance in OEM (Spares) Category 2013–14, Sesa Sterlite

Plant Engineering Product of the Year 2013 – Bronze Award in 'Maintenance Tools & Equipment' category

Premium Supplier Award from Joy Global Underground Mining LLC., USA

Quality Gold Award 2013 from Yamaha Motor Company, India

Quality Silver Award 2014 from Bajaj Auto Limited, India

Software AG Innovation Awards 2014 – winner 'Cloud' category, Software AG

Strategic Supplier, RWE

Supplier Certification of Appreciation from Nissan China

Supplier Excellence Award – Partner Level for 2013 from the customer National Oilwell Varco (NOV), USA

Supplier of the year award from Varian Medical Systems UK Ltd.

Supplier of the Year 2013–2014, Tools

Supplier of the year award in the category "Technical support", GroupAuto, Netherlands

Supplier performance award by Snecma, a company in the Safran Group, France

Technical Cooperation Award from Goldwind

The Qualitas Award from Fiat/Chrysler, Argentina

Brand



The SKF brand is one of the most trusted and well-known global industrial brands. SKF has been a leading technology provider for more than 100 years and its fundamental strength is its ability to continuously develop technology, products and services that enhance competitive advantages for its customers, while giving the right return on investments for its shareholders.

The SKF Brand

SKF's offer has evolved over many years from primarily being based on bearings, to include products and services from all five technology platforms.

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.

Endorsed brands:

In addition to the SKF brand, SKF also operates with a number of endorsed brands such as KAYDON, COOPER, ALEMITE and REELCRAFT. They are examples of strong brands which have been acquired by SKF and will be used for the foreseeable future. These brands represent the same brand promise as the SKF brand.



They are all linked to SKF with an endorsement mark clarifying that each brand is a brand belonging to the SKF Group.



Blohm + Voss Industries



The SKF brand operates together with acquired brands of strategic importance on a product level. The above brands are examples of brands that represent the same brand promise as the SKF brand. Both logotypes appear together on product and communication material.



Second brands:

SKF has additional brands such as PEER, THE GENERAL and HYATT in its portfolio to provide service to areas of the marketplace that have different requirements. These brands are run by independent subsidiaries within the SKF Group, acting on the market under their existing brand names.

Brand protection

SKF continues to see a reduction of counterfeit products in many markets, especially in Europe. As end-users become increasingly aware of the existence of counterfeits they are starting to use SKF authorised channels to safeguard authenticity. In China and India alone, SKF gained 217 new customers in 2014 as a direct effect of its brand protection activities. These customers have previously unknowingly been supplied with SKF counterfeit products, which caused problems in terms of low performance and/or bearing failures.

SKF is also intensifying its support to various customs authorities. The SKF trademark is registered with customs authorities in 32 countries, in most of which SKF has run training courses for customs personnel. The US customs authorities are especially vigilant in seizing shipments, both to domestic importers as well as transit shipments to South America.

In 2014 SKF acted against 540 websites offering counterfeit products, mainly in China. 318 of these websites were closed down. For the remaining websites, the SKF advertisements were in most cases removed.

Over the year SKF also intensified its efforts to create awareness among end-users of the problems counterfeit industrial products could cause and how to best avoid accidentally being supplied with these. For example in 2014, SKF invited customers in Spain and Portugal to an event where fourteen tons of counterfeit bearings were destroyed by the authorities. SKF and law enforcement had the opportunity to respond to questions from the press and raise customers' awareness on the existence of counterfeit industrial parts such as bearings and the damages these could cause. Another example is how SKF and the Swedish Embassy in Chile invited senior representatives of customers in the mining and pulp and paper industries to inform on counterfeit bearings and how to avoid having business damaged by counterfeit.

SKF has also contributed to the anti-counterfeit campaign managed by the World Bearing Association on the website stopfakebearings.com. The campaign aims at increasing the awareness about the risks connected to counterfeit bearings and the best way to avoid accidentally being supplied with counterfeit parts. The campaign has been well received also by law enforcement authorities active trying to halt the trade with illegal parts.

New products and solutions

Every year SKF launches products and solutions to help customers increase machine up-time, reduce maintenance and energy use, improve safety and lower the total cost of ownership of their equipment. A selection of launches during the year is presented below.

New products and solutions for the industrial market



Extended range of infrared thermometers which allow early identification of problems and their root causes and take photos and videos making it easier and safer for engineers to measure surface temperatures.



A low torque valve solution for subsea valves used in the offshore oil and gas industry, with a high reliability design which combines the functions of roller screw, support bearings, seals and lubrication into a unitized assembly. Innovative internal geometry allows smooth operation of the valve.



Electric grease transfer pumps designed for filling centralized lubrication system pump reservoirs used in wind energy, vehicle service and general mechanical and plant engineering applications. These pumps provide a time-saving alternative to manual filling.



New version of the **SKF oil injector** and an associated new series of oil injection kits, suitable for many applications using the SKF Oil Injection Method.



A range extension of the **SKF Food Grade Lubricants** developed to perform reliably in the typical application conditions of the food and beverage industry.



TURBOLO BlueMon Environmental Monitoring System which couples a ship's emission values with GPS position data, helping ship operators to comply with emissions regulations.



SKF Oil injection set THKI series for the mounting and dismounting of pressure joints of all sizes and applications such as rolling bearings, couplings, gears, flywheels and railway wheels.

SKF Fixed induction heater EAZ series – an improved range of induction heaters designed to safely and easily dismount cylindrical roller bearing inner rings.





A new generation of SKF Mudblock Seals for off-highway vehicles, which increases service life with up to 50% and reduces friction with up to 20%. It is specifically developed for oil-lubricated applications in harsh environments and tough operating conditions.



SKF Multilog On-line System IMx-M is a protection system that detects and diagnoses faults and gives advice for correcting conditions affecting machine reliability, availability and performance.



Telescopic pillar series CPMT for the procedure chair market, is able to lift up to 450 kg and has extremely short retracted length of minimum 320 mm with a lifting range between 400 to 600 mm.

The low retracting length is delivering easy access and entry height to patients, even with disabilities. The high lifting range, gives optimum performance to care givers for flexible treatment.



SKF Wireless MicroVibe, which works together with mobile devices to enable portable vibration monitoring.



SKF Wireless Machine Condition Sensor, which provides condition monitoring for large plants, or in hazardous and hard-to-reach locations.



SKF @ptitude Connect, a cost-effective cloud computing service, which provides instant access to SKF condition monitoring software, enabling customers to improve plant performance and efficiency.



SKF Shaft alignment tool, which works using mobile devices and is the first instrument on the market to use inductive proximity sensors rather than lasers to enable accurate and reliable shaft alignment.



SKF Tachometer, a entry-level tachometer enabling fast and accurate contact and non-contact speed measurement of rotating objects and surface speeds.



A compact tapered roller bearing unit enabling higher rail freight load with a transportation capacity of 45 ton axle load instead of the existing 35.5 ton axle load.



A tapered roller bearing unit for passenger railway applications increasing bearing service life by up to 40% compared to existing solutions.



A wireless bogie monitoring system helping extend service intervals, improve maintenance planning and cut operating costs.



SKF Static Motor Analyzer Baker AWA-IV is a series of SKF motor analyzers which integrate a wide range of electrical tests into a single portable instrument designed to assess the condition of electric motors.



SKF Machine Tool Observer MTx for actively monitoring, observing and logging the performance history of machine tool spindles, grinding machines and other rotating equipment.



SIMPLEX-COMPACT FZ stabilizer is a non-retractable fin stabilizer that can reduce the rolling motion of marine vessels at anchor (zero speed).



SIMPLEX-COMPACT Oil Dryer unit extracts water from the stern tube seal lubrication oil and can thereby maintain the quality of the oil, which keeps the shaft seal lube oil virtually free from contaminant water.



SKF Static Motor Analyzer ATF 5000 Accessory is a hand held bar-to-bar test device that improves DC armature testing accuracy and speed.

New products and solutions – Kaydon Corporation



PuraBreeze 100 household filtration system combines chemical filtration with particulate and microorganism filters to eradicate 99% of pollutants, dust, pollen, bacteria and fungus.



The Cooper split taper roller bearing, which saves downtime by not requiring shaft removal.



A damping assembly which integrates two Hahn gas springs and an oil damper to provide a soft closing feature for heavier sliding doors or dividers.

New products and solutions for the automotive market



Low friction grease for hub bearing units reduces friction by as much as 9%, compared to standard grease. It contributes to lower CO₂ emissions and to improve the total vehicle efficiency. This is a SKF BeyondZero product.



SKF Gear Bearing Unit is a robust solution for truck engines. It has a high load carrying capacity, which enables increased power density and engine downsizing for heavy trucks.



Floating piston is an integrated sealing module for the pressure reservoir of two-wheeler shock absorbers, providing low friction for a better riding feel and reduced nitrogen permeation for a longer suspension life.



SKF Motor Encoder Sensor-Bearing Unit is a compact unit that integrates bearing and sensor technology. It provides smooth and accurate motor control for the next generation of electric and hybrid motor vehicles, including starter-alternators for stop & start. This is a SKF BeyondZero product.



Low noise preloaded steering column bearing offers significantly reduced noise levels while maintaining existing performance characteristics.

SKF BeyondZero portfolio

The SKF BeyondZero portfolio consists of solutions that help customers reduce environmental impact in one of two fundamental ways – Designed for Environment or Applied for Environment (see explanation below). The environmental improvements provided by the various solutions in the portfolio are validated through a life cycle assessment-based methodology developed by SKF. In order to assure the accuracy and credibility of the portfolio and approach, the process, as well as reported results, is reviewed by external auditors. The growth of the SKF BeyondZero portfolio forms an important part of the Group's overall business and environmental strategy.

Designed for Environment

The SKF product or service in itself has specific features that realise a reduced environmental impact for the customer, such as the SKF Low Friction Hub Bearing Unit.

SKF Low Friction Hub Bearing Unit

- Reduced friction
- Reduced fuel consumption and CO₂ emissions
- Longer service life



The SKF Low Friction Hub Bearing Unit is mounted in the wheel end of cars. Thanks to the optimized internal geometry and grease lubrication, it has a high stiffness, low friction and longer service life. All in all, the SKF Vehicle Environmental Performance Simulator – an advanced simulation tool developed to establish the total energy performance of passenger cars from a complete systems perspective – shows that SKF's Low Friction Hub Bearing Unit provides significant environmental benefit. The unit reduces friction by over 20% and contributes significantly to improved fuel economy and reduced CO₂ emissions.

Applied for Environment

The application of SKF's products or services help enable a larger system which, in turn, can provide a reduced environmental impact, such as SKF's solutions provided to the wind power industry, or the example below from SKF Industrial Market.

SKF's solutions for super waste water pumps

- Most reliable and robust bearing and lubrication solution
- Improved service life and reduced maintenance



In the past, untreated waste water has contaminated the rivers of London about 50 times per year. The Lee tunnel is 7 kilometres long, built 80 meters under ground level in London, with the purpose of storing surge water and allowing proper treatment before released into the river.

The deep underground construction complicates efforts to maintain and service the pumps, making reliability absolutely critical. SKF's solution includes spherical roller thrust bearings, tapered roller bearings, spherical roller bearings (each of these weigh 200 kg). The arrangement is supported by the specially designed SKF CircOil lubrication system with unique safety features needed for the tough conditions. In addition, SKF has supported the project with advanced modelling and engineering support. SKF's contribution played an important role in helping make this major environmental project a success.

The purpose of the portfolio

Numerous 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 driven to improve energy efficiency as well as to reduce the environmental impact from their products, services and processes.

By addressing both the business and environmental dimensions, the SKF BeyondZero portfolio creates significant new value for customers, investors and the environment. Read more on the criteria for inclusion, governance, classification and verification of the SKF BeyondZero portfolio online, see [skf.com](https://www.skf.com)

SKF BeyondZero portfolio – 2014 results

A total of 56 (42) specific SKF solutions were included in the portfolio at year-end 2014, in addition to SKF's complete business in the renewable energy and electric vehicle industries.

The total revenue of the portfolio in 2014 was SEK 5,493 (3,324) million with a large part of this volume coming from SKF's renewable energy business. The growth is based on acquisition in the wind energy business, sales development of solutions included in previous years and the inclusion of additional solutions in 2014 – both new market offers and solutions from SKF's existing assortment for which new environmental assessments have been completed, such as hybrid bearings, electric cylinders, ball screws and roller screws.

The calculated avoided greenhouse gas (GHG) emissions enabled by specific SKF solutions – Designed for Environment or Applied for Environment – sold in 2014 was 440,000 (83,000) metric tonnes per year. The increase is mainly explained by the

inclusion of electric cylinders, ball screws and roller screws in the portfolio. In addition, the avoided GHG emissions enabled by SKF's business in the renewable energy and electric vehicle industries in 2014, was around 1,760,000 (1,220,000) metric tonnes per year. More information is available in the Statements on environmental performance. See pages 176–177.

SKF BeyondZero portfolio – 2016 ambition

The business growth of the SKF BeyondZero portfolio is strategically important to SKF and forms the central element of SKF's climate strategy. The Group aims to increase revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016. This target forms part of SKF's Climate Savers commitment with the WWF. Progress against this target, along with the avoided greenhouse gas emissions that are enabled by SKF's business in this area, will be publicly reported through the annual report and other media.

Examples of products and solutions included in the SKF BeyondZero portfolio

SKF Agri Hub

- Reduced grease use
- Reduced risk of soil contamination
- Eliminates maintenance



The SKF Agri Hub features a complete integrated unit for tillage disks, reducing the risk of pollution from reducing grease leakage over the product's lifetime.

Low Friction X-Tracker

- Overall vehicle efficiency improvement
- Reduced fuel consumption and CO₂ emissions



The Low Friction X-Tracker is used in the wheel-end of cars. It features optimized grease quantity and cassette seals with improved seal lips for optimal contact forces. These features together reduce total friction by 25% compared to a standard X-tracker.

SKF car driveline portfolio

- Reduced friction
- Improved overall vehicle efficiency



SKF's energy efficient driveline portfolio is a group of bearing and seal solutions for the gearbox, power take-off unit and final drive that can reduce emissions by up to 8 grams CO₂ per kilometre.

SKF Climate Saver award 2014 to the team behind SKF's solution for aeration blowers



The first SKF Climate Saver awards were presented in May 2014 as a special category in the SKF Excellence Awards – focusing on promoting SKF's employees and teams who have contributed to SKF's success and living up to SKF's values. One of the awards was presented to the

team behind the SKF solution for aeration blowers, which is part of the SKF BeyondZero portfolio.

Aeration blowers are used in major wastewater facilities. These blowers typically use a large proportion of the total energy, 40–80%, of modern waste water plants. SKF's solution

includes high-speed permanent magnet motor solutions and magnetic bearing arrangements, which enable improved service life and reliability. The SKF solution can save up to 40% of the energy demand in the aeration process. Please read more at beyondzero.com

- Reduced energy demand and use
- Reduced weight and construction cost for customers
- Reduced noise
- Oil-free capability reduces risk of contamination



Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. In 2014, SKF recorded 646 (650) invention disclosures and successfully registered 488 (468) first filings of patent applications.

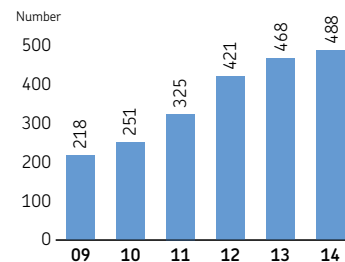
R&D expenditure in 2014, excluding developing IT solutions, was SEK 2,078 million (1,840), corresponding to 2.9% (2.9) of annual sales. Capitalized product development expenditure was SEK 28 million. SKF's R&D spending, in local currencies, rose by 8% in 2014 compared with 2013. The Group is increasing its activities in the R&D arena by focusing more on new products and services that have a positive impact on the environment. In addition there has been a greater concentration on strengthening core technologies, launching new products, increasing R&D activities in rapidly developing regions and further strengthening links with universities and technical colleges.

Innovation – from technology to market

SKF's strategic approach to technology focuses both on bringing new ideas to the market and on developing its core technologies. A key factor for having a steady stream of innovative products and services is establishing a corporate process for continuously evaluating new ideas coming from different parts of the organization. In recent years, SKF has successfully implemented a central corporate program for bringing innovative ideas to market. The most important projects in this program, involving several business units and technologies, receive the utmost focus and attention by the company's senior management.

The deployment of Business Excellence in the Innovation Process is driving a strong culture aimed at maximizing the value that SKF delivers to customers, by increasing the speed and efficiency of SKF's processes.

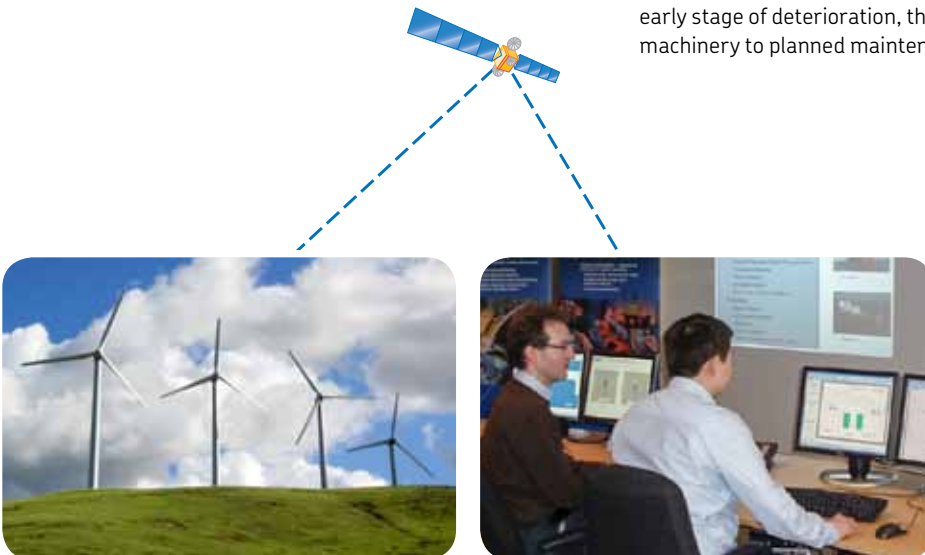
SKF Group's first filings of patent applications



Encouraging an innovative culture is vital to SKF and every year a number of internal projects are selected and rewarded for their exceptional contribution to business, innovation and sustainability. One such project is the SKF WindCon, a service system for windmills which won one of the SKF technology Excellence Awards in 2004. The SKF WindCon has been installed on more than 8,000 wind turbines over the years, and about 2,000 wind turbines are today remotely monitored by SKF vibration analyst specialist.

The analysis of signals generated from vibration acceleration in rotating machinery has a long history within SKF. With the wind energy technology emerging, SKF realized the benefits of early detection of mechanical failures through condition monitoring also for wind turbines.

SKF WindCon has provided major savings for windfarm owners around the world by detecting initiating failures at an early stage of deterioration, thereby converting break down of machinery to planned maintenance activities.



The SKF WindCon has been installed on more than 8,000 wind turbines over the years, and about 2,000 wind turbines are today remotely monitored by SKF's vibration analyst specialists.



"SKF's global trainee programme gave me the opportunity of working in different business units at SKF," says Naqeeb Bin Yusuf. "The flexibility of the programme let me work on different research projects, including ones related to lubrication and bearing technology. In addition I was trained to be a certified Design for Six Sigma Green Belt, which is crucial for working with research and development. I am very proud to have been part of this programme."

People

SKF Technology Development organization's challenges can only be met with people that are skilled, passionate and able to work in multicultural environments, within a global network. One example of a very challenging environment is the Engineering and Research Centre in Nieuwegein (NL), where more than 120 scientists, engineers and technicians, from more than 20 nationalities, work together every day with their colleagues around the globe.

Expertise is key to the success of R&D and major efforts have been made in recruiting and developing the right expertise via a global trainee programme for Group Technology Development.

The programme develops the new recruits through an extensive training portfolio and rotations abroad to SKF units and factories. The job rotation is individually tailored to prepare the trainees for the specific role they will have at the end of the programme.

Global Technical Centres

Global Technical Centres are the backbone of SKF's global technical footprint. The aim of the centres is to assume a global and regional development role, matching innovation and technical knowledge with local customer needs. These Global Technical Centres allow SKF to exploit economies of scale, bringing together expertise from different technical areas and product platforms.

Relationship with the academic community

SKF collaborates with the academic community and with renowned universities for establishing SKF University Technology Centres (UTCs). These complement SKF's in-house research, establishing long-term relationship for creating fundamental support and bringing new ideas in technical areas of strategic interest for SKF. The research programmes at the UTCs are defined to meet the needs of SKF technology develop-



One example of new software development has been MOST (Mobile Operator Support Tool). It is used by channel operators to access information they need to perform their work efficiently, through the use of smart mobile devices such as iPhones and iPads. The MOST system aims to improve work efficiency, and reduce maintenance, problem solving and resetting times.

ments, so that the results of the work carried out at the UTC is directly integrated into SKF's R&D programs. SKF has six UTCs: University of Cambridge for Steel technology, Imperial College London, Great Britain for Tribology, Chalmers, Göteborg, Sweden for Sustainability, Luleå, Sweden for Condition Monitoring, Tsinghua, China for Polymers and Singapore for manufacturing technologies. SKF actively involves strategic customers and suppliers in the UTCs, joining forces in areas of common interest. This ability to bridge Academia and Industry in common R&D networks allows SKF to access significant governmental R&D funding, increasing the leverage of R&D investment.

Materials and heat treatment

SKF leads the field in material knowledge and application, and is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations for meeting the ever-increasing demand for load-carrying capabilities and energy efficiency. Through its unique heat treatment processes,

SKF achieves exceptional steel properties by controlling its micro-structures and residual stresses. The continuous strive for optimizing the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications. New computer-based techniques are used to understand deformation behaviour and the response of hardened steels under extreme load conditions.

Technological development in non-metallic materials, such as polymers and ceramics, is also important. SKF focuses strongly on their friction and weight reduction properties, enabling them to support market trends and maintain the sustainable strengths of SKF's products.

The Advanced Manufacturing Lab has been set up at the SKF Research Center in the Netherlands since 2012 to speed up the process of testing solutions for products and processes, helping the validation of the advanced ideas and simplifying the transfer

to the Product and Process Development activities. A crucial role in this development is played by high-level cooperation with key Universities, including UTCs, and through close relationships with the business areas.

Integrated sensing technology

SKF has developed wireless, self-powered technologies for “smart” bearings by combining its core bearing design skills with its expertise in condition monitoring. Data can be transmitted to local devices and onwards via the internet using sensors embedded in the bearing. The bearing can also capture the operating conditions to which it is exposed, for example, loads, temperatures and lubrication.

A smart bearing can therefore detect deviations from expected design conditions and initiate corrective action, before any damage is done. This can be done locally and automatically, for example changing lubrication conditions, or remotely, informing the operator about conditions requiring a certain intervention to ensure the machine’s reliable operation. An example of the application of such technologies into a product is SKF Insight. During 2014 the SKF Insight solutions have been tested in pilot studies with railways (in freight and passenger segments) and wind customers. Results have successfully proved the applied technology and the values for the customers.

Life cycle management research leading to sustainable solutions

SKF focuses strongly on new products and services that have a positive impact on the environment, and support the SKF BeyondZero strategy.

The target is to improve the environmental performance of customer’s applications, considering the environmental consequences of a product or manufacturing process, no matter where in the product’s life cycle these consequences occur. In this area SKF collaborates with renowned universities and industrial expertise centres. Methods for environmental assessment have been developed to suit industrial needs better and improve knowledge of products’ environmental performances and manufacturing processes. These methodologies have been a key enabler for launching and expanding the SKF BeyondZero product portfolio. See pages 70 –71.

Simulation engineering

SKF has very comprehensive, powerful sets of modelling and simulation packages, ranging from easy-to-use tools based on the SKF General Catalogue formula, to the most sophisticated calculation and simulation systems. The company’s strategy is to develop a wide range of software packages that satisfy a large number of customer requirements; from simple design checks to complex investigations involving the most advanced simulations for bearing and machine design.

One example is the SKF Interactive Engineering Catalogue, an easy-to-use online tool for bearing selection and calculation, for open use at skf.com

Some of these capabilities are also offered on apps for tablets and smartphones, supporting the increased use of these devices by SKF’s customers to also perform engineering tasks. SKF is also embedding ICT technologies in mobile devices for its employees, making it possible for example to retain, capture and make knowledge easily accessible for the SKF manufacturing community.

Manufacturing R&D

SKF is constantly developing its manufacturing processes for highly efficient and effective operations, resulting in enhanced quality and better customer service. Initiatives for continually improving manufacturing are brought together by Business Excellence for Manufacturing, which ensures consistent implementation throughout the Group.

To support the technology strategy, R&D focuses on developing and implementing new technologies to increase reliability and flexibility, reduce costs and improve environmental performance. Some examples include:

- Improved product performance through advanced selection of steel and heat treatment combinations. In recent years considerable investment and implementations have been carried out in heat treatment equipment at many of SKF’s factories.
- Improved material utilization in all manufacturing processes resulting in less waste, manufacturing variations and allowances. Near Net Shape technologies aim at forming a component to almost its final shape, reducing the time for finishing operation.
- New processes for improving sustainability, while reducing the use of process media and energy consumption.
- Building intelligent factories of the future where Information and Communication Technologies (ICT) will play an important role.
 - Intelligent manufacturing systems integrating sensors and measuring equipment into machines, for more consistent and reliable manufacturing processes.
 - Advanced intelligent technologies for vision systems and measuring, providing tighter control of manufacturing processes. Combining these with the use of non-destructive and Artificial Intelligence technologies makes it possible to detect material defects and improve process control, as well as defining and predicting a product’s properties.

Manufacturing

SKF has around 120 manufacturing units* in 29 countries worldwide. Manufacturing is a key element of SKF's business model and therefore management of, and investment in, this area is crucial for SKF's future growth and competitiveness.

Today SKF's manufacturing operations are:

- focused on core manufacturing processes
- achieving globally consistent quality
- focused on being flexible to customer demands
- continually driving improvements in cost and efficiency
- supported by a highly competitive and flexible global supply chain taking environmental care into consideration, for example LEED building requirements

To meet market demand, and to balance the Group's manufacturing footprint better, SKF has invested in manufacturing capacity by opening new manufacturing sites, expanding existing ones, adding capacity and by acquisitions.

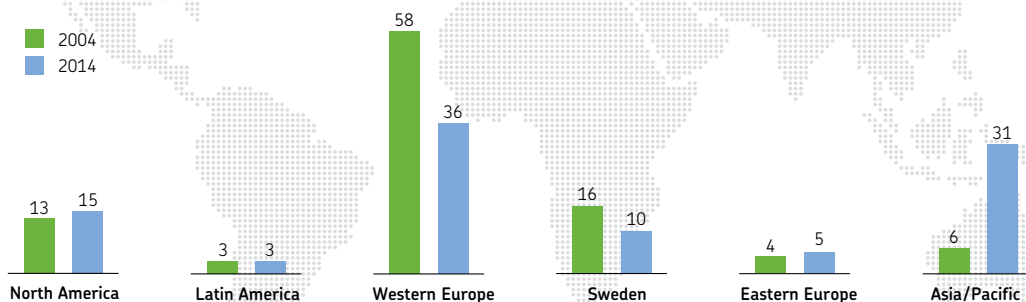
Some of the major investments completed or ongoing in 2014 are described below:

- Announcement of an investment of SEK 220 million in a new factory at SKF's existing Campus in Cajamar, Brazil. The 6,600 m² facility, which will employ up to 150 people, will produce Kaydon slewing ring bearings for wind turbine manufacturers providing solutions to the Brazilian wind energy segment.

- Inauguration of an expanded lubrication systems manufacturing facility in the Czech Republic. The building has been designed with a focus on reducing the building's overall environmental impact, including more efficient energy and water usage and choice of more sustainable building materials. This has contributed to the building being awarded the US Green Building Association's highest possible LEED Platinum rating.
- In Pinghu, China, an investment of SEK 34 million has been made to upgrade a workshop area of some 1,700 m². Included are a new bearing channel and central services for manufacturing super-precision bearings for the machine tool industry in China and India.
- The medium sized bearing factory in Dalian was extended by 4,480 m² and production of cylindrical roller bearings has been started. Start of production of medium deep groove ball bearings will commence during Q1 2015, bringing additional capacity and flexibility to the factory.
- Production of spherical roller bearings will start at the large sized bearing factory in Dalian in the first half of 2015.

Being close to customers is vital to grow and succeed with them. For SKF this means not only being close in business and technical relationships, but also having physical production close

Geographical distribution of property, plant and equipment 2014, per cent



to them. The result of this approach can be seen in the change of geographical distribution of SKF's tangible assets. In 2004 Asia Pacific accounted for 6% of SKF's tangible assets, in 2014 it accounted for 31%.

Developing manufacturing processes

To enhance quality and provide better customer service, SKF is constantly developing its manufacturing processes to optimize investments in equipment and working capital per unit produced. Many initiatives for continually improving manufacturing are brought together by Business Excellence for Manufacturing, which ensures consistent implementation throughout the Group.

One current initiative is called the SKF Production System, which is one common way of working throughout SKF's manufacturing units. Its objective is to address waste in the value stream through a standardized deployment process and a set of tools to support action for eliminating waste. The results and progress are then evaluated through Key Performance Indicators directly connected to manufacturing. The implementation will start at the beginning of 2015. For Manufacturing Research and Development. See page 75.

Work environment

In order to standardize proactive safety work, SKF has a management system certified according to OHSAS 18001 and global and local programmes to reduce the accident rate via the Zero Accidents initiative and Business Excellence. Read more about occupational health and safety in the Employee Care section on page 91.

Environmental footprint

In line with SKF's BeyondZero strategy, SKF works proactively in minimizing the environmental footprint from its operations. Manufacturing is one of the key areas in this work and SKF received a global certification according to ISO 14001 in 1998 and has recently achieved Group-wide management system according to recently established ISO 50001 energy management standard.

SKF has adopted the global recognized LEED standard for new constructions as mandatory, thus ensuring a world-class performance at the Group's facilities regardless of the geographical location. In addition, the Group has developed an SKF-specific standard to be used in conjunction with LEED, but taking all significant internal processes into consideration.

For material environmental issues, targets and performances related to SKF's manufacturing operation. See pages 83–89.

* Units with over 20 employees are included.
Structure 1 January 2015.



The factory improved its resetting time by 30%

SKF's factory, Flowery Branch in Georgia, the USA wanted to become more flexible, provide better service and reduce costs. With the help of Business Excellence methods and tools, Flowery Branch has reduced its resetting time, year-on-year, by 30%. This improvement gave annual savings of almost SEK 5 million, plus additional benefits in planning and inventories. First, the Flowery Branch team defined the vision and by using Business Excellence they set the right strategy and organization, while using standardized work as the guiding principle. Almost no monetary investment was required.

Purchasing – Benefitting from a strategic supplier base

SKF purchases goods and services for around SEK 39 billion annually, which is around half of SKF's net sales. This means that the impact from purchasing and supply chain management on SKF's performance is crucial.

SKF sources both materials and services from suppliers around the world. The purchased materials consist of steel raw materials in terms of bars, wires, tubes and strips, steel-based components in terms of rings, balls, rollers and sheet metal parts, and other direct materials such as mechanical components, electrical components, polymers, plastic components, subcontracting and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, energy services, facility management, and various types of management services.

SKF's factories need to be close to their customers to provide optimal service and they need local and regional suppliers that can fulfil SKF's requirements with regards to quality, cost, delivery, innovation and management. 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, more than 85–90% of supplies to SKF's factories in each region come from local or regional suppliers. SKF's strategic supplier base and SKF's operations in different parts of the world are supported by sourcing offices in Shanghai, covering China, in Pune covering India, in Gothenburg covering Europe and in Chicago covering North and South America.

In addition, Japan, Korea, Turkey, Ukraine, Slovakia, Russia and Mexico all have local SKF sourcing representatives.

The purchasing activities are organized around the main buying categories such as, steel raw materials and rolling elements, rings & subcontracting, components, indirect material & services and capital equipment. Each main category is led by a Category Director whose category management teams are responsible

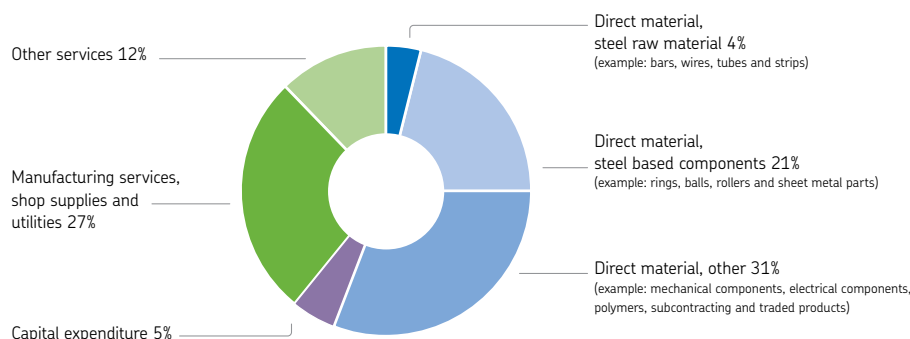
for developing the right sourcing and supplier strategy and to capture and drive sourcing synergies across all of SKF's business units. They are also responsible for ensuring suppliers fulfil QCDIM (quality, cost, delivery, innovation and management) requirements.

Human resource development and training is crucial for ensuring a high performing purchasing organization. Training in areas such as risk management, Lean/Six Sigma, responsible sourcing, strategic sourcing and project management is available through the SKF Purchasing Academy. Both internal and external training programmes are used for ensuring the organization benefits from leading purchasing and supply chain management practices.

One of the key activities 2014 was establishing a regional and local supplier base. This led to reduced overall costs and increased supply chain flexibility. The work included supplier rationalization, the identification of synergies across all spending areas and businesses and signing strategic long-term partnerships with key suppliers. It was also important to secure supply capacity and to work with suppliers on products and process innovations as well as to improve cash flow through payment terms and process improvements.

SKF's suppliers' performance is measured on quality, cost, delivery, innovation and management. Focused activities over the year led to good improvements by suppliers in all areas. One such activity was the implementation of our Lead Supplier Quality programme, which secured the desired quality level among targeted suppliers. This programme was fully deployed in the automotive business during 2014 and is under deployment in the Industrial business.

Purchasing – around SEK 39 billion 2014



In 2014 a number of purchasing leading practices were implemented. One was the strategic sourcing waves, which is a structured fact-based sourcing and negotiation process for ensuring reduction of total costs and the development of an approved supplier base. The sourcing waves resulted in the significant reduction of number of suppliers, important savings in overall costs and cash flow improvements.

Significant savings in direct material costs

SKF is running several projects for reducing overall direct and indirect material costs. Project groups from Group Purchasing and Strategic Industries have been working closely to screen and change materials and suppliers, negotiate supply agreements, identify and implement logistics opportunities and to analyse the supply market in relation to SKF's specific customer demands.

Many initiatives have also been launched to improve cash flow through payment terms and process improvements.

Working through cross-functional teams and utilizing the power of One Purchasing

In 2014, SKF Mekan inaugurated its new foundry site in Katrineholm, Sweden, which will improve both reliability and performance in production and also have a significant positive impact on the environment, working conditions, production costs and energy efficiency. The early involvement and collaboration from the Group Purchasing CAPEX team contributed to the success of the project.

In 2014, SKF remained in the top of its sector in the Dow Jones Sustainability Index for the 8th year in a row in terms of supply chain management.

SKF's Responsible Sourcing Programme is owned and driven by the SKF Group Purchasing organization. During 2014, the overall objective of the programme continued to be the achievement of consistently high levels of behaviour by all suppliers and sub-contractors in terms of social, environmental and ethical issues. Thus providing the organization with authorized sources for materials, goods and services.

There are three main areas in SKF's responsible sourcing programme:

- Code of Conduct compliance – focusing on the achievement of supplier requirements regarding issues such as environment, labour, human rights and general code of conduct issues.
- Transparency management – assuring the collection and provision of information about substances used and the source of substances used for purchased materials and components. This information is required for complying with both direct legal demands on SKF such as REACH, RoHS and customer requirements on issues such as conflict mineral reporting.
- Energy and climate requirements – as part of SKF's overall climate strategy (page 85) major, energy intensive suppliers are required to implement the ISO 50001 energy management system by year-end 2016.

The Group's responsible sourcing programme is driven by SKF's Responsible sourcing committee – whose task it is to ensure a strong governance structure plus the overall coordination and development of SKF's approach. This decision body is headed by Senior Vice President, Group Purchasing and includes other relevant functions and supply chain managers. The purpose of this committee is to ensure that the responsible sourcing strategy and approach is effectively developed and deployed, and that appropriate measures are taken when suppliers' code of conduct and other deviations occur.

New foundry site at SKF Mekan

“Group Purchasing helped us identify the right suppliers and to negotiate and find a fruitful agreement contributing to a strong supplier relationship.”

*Malin Karlsson,
Factory manager for the foundry at SKF Mekan*



SKF Code of Conduct for Suppliers and Sub-contractors

The SKF Code of Conduct for Suppliers and Sub-contractors is part of SKF's general conditions of purchase, as well as supplier requirements being defined in the SKF Quality Standard for Suppliers. By adhering to this standard, all suppliers confirm

that they will adopt the SKF Code of Conduct, Environment, Health and Safety and Zero Defects concepts. In addition, specific requirements are defined for different categories of suppliers, as presented below:

Category	Requirements	Control
All suppliers	Agree with SKF Quality standards for suppliers – including Code of Conduct, EHS standards and Zero Defects concept.	Part of SKF's risk assessment procedure. Quality and Code of Conduct on-site audits are conducted using a risk-based approach.
Major suppliers	Same as above, and: Management systems according to ISO 14001 and OHSAS 18001. Code of Conduct issued by supplier in line with SKF's.	On-site audits and continuous monitoring of progress towards targets. This category is automatically qualified for an on-site audit.
Major suppliers that are energy intensive	Same as above, and: Management systems according to ISO 50001 energy management (part of SKF climate strategy).	Part of normal negotiation and follow up.
New suppliers	Agree with SKF Quality standards for suppliers – including Code of Conduct as above. SKF's working method highlights eight critical deviations, such as child labour or significant environmental deviations, which are pre-requisites for starting business with a new supplier.	Before agreements are signed, SKF's purchasers must receive confirmation that the requirements are met. When this can be confirmed, the new supplier is added to the approved supplier list and included in RAT (risk assessment tool).

Risk assessment, audits and follow-ups

SKF employs specialist code of conduct auditors in the different regions where the Group has operations.

The audit procedure includes a detailed checklist for every supplier audit with 45 specific questions focusing on a wide range of aspects, such as environment, labour, human rights and general code of conduct issues.

SKF uses a risk-based approach when auditing suppliers, based on input from external sources such as Transparency International, Control Risks and the ILO. The target is to audit all those suppliers on site, which make up 90% of SKF's spend in the high-risk areas by 2018 and to assess all potential new suppliers. 127 specific supplier code of conduct audits were completed in 2014. Of these, 10 were carried out by independent, third party audit firms to further verify that SKF's model works in practice, putting extra focus on critical issues. Several of these are unannounced. One audit takes a minimum of one working day with the supplier.

The extent and approach of code of conduct auditing has led to more detailed knowledge and understanding and with this basis the Group is able to define effective and pragmatic ways of driving improvements.

Findings and progress on targets

The most common significant deviations found are related to health and safety, work hours, compensation and environmental management. 19 suppliers with a total of 45 significant deviations were found in 2014, 9 were verified and closed. Work will continue in 2015 to close those cases which were not resolved in 2014. Please find a summary of the deviations found per geographic area in the Social statements. See page 181.

The findings are mainly concentrated in high-risk regions in Asia and Latin America. SKF prefers to work closely with suppliers in order to create effective action plans, remediation programmes and long-term sustainable management systems for these issues. However, if suppliers cannot correct code of conduct issues

within a reasonable time period, the Responsible Sourcing Committee has the authority to terminate the supplier's contract. In 2014, one such case was recorded.

By the end of 2014, 76% of the major global suppliers had issued their own code of conduct in line with the SKF Code of Conduct and 77% were ISO 14001 certified. The number of major suppliers has since 2013 increased, which is the main reason for a lower ratio than previous year.

Transparency management

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 issued a new policy on conflict minerals in 2014. The policy states that the Group will not knowingly procure products or materials containing conflict minerals from the Democratic Republic of the Congo region unless they are certified as "conflict free". SKF is also carrying out reasonable due diligence to ensure compliance with these requirements with its suppliers and sub-contractors. Please read more on SKF.com

In addition to conflict minerals, transparency management also includes working to provide information on substances used in materials and components purchased. This information is required in order to comply with legislations such as REACH and RoHS within the EU (and related customer demands).

Energy and climate requirements

All major energy-intensive suppliers, including steel suppliers, forging and casting companies must be certified according to the ISO 50001 Energy Management Standard by 2016. This target was launched in May 2012 and forms part of SKF's climate strategy and WWF Climate Savers commitment. SKF focuses on major suppliers that are energy-intensive in order to ensure effective commitment and focus on these critical suppliers. This will not only drive energy efficiency improvements and CO₂ reductions related to the material purchased by SKF, but will also reduce costs.

By the end of 2014, 31 suppliers had been targeted for implementing energy management systems according to ISO 50001. Six suppliers have already implemented the standards and 25 have started work on certification.

SKF's supplier Pressmetal is one that has implemented ISO 50001

"The ISO 50001 certification, and the work relating to this certification brings many benefits to the Pressmetal Group. Saving energy is just one part of it. By completely switching over to LED lighting, we not only save 500 MWh of electricity per year, but also the brightness of the workplaces has almost doubled. By insulating all hot surfaces, we not only save

electricity, but also improve climatic conditions for all employees in summer, making the working conditions more pleasant. A functional energy management system not only strengthens the sustainability of the Pressmetal Group by saving energy and the associated cost, but also helps improve the whole company," says a representative from the Pressmetal Group.



Cages



Grinding machines



Electrical motors



Compounds



Tubes

Interview with Bo-Inge Stensson

Senior Vice President, Group Purchasing

How did steel raw material pricing evolve in 2014?

The trend continued with slightly lower commodity prices, as in the previous year, as well supplied steel raw material markets in combination with a subdued demand continued to soften pricing. However, there is a short-term pricing volatility, which may impact on costs in individual months.

What will be your main focus in 2015?

We will continue consolidating the number of suppliers for developing a strategic supplier base. In addition, we need to continue reducing overall sourcing costs by standardizing both products and processes and we need to improve our flexibility.

How will you increase supply chain flexibility?

By working with dual sourcing schemes, mapping supply chains and understanding where the bottlenecks are. Our target is also to source some 95% from a local/regional developed supplier base. This will reduce supply risk, shorten lead-times and reduce overall cost of ownership. A lot of effort is put on developing suppliers with manufacturing flexibility.

“SKF Purchasing is now better organized through its global presence and 85–90% of supplies come from local or regional suppliers.”

What are your biggest challenges going forward and how do you handle them?

We need to work with suppliers to further focus on waste reduction throughout the supply chain. How we handle increased geopolitical risks around the world and natural disasters and their impact on the global supply chain is also a challenge. However these challenges are also opportunities for us, as we are now better organized through our global presence, the One Purchasing operating model and the use of leading purchasing and supply chain practices applied.



Bo-Inge Stensson in discussion with Koji Murazumi, Managing Director – NKC manufacturing Sweden AB, a technology leader in high precision metal components manufacturing. SKF has a close collaboration with its key suppliers, focusing on operational performance and new product development. This helps strengthen competitiveness for both SKF and its suppliers.



Report on the business

Environmental Care

Environmental Care focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment. SKF takes specific actions to reduce the impact from its own operations and those of its suppliers and combines this with actions to significantly improve customers' environmental performance by offering products, solutions and services that have been verified to significantly improve energy efficiency and reduce the environmental impact. These products, solutions and services form the SKF BeyondZero portfolio.

A company like SKF can have an important impact on the environment, via everything from the raw materials selected, how these are utilized and processed, the energy used by SKF's 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.

To SKF this means that every stage in the value chain presents the possibility to reduce environmental impact. Doing so not only addresses SKF's responsibility towards society and future generations, it also enhances the ability for the business to do more with less and thereby creates sustained competitive advantage.

The SKF BeyondZero strategy reflects this. It requires action to reduce the impact resulting from SKF's operations and those of suppliers (reducing the negatives) while at the same time providing customers with SKF BeyondZero portfolio solutions that deliver reductions in the impact of their products (increasing the positives). More details about SKF's portfolio can be found on pages 70–71 and at [skf.com](https://www.skf.com).

This Environmental Care section of the report will provide a summary of the strategies and activities aimed at reducing the environmental impact of SKF's operations and those of the Group's suppliers. It will also refer to the Business Care section, in the relevant business functions such as logistics, purchasing and customer solutions, where a more detailed explanation is provided.

Environmental Care starts "in our own backyard". In 1989, the Group increased its focus on operations by issuing the

Environmental, Health and Safety Policy (EHS policy). The Group became the first international bearing manufacturer to receive global certification according to the ISO 14001 Environmental Management System in 1998.

Since then, SKF has been building on these foundations by continually taking steps which address environmental impacts at different stages of the product life cycle, and the entire value chain of the business. SKF's climate strategy is an example of how this is applied. Built on SKF BeyondZero, the approach tackles all the significant greenhouse gas impacts in the full life cycle and the full value chain of SKF's products and solutions.

The steps which SKF takes to address environmental risks and opportunities are based on a solid understanding of environmental life cycle management. This is something the Group has invested in and built up over many years through numerous life cycle assessments and focused applied R&D in this area.

Based on the experience gained through life cycle assessments and the long established practical understanding of the various environmental impacts that occur as a result of our operations, SKF has been able to identify certain environmental impact areas as being the most significant and material for the Group.

These include energy and climate and systematic environmental protection – including recycling and waste management, resource use and efficiency, chemical use and water use. These aspects are managed and followed up in various ways which are described in this section of the Annual Report and in topics related to the Annual Report.

SKF EHS Policy, legal and regulatory compliance

SKF's Environment, Health and Safety policy describes the company's commitment to both short- and long-term contributions in protecting the environment, as well as providing a safe working environment for employees.

The policy requires SKF's units to take these vital issues into consideration during all business activities and decision-making. It defines a minimum requirement that all locally applicable laws and regulations must be upheld in relation to environmental, health and safety matters. The policy also commits the organization to continual improvement – meaning the legal requirements are the base from which actual performance must be improved. The policy is available at SKF.com and in Topics Related to Annual Report.

Environmental permits

Operations requiring permits exist in all countries where SKF has manufacturing sites. On 31 December 2014, SKF held permits in Sweden covering 8.1% of the Group's overall production

volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to 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, a few 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.

Spill incidents

SKF received no significant directives from the environmental authorities in 2014. One minor spill has been reported during the year. This has been acted on and in line with local regulation been communicated with the environmental authorities.

Environmental Management Systems, ISO 14001 and ISO 50001

The purpose of having global certification is that all SKF's manufacturing sites, technical and engineering centres, as well as logistics centres, are required to maintain and uphold high performance standards regardless of geographical locations or social and economic conditions in the country.

The SKF group-wide ISO 14001 certificate consisted of 118 sites in 35 countries at the end of 2014. New sites in 2014 were:

- **Africa:** Nairobi, Kenya; Kitwe, Zambia
- **Asia and Pacific:** Mysore, India; Taichung, Taiwan
- **South America:** Jordanesia, Brazil; Montevideo, Uruguay

Recently acquired companies are given a timeframe for implementing the management system, working towards inclusion in the Group's certification scope. The schedule for recently acquired companies' inclusion plans can be found at skf.com. Environmental due diligence investigations are carried out to determine whether a clean-up is required before any acquisition or divestment. Potential liabilities identified by a preliminary (Phase I) investigation may be subject to a further (Phase II) investigation.

SKF's implementation of ISO 50001

Energy management system

SKF finalized the second wave of implementing the ISO 50001 energy management system across the Group in 2014. The basic principle is that all manufacturing sites with an energy use of 9 GWh/year or more shall be ISO 50001 certified. These represent about 90% of the Group's total energy use. This management system is an initiative to further drive improvements in energy performance and thus reduce environmental impacts and costs. The management system was implemented in two main waves. The first wave of sites was implemented in 2013 and the second wave is included in this certificate from February 2015 – making the SKF Group one of the first organizations to receive a global certification for this energy management system.

Climate change

SKF has been acting with a clear focus on climate change mitigation for many years and previous Annual Reports have detailed the significant progress the Group has made in reducing greenhouse gas emissions.

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

SKF's climate strategy is based on the SKF BeyondZero approach described on page 83. The strategy drives energy and related greenhouse gas reduction activities along the company's full value chain, including purchased goods and services (referred to as scope 3), SKF in house production and other activities (referred to as scope 1 and 2) as well as customers' use of SKF's products and solutions (sometimes referred to as scope 4).

The targets are summarized in the table below:

	Suppliers Raw material and components (Scope 3)	SKF operations Manufacturing and other relevant aspects (Scope 1 and 2)	Transport and distribution Goods transportation (Scope 3)	Customer solutions Development of the SKF BeyondZero portfolio (Scope 4)
Target	All SKF's energy-intensive major suppliers certified according to ISO 50001 Energy management Standard by 2016.	i) Reduce the total annual energy use of the SKF Group by 5% below 2006's level by 2016. ii) Reduce the energy use per production output by 5% year-on-year.	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.	Increase the revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016.
Status	6 certified, 25 started implementation	i) 1,638 GWh. Absolute energy use 16% below 2006 level. ii) Relative energy use reduced 10% from 2013 to 2014	15% reduction since 2011.	Revenues 2014: SEK 5,493 million.
Read more	Purchasing section, »see pages 80–81	Environmental Care section below, »see page 86	Logistics section, »see pages 62–63	Products section, »see pages 70–71



WWF Partnership

SKF's climate strategy is recognized by the WWF as being best in class in its industry and the Group continues to partner with the world leading environmental pressure group in their Climate Savers programme.

The WWF Climate Savers is a global leadership platform transforming business and industry by finding companies who are prepared to take the lead on climate and energy solutions. The member companies set, in agreement with WWF, sector-leading targets for greenhouse gas reduction in their own operations and work with other companies and partners to implement innovative solutions for a clean, low carbon economy. Achievements are annually monitored and verified by SKF's auditors, ensuring the highest credibility. Read more at wwf.panda.org

SKF's own operations (Scope 1 and 2)

SKF's direct management of the facilities belonging to the Group gives the company the power and responsibility to minimize the carbon emissions associated with its own operations. SKF manages this in two ways:

- by reducing the energy intensity of the operations through proper energy management, and,
- by reducing the carbon intensity of the energy used through sourcing of low carbon energy or on-site generation of renewable energy where possible.

SKF has defined two parallel targets for total absolute energy use and energy use relative to production output. This twin target approach has been defined because an absolute target is more challenging to achieve during periods of growth, whereas an indexed target becomes tougher during periods when global economic activity, and hence demand, is lower. This assures that high pressure and focus on improving energy performance is maintained irrespective of the external economic climate and location of the site.

In order to deliver on these targets, SKF continues to strengthen and increase focus on energy management in all aspects within its operations around the world. Examples of the steps being taken include:

- Global adoption of the ISO 50001 energy management system.
- World class environmental standards for new facilities, by mandatory use of LEED and SKF's Sustainable Factory Rating (SFR). See pages 88–89.
- Working with machine suppliers to identify, test and implement energy demand reduction technologies.
- Working with continuous improvement methods to improve energy efficiency – see highlight from SKF Korea.

Detailed year-on-year data is presented in the Environmental statements. See page 175.

Renewable energy

As reflected in the Group's targets, the most significant and important contribution to reducing greenhouse gas emissions resulting from SKF's operations is delivered by improving energy

Significantly improved energy efficiency at SKF Busan, Korea

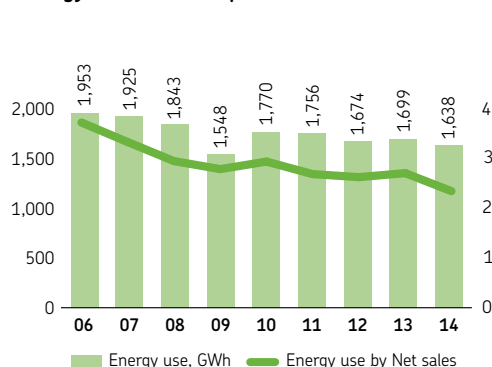
SKF in Busan is making progress in energy management. By applying a Business Excellence way of working, SKF Busan has been able to reduce its energy use per production output by 17% in just one year. After mapping energy use carefully, the local team found out that almost a third of all energy was used by the compressed air system. By adjusting the supply with variable speed drives and reducing the demand by finding leakages and optimizing machines, not only was the energy use reduced by 17%, but the work environment was significantly improved due to lower noise levels and reduced oil mist in the production hall.

efficiency. However, in addition to reducing energy use, SKF also makes efforts to increase the amount of low-carbon, renewable energy which is used in SKF's operations. This is achieved by negotiating lower carbon energy into energy contracts or by installing energy generation technology at SKF's sites – where such solutions are viable. Examples of these installations are geothermal, solar (thermal and photovoltaic) etc. These installations generate about 21.9 (20.6) GWh to SKF's facilities annually.

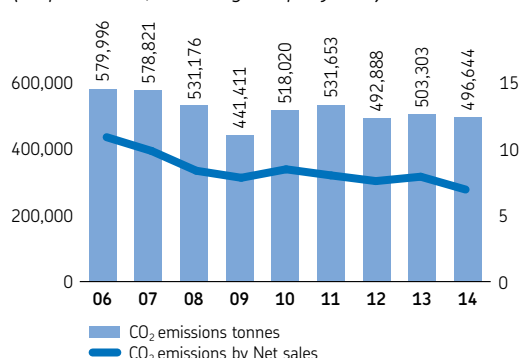
Company cars

SKF's Group company car policy defines the maximum allowable to 160 g CO₂ per kilometre for any company vehicle. Individual countries are encouraged to set more demanding requirements depending on the availability of suitable vehicles on the market, for example SKF in Sweden and France have set the limit at 130 g CO₂ per kilometre. SKF monitors emissions from vehicles owned or leased by the company in the twelve major countries of operation, representing more than 80% of Group employees. For all CO₂ and energy data, please refer to Environmental statements. See page 175.

Energy use at SKF's operations



Carbon emissions from SKF's operations
(scope 1 and 2, excluding company cars)



Other important environmental aspects

Besides energy use and CO₂ emissions, SKF measures, reports and manages other environmental aspects which are material to the Group. A brief overview of these aspects is provided in the following paragraphs.

Detailed year-on-year data is presented in the Environmental statements. See pages 175–178. For a more detailed explanation of SKF's approach to each issue, please refer to "SKF Care – Policies and Practices" found at skf.com.

Material consumption

SKF uses various materials such as metal, 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 remelting steel scrap, as this provides favourable material properties and is widely available.

The use of metal as a raw material in 2014 was 447,000 tonnes, (405,000). The 2013 result was restated due to a reporting error.

The Group is continually working to improve resource efficiency. 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 constantly working towards minimizing material waste throughout the value chain.

Chemical use

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. SKF introduced a VOC reduction target of 25% over a five-year period, compared to 2002's level and in relation to production volumes. This target was successfully achieved in 2007 with a drop of 29% compared to 2002's level, while the production volume rose by more than 30%. A new, tougher target was therefore set where SKF aimed to achieve a 50% reduction in absolute terms by 2012, compared to 2007's level. Despite a significant improvement – over 40% in 2012 compared to 2007, this target was not reached, and so it has been extended until 2016. In 2014, the amount used was 882 tonnes (929), a reduction of 45% from 2007.

Ozone-depleting substances

SKF has been monitoring its consumption of ozone-depleting substances (ODS) for many years by referring to the Montreal Protocol. 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. Please refer to Environmental statements for detailed data. See page 177.

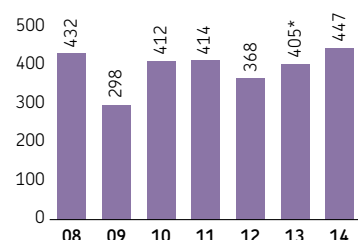
Environmental compliance of SKF's products

During 2014, SKF continued to focus on product related environmental compliance areas such as REACH and RoHS and issued instructions on the use and phase out of hexavalent chromium. The SKF Group has a centralized service for the environmental compliance surveillance of SKF's products, with respect to chemical legislation, such as for example (but not limited to) REACH and RoHS.

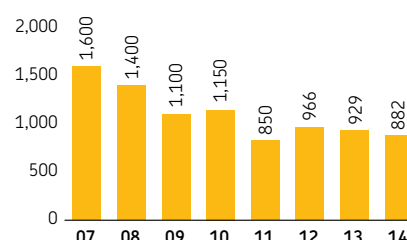
SKF is predominately a downstream user (as opposed to a producer) of compounds targeted in the regulations and legislation referred to above. As defined in the regulation the Group is complying by communicating both up and down the supply chain. This is to ensure that materials and compounds used in SKF's products and manufacturing are registered, safe to use and are not negatively affecting human rights in SKF's supply chain. In addition to the internal environmental compliance surveillance, this includes supplier contacts to verify compliance regarding the use of materials and substances. Please refer to the Transparency management section on page 81 in the Purchasing chapter. For more information about health and safety related to SKF's products, please refer to "SKF Care – Policies and Practices" available in the Topics related to the Annual Report at skf.com.

Metal as a raw material (1000 tonnes)

* restated due to reporting error



Use of Volatile Organic Compound, VOC (tonnes)



Updated water treatment plant at SKF Indonesia in Jakarta

During the year a new wastewater treatment plant at SKF in Jakarta helped the facility reduce usage of potable water by over 40% – this despite an increased production volume. The wastewater is passed through an on-site treatment process that enables SKF to reuse the water in its cooling towers.

Water use and discharge

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. Water consumption by the Group in 2014 was 5.20 million cubic metres, 4.5% lower compared with 5.45 million cubic metres in 2013.

SKF sites located in areas of water scarcity have established specific targets for reducing water consumption.

An important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant to local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling.

Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). »read more below.

Waste management/recycling

All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 97,233 tonnes in 2014.

A common waste product from SKF's manufacturing process is grinding swarf. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2012.

This target was achieved in 2013 (80% recycling). In 2014, the rate was 83%. Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target to achieve, therefore SKF will maintain the 80% target up to 2016.

Packaging materials

SKF has very strict specifications and requirements concerning packaging materials and the packaging process. As defined in its Packaging Standard instruction S9, all packaging materials must comply with environmental and waste disposal legislation such as EU Directive 94/62/EC, as well as with local laws and requirements. Specifications and requirements about the type of packaging materials and related products are also defined in the standard.

SKF's Group Standard Pallet (GSP) box – pallet base, lid and collar – is the most common shipping container used by SKF, both internally and externally. These pallets have a lifetime of 7–10 years, and are used and reused in all inbound and outbound shipments. In case pallet bases, collars or lids are damaged they will be repaired and put back into circulation.

SKF Logistics Services provides component suppliers with GSPs and the same transport packaging is used when products are finally shipped to customers. Reusing the same transport packaging eliminates waste. For each pallet there is a returnable deposit which is refunded when the pallet boxes are returned to SKF Logistics Services.

Sustainability standards for new facilities

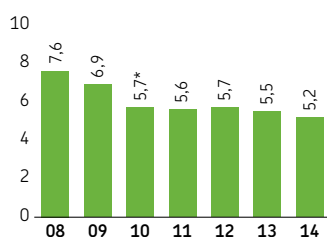
SKF requires that, irrespective of the location, all new facilities must be designed and constructed according to world-class standards in terms of environmental performance.

Therefore, SKF defined in 2010, 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.

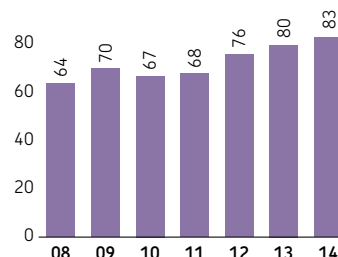
LEED covers the design and construction of the building itself; the lighting, heating and ventilating systems, working environment etc. Using LEED has led to significant improvements in building design and performance for SKF, however as it is a generic standard, designed to be applied to all building types and uses, it does not address the environmental and human impact of the specific manufacturing processes to be run in the building.

Water use (million cubic metres)

*Restatement 2011



Grinding swarf recycling rate (%)

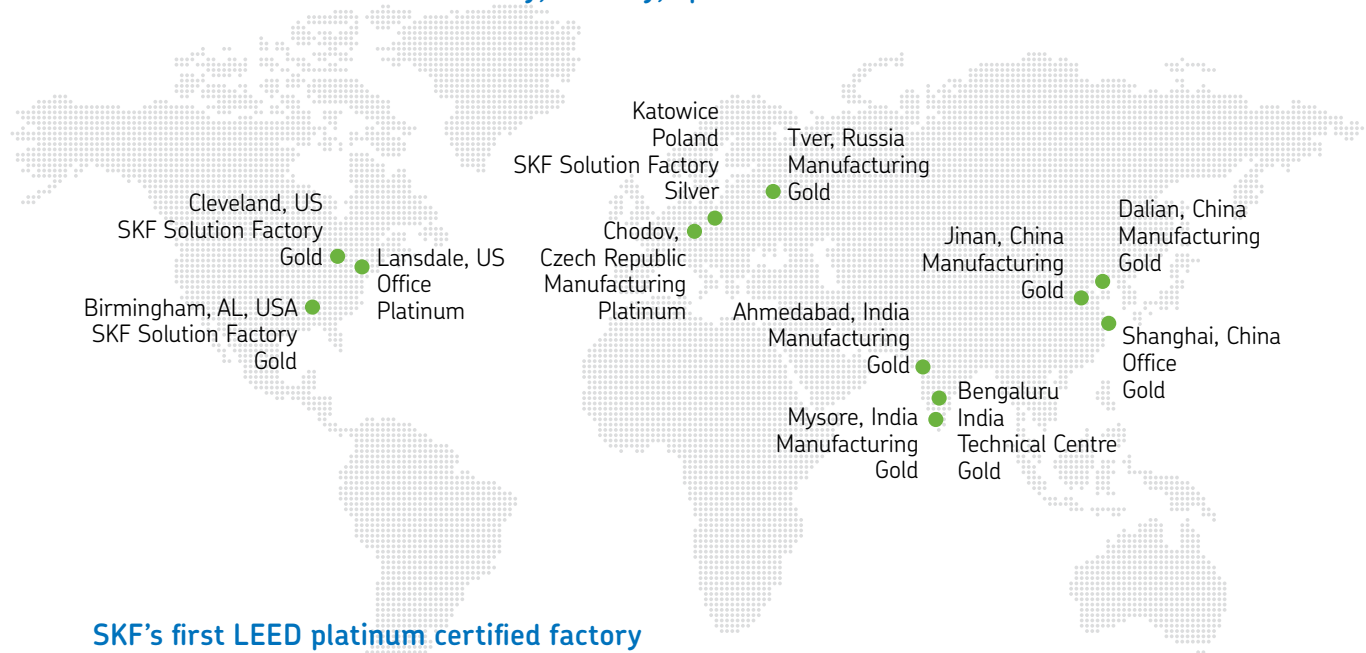


These impacts are often potentially very significant and therefore, SKF has internally developed Sustainable Factory Rating (SFR) as a specific “add-on” to the LEED requirements.

Since 2012, all major constructions to be undertaken by or for the Group are required to apply SFR in conjunction with LEED. The first two factories were finalized and certified according to the standard in 2013 and in 2014, SKF's new factory at Chodov, Czech Republic was certified SFR Gold, in addition to LEED platinum.

As with the LEED system, the SFR lists a number of criteria which should be addressed by the project team during the design and construction of the facility and the specification of the manufacturing equipment, to assure that the principles of SKF Care are fully applied, and full alignment with the SKF EHS policy is achieved, when new facilities within SKF are designed, built and taken into operation. Read more about LEED and SFR at skf.com

LEED-certified SKF facilities – City, Country, operations and level of certification



SKF's first LEED platinum certified factory

Built according to LEED green building standards from the US Green Building Council, SKF's Chodov facility in the Czech Republic is the first SKF manufacturing facility to receive LEED platinum certification.

What LEED Platinum means for the new Chodov plant

- The building requires about 50% less energy than standard, thanks to the use of the best available technology and the most up-to-date design and construction methods.
- There are savings of 55% for potable water compared to standard factories, by harvesting and using rainwater.
- Highly effective LED lighting has been installed in the production hall, with automatic control that switches the lights off when there is sufficient daylight, or when nobody is in a specific area.
- Low emission materials have been used throughout the whole construction.
- There are specified green areas in the building for employees to relax during break times
- Fresh air quality is automatically controlled.

- The whole building is managed through an intelligent and sophisticated building management system, which controls the heating, lighting and ventilation systems automatically using multiple sensors.
- Two new bus stations near the entrance of the factory.





Report on the business

Employee Care

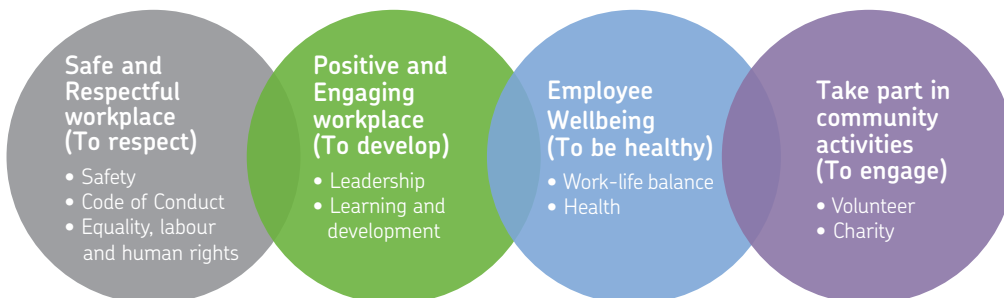
Employee Care is about promoting a safe working environment, health, education and the wellbeing of SKF's employees. SKF's leading position has been established over many years through the commitment, knowledge and passion of the Group's employees. SKF is powered by people and the company's ability to attract, retain and develop its employees is therefore critical for maintaining its leading position. SKF cares for its people, and its people care for SKF. This is the essence of Employee Care.

Assuring a safe working environment where an employee's rights are respected is fundamental to the Group and clearly stipulated in the SKF Code of Conduct. Over the years various tools and processes such as the SKF Code of Conduct compliance audits, the SKF Code of Conduct whistle-blower process and SKF World Union Council, have been introduced to ensure that this commitment is honoured.

The SKF Code of Conduct also requires that employees have opportunities to train for job enrichment and greater responsibility, for personal satisfaction and optimal leverage of individual strengths.

The global framework agreement between SKF and the SKF World Union Council (representing the various labour unions working with the company) was 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.

The building blocks of Employee Care are summarized in the picture below and discussed over the following pages.



Safe and respectful working environment

Assuring a safe and respectful workplace for every SKF employee is fundamentally important for the Group. This reflects SKF's values and is the basis for achieving an engaged and high performing workforce.

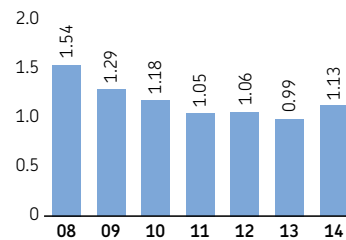
Safe work environment – Zero Accidents and OHSAS 18001

SKF launched the Zero Accidents target in 2000 to strive for eliminating all workplace accidents at SKF. The belief that accidents are preventable and that an accident-free work environment is achievable, has led to substantial progress over the years. 2014's accident rate was 1.13 (0.99), significantly lower compared to 13.78 in 1994 when SKF started measuring this.

Proactive work to reduce accidents and improve the overall safety and wellbeing of SKF employees are carried out by the local SKF sites. One example is from Mexico below. SKF is now focusing more on near miss cases and potentially unsafe working conditions to prevent accidents from happening.

Regular hazard and risk assessments of working environments are part of the OHSAS 18001 certification. SKF's management system also requires that all new employees are subject to health and safety training. At the end of 2014, the certificate covered 118 sites in 35 countries. The schedule for SKF sites to be included is available at skf.com.

Accident rate



Accident rate definition;

The accident rate for the Group is calculated using the formula:

Accident rate =

$R \times 200,000/h$, where

R = number of recordable accidents and

h = total hours worked at the site/company

SKF factory in Guadalajara, Mexico, works with Business Excellence to deliver Zero accidents

The Guadalajara factory has raised the focus on safety by engaging the shift teams and utilizing the Daily Management Business Excellence meetings to scrutinize all events and unsafe conditions that can cause an injury or incident. The employees are free to point out unsafe conditions and these contributions are recognized with a small gift. The result is 14 consecutive months without a recordable accident and elimination of over 1000 unsafe conditions: safety is the top priority at the factory. Business Excellence and specific training programs are ensuring a "safety first culture" at the factory.

"You are very important, take care", it says on the board at SKF factory in Guadalajara, Mexico, who works with Business Excellence to deliver Zero accidents.



Respectful workplace – equality, labour and human rights

Upholding and protecting human rights principles and labour standards are of the utmost importance to SKF. Formulating business ethics into official documents enables systematic compliance assessment and risk identification. Consequently, SKF published the SKF Code of Conduct in 2002, covering its responsibilities towards its stakeholders, and the policy is applicable to all operations worldwide, including suppliers and distributors.

The SKF Code of Conduct

The SKF Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN Global Compact. In addition, the SKF Code of Conduct is the basis of the above mentioned global framework agreement and has been used as reference to establish other documents such as the SKF Code of Conduct for Suppliers and Sub-contractors, and the SKF Code of Conduct for Distributors, demanding similar high levels of commitment from business partners. For more information about the SKF Code of Conduct and adherence to international principles and charters, please refer to the document “SKF Care – Policies and Practices” found at skf.com.

A code of conduct audit system was established in 2004 with the aim of ensuring that all SKF units have sound monitoring systems in place for complying with this policy. Audits are performed annually on a sample of units throughout the Group.

A non-financial risk assessment tool was introduced in 2008 with the purpose of helping prioritize the selection of units to be audited. In 2014, audits were conducted at 44 units, of which 20 were in Europe, 9 in Asia, 13 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 mainly to overtime hours worked above the legal limit. Corrective action was taken in all cases.

In addition to identifying and following up on the non-compliances, Group Policy Audit also makes recommendations to issues which are compliant but where there is potential to improve.

Reporting line

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 the Country Manager. However, in cases where employees see such reporting routes as problematic, they also have the possibility of reporting concerns through an internal helpline. During 2014, SKF signed an agreement with a leading global supplier of external hotline services. This new external hotline – SKF's ethics and compliance reporting line – means that from 2015 all SKF employees can report concerns in their

own language via an external web portal or by calling a local telephone number. The introduction of this service started at the end of 2014 and will be completed in all SKF countries during 2015. This new system will replace the previous internal help line, but both systems will be running in parallel until the new one is fully implemented.

Retaliation towards any employee who speaks up by asking a question, makes a complaint or cooperates in an investigation, is strictly forbidden, provided that the employee is raising a legitimate concern and/or reporting a problem in good faith.

In 2014, 13 cases were reported into the SKF internal code of conduct helpline. Of these cases, 5 were handled by SKF USA and the rest were managed by the SKF Group. Please read more about SKF's ethics and compliance programme on page 114.

Labour management relations

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.

There is positive cooperation between company management and the union leadership to ensure a high standard of adherence. 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.

SKF made it clear in its code of conduct when it was first formulated in 2002, that all employees have the right to join a union and to bargain collectively. This was further emphasized in 2013, when the code of conduct was updated. The code of conduct is the basis of the framework agreement between SKF and the World Union Council, and continual dialogue is ongoing to assure that it works for both SKF and the Union members.

At the end of 2014, 84% of the Group's employees were covered by trade union agreements.

Remuneration and equal opportunities

Job openings at SKF are posted on the intranet. The SKF Code of Conduct stipulates how all employees are entitled to a fair chance to compete for job opportunities. SKF's salary scheme is based on a fair and equal calculation according to SKF's compensation principles, which is based on SKF's code of conduct. SKF's central human resource organization, Group People and Business Excellence, follow up with local country organizations where SKF has major human resource functions, to ensure that salaries follow the principles, meaning that equal salaries for equal work at equal locations are set, along with preventing other structural errors.

Positive and engaging workplace

SKF is powered by people and strives to offer a positive, engaging workplace for all employees to release that power and drive continued success. A positive and engaging workplace starts with sound leadership and clear direction and creates conditions where the full potential of individuals and teams can be realised. SKF has implemented tools and processes that help leaders, managers and employees to create this engagement.

Working Climate Process

The company has been carrying out regular and extensive employee surveys for several years now to monitor and drive improvements in the working climate at SKF.

Several improvements were made to the Working Climate analysis (WCA) during 2013 and 2014. The revamped WCA was successfully launched in April 2014 and renamed the Working Climate Process (WCP) to emphasize that improving the working climate is a continual process, as opposed to an analysis.

The main improvements were:

- Clarifying the survey statements and the rating scale
- Expanding the scope to include all employees with an email address
- Simplified report structure
- Defining and explaining how to use the results to drive improvements
- Adding tools to support managers and HR

As part of the process, a survey on the working climate is offered to all SKF employees and close to 37,000 responses were received. The response rate increased from 85% in the previous survey to 87% this year. Managers and employees are required to go through the aggregated results together, discuss them and develop a Team Development Plan to improve the working climate. The focus areas in each plan vary based on the survey responses from the Team.

Three main areas were identified as focus areas at an overall SKF level. These were Code of Conduct training, negative work-stress management as well as management communication.

Activities have been, or are being, deployed to address these issues such as a new Code of Conduct e-learning that has been developed and will be introduced in early 2015. SKF is also heightening its programme and communication on ethics and compliance and more activities will be carried out in future. SKF will also look into work stress management and work is ongoing to further incorporate employee involvement and health aspects into the leadership development programmes.

Social data

In addition to the survey, SKF also collects employee data annually about retention rates, diversity (units with women in local management), independent trade unions, freedom of association and health and safety committees. The data is compiled from all SKF entities, covering all the Group's employees. It is aggregated at legal entity and country level, and in this report at regional and Group level.

Detailed year-on-year data is presented in Social statements. See pages 178–180.

The percentage of employees in full-time employment was 98% in 2014, while the employee retention rate was 93%. At the end of 2014, 23% of the Board of Directors and 14% of SKF Group management's positions were held by women. Locally, 83% of SKF units had at least one woman in local management. The total number of female managers in local management throughout SKF was 18% (the proportion of female employees in the Group at year end 2014 was 23%).

Diversity in leadership

SKF has 67 country managers globally, representing 62 nationalities. SKF aspires to recruit, develop and promote the best local talent for managing its local business units. The diversity approach is to enforce Diversity for good business – to mix teams based on contextual business needs. Cultural diversity is endorsed through international assignments, global leadership programmes and global project teams.

Diversity in Leadership

SKF Regional Sales and Services Indonesia has run training sessions to utilize the leadership potential of women at the organization by gathering employees from diverse work roles such as Finance, Engineering, Sales and Customer Service. Traditionally SKF customer segments such as pulp and paper, metal and cement/mining in South East Asia (and globally) are heavily male dominated and many SKF entities have tried to build diversity through recruiting and promoting women.



Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), which is reviewed annually through discussions with their managers. Each individual's skills profile is assessed according to the job profile in the review discussion. Training plans for the employee's skills improvement and further development are subsequently listed in the IDP and are supported by a common system. In the latest follow-up in 2014, 69% of the Group's employees have had a performance review within the last 12 months, 60% consider that they have an individual development plan in agreement with their immediate manager.

Corresponding to the Group's strategic goals, 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 such as Six Sigma, quality, legal and finance, are made available to employees.

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.

To meet the goal of making learning affordable to all SKF organizations, which is particularly challenging in some of the rapidly expanding markets, the aim is to have more programmes based on concepts owned or leased by SKF, which can easily be replicated with local internal or external resources as trainers.

The establishment of SKF College campuses in the USA, Argentina, China, India and Singapore, in addition to the campus

in Sweden, is enabling SKF's global curriculum to be locally adapted and provided in local languages by local trainers. This reduces the need for travelling long distances, being away from work and family, as well as the high cost of hiring foreign trainers.

To secure that SKF's organization has access to important and strategic courses, there are twelve work groups – called SKF Academies – covering nineteen learning areas.

Two of the focus areas at these academies in 2014 have been Application Technology and Manage, Lead and Coach for Leaders.

Application engineering is about applying SKF's technology in the Group's customers' applications and using SKF's competencies to achieve superior solutions. It is one of SKF's core strengths and a focus area in providing SKF Knowledge to customers globally. During 2014, a new more advanced course – Application Technology 2 – was launched.

The leadership academy has designed a leadership maturity model to provide a steady stream of leaders to follow the demands of competent managers at all levels – today and tomorrow. In all faster growing markets, the talent supply at entry level is very high, and with the leadership maturity model – and the programmes in it – SKF aims to support these individuals to develop into management positions at all levels and lead the company according to SKF's values and drivers. During 2014, a key building block in the maturity model – the Manage, Lead and Coach training programme – has been transferred and localized in China, Singapore, India, the USA, Latin America, Germany, France and Italy. The programme is also provided as a virtual programme in English, enabling leaders around the world to take the course.



Employee Care at SKF Sealing Solutions in Wuhu, China

SKF in Wuhu focuses on physical exercises and team-work awareness. The fitness club organizes sports activities such as badminton, football and basketball as weekly activities. These popular events not only provide physical wellbeing, but also serve as a good way for internal communication and a type of teamwork awareness. In addition, SKF Wuhu's first sports meeting was arranged in 2014, where employees' families were invited to a full day of sporting activities, challenges and a music fair for the children.

A business-driven HR organization – HR transformation

SKF continued to make progress with its HR Transformation programme in 2014, with the aim of aligning all HR activities, tools and processes at SKF to achieve a common agenda, referred to in the Group as a 'one people agenda'.

The work to harmonize and standardize more HR processes continued during the year. The implementation of the revised HR organization continued to meet the demands from the business. The usage of HR-shared service centres to support the business more efficiently and effectively is being developed and the first centres are generating positive results.

Performance management process

The roll-out of a common global Performance Management Process is continuing. By year end 2014, 68 countries and around 19,000 employees were included in the system. Around 5,000 white collar employees are yet to be included and negotiations are currently underway with local Work Councils aimed at having all white collar employees in the process. Employees and managers have invested 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. This makes the performance management process an important tool to drive a high-performing culture at SKF.

Competency management process

The Competency Management process has been further enhanced to capture future and current development needs for both individuals and organizations. The aim is to connect the business needs to competence needs, short and long-term, to enable individuals to be more precise in their development plans, and planning for key competence needs for the company.

The connection between competency planning and business planning will support the overall objective of Competency Management – to have the right resources serving our customers' needs in the best way.

Health and wellbeing

SKF takes care to ensure the wellbeing and work-life balance amongst the Group's employees. A focus on wellbeing helps create a more engaged and productive workforce. SKF works in different ways to promote issues such as work-life balance and physical and mental health. The elements of SKF's approach vary at different locations depending on the social context of the country and community.

The Global OHSAS certification requires SKF to have joint health committees which focus primarily on work-related health and safety. However, in addition to addressing work-related issues, the majority of SKF's units have also implemented programmes that focus on health and safety at home. 90% of SKF's employees are covered by some type of documented health and wellbeing policy or programme. All units in Africa and a number in Latin America and East Asia have established programmes to prevent HIV/AIDS. Previous sustainability reports and the

company website have reported various HIV/AIDS initiatives or programmes. More information about this is also available on page 99 in the Community Care section.

A variety of other employee care programmes are offered in various countries including free access to third party counselling, childcare services, access to fitness facilities, household services, and regular health-checks by professional medical staff.

The fourth building block of Employee care is the empowerment given to engage in various volunteer work and charitable activities with the local community. In many countries, paid volunteer work is included as part of the Employee Care programme where employees are either given one paid-day to work on community care projects or it is incorporated into company activities. See the Community Care section on the following pages for further information about some of SKF's involvement.



SKF USA's Wellbeing programme

In the USA, SKF has seen key benefits in promoting health among its employees. The Employee Wellness programme includes:

- Annual health screening and flu vaccinations on location,
- Pedometers to all employees with systematic tracking of each employee's progress and rewards when goals are reached
- Nutritional & Weight Loss consulting program, and
- Massage Therapist visitation on site at our Lansdale office twice each month.



Report on the business Community Care

SKF aims to create long-term value in the communities where the Group operates, and for society at large. This value comes mainly as a result of the overall economic development that SKF helps to drive and the associated employment, revenue and tax receipts. SKF Care, the SKF Code of Conduct and related policies assure that the Group runs its business ethically and that potentially negative social impact is understood and avoided. But beyond these basic contributions and commitments, SKF aims to actively engage in the communities where it operates – to create additional positive social impact.

The SKF Social Policy

The SKF Social Policy was issued in 2006 with the aim of promoting employees' involvement in commendable local social projects. Since 2008, every country management team has been asked to prepare and submit an annual community care plan. As a basis for the community care plan, local management must assess and define the support that best caters for the local society's needs and contributes to the community's development.

With this policy, SKF's employees around the world are fully empowered to engage with their local communities through various socially beneficial activities and approaches. Over 400 initiatives have been on-going around the world during 2014, this includes everything from small event driven activities to big group wide projects. The number and diverse range of commu-

nity care programmes truly shows how great the demand is from local communities, as well as the high motivation that SKF employees have to contribute to a positive change.

39 SKF country organizations have reported community care activities in 2014, these countries make up over 90% of the Group's global operations in terms of employees. Out of a total quantifiable contribution of SEK 37 million, SEK 24 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Close to SEK 11 million was donations to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving. In addition, SKF employees volunteered close to 16,000 hours, a large part of which were made up blood donations, the rest was related to tutoring, construction and charity work.

Education and vocational training

SKF appreciates the importance of knowledge and aspires to be the knowledge engineering company and subsequently a competitive leader in the industry. Equally significant is knowledge or education in eradicating poverty – education is the first step to empowerment. As a result, SKF has been actively involved over the years in providing local communities with access to education and training through scholarships, partnerships, vocational training, mentorship or sponsoring events.

In Argentina, SKF has been supporting Fundación Leer – a reading foundation, through both sponsorship and volunteer work. The foundation identifies schools, which are in need of support to improve reading skills that are often a prerequisite for further learning. The projects include setting up places to read, including the design and decoration and supplying the schools with children's books. After the set-up, the foundation provides guidelines to develop positive reading activities for the children.

SKF Austria's project Social Exchange with the local production school is a programme where people in leadership positions at SKF interact with young people from a local technical school to improve leadership skills and social competence and for the school's benefit share SKF's experience in business challenges.

SKF Austria is also continuing the Basky programme, which focuses on vocational training for young adults with disabilities, as a way to integrate them into society.

In the Netherlands, SKF supports a scholarship programme for promising and motivated children from depressed city districts. Like many other European countries, the Netherlands also faces challenges with segregation and marginalization. The scholarship programme together with the Brede School Academy in Utrecht provides an intensive after-school programme to empower young people from less fortunate conditions.

In Germany, SKF partners the city of Schweinfurt in the "Wissenwerkstatt" project – a workshop for technical experiments. Together with other companies in the area, SKF has set up a technical workshop for girls and boys between the ages of eight to eighteen.

The Siirt Project in Turkey focuses on providing the right prerequisites and enrolling girls in school. SKF is supporting this by teaming up with SKF distributors in the area and providing scholarships especially targeted at girls at primary school level. The project is a collaboration between UNICEF and the Turkish ministry of education and the objective of the project is to achieve equal schooling for boys and girls.

For more about SKF's community care programmes in other countries, please see previous Annual Reports, or visit skf.com.



SKF Netherlands supports Brede School Academy in Utrecht with their scholarship programme for talented children from less privileged communities.



SKF Argentina works with the organization Fundación Leer for improving reading abilities among younger children.

SKF Italy supports SOS Children's village in Ostuni in the south of Italy.

Youth and sports



Zhao Wenlong – China

What was your best Gothia Cup experience?

At the Gothia Cup, it was amazing when we got our own trading cards, and got to exchange with players

from other countries. I got more than ten cards from other players. It was a great chance for us to make friends. It was a big surprise, and I'll keep the cards with me all the time!

What was your best Meet the World experience

Our team was the champion of the Meet the World tournament in China. We played against the other 10 teams from all around China, and we won. After two days of games, we were exhausted. But when the final game ended and we were given the Meet the World gold trophy, the whole team went completely crazy. We hugged each other, laughed, and cried.

We'll graduate from secondary school soon, and in the future it will be hard for us to play together. But at the very last year, our team won the game and made it to Sweden. It's a sad goodbye for the team, but a new start for every one of us.



Riza Alfin Zidane – Indonesia

What was your best Meet the World experience?

Meet the World helped me realize my dream of playing in Europe. Not

even many players in our national team have done that!

Please describe one unforgettable moment during your trip or visit in Sweden.

A moment when we have friends from my country in the schoolyard and visiting the Liseberg park.



Nicolas Molano – Colombia

What was your best Gothia Cup experience?

The best experience during the Gothia Cup was

when the team scored the second goal during the game against Stenungsunds IF and we all celebrated by dancing, just like the Colombian team at the 2014 World Cup! People around the field were also dancing with us and that was very nice. The support from the Colombian colony in Gothenburg during the games was something I really appreciated.

Please describe one unforgettable moment during your trip or visit in Sweden.

The most unforgettable moment during my trip to Sweden was the day of the Gothia Cup opening ceremony. The Ullevi Stadium was full of people the School told us there were about 50,000 people and when we entered the stadium all of them were chanting "Colombia, Colombia, Colombia" and clapping their hands! When we passed through the parade the people on the lower section of the stand wanted to shake our hands and take pictures with us. I think this was one of the most unforgettable moments in my entire life.



Brandon Savalle – France

What was your best Meet the World experience?

When we won and we understood we would go to Sweden. Several of us had never been on a plane.

When they introduced our godfather (sponsor), Zied (SKF employee, volunteer to help during Meet the World). He is very funny and during Meet the World, Zied supported us a lot.



Lucas de Jesus Santos Oliveira – Brazil

What was your best Gothia Cup experience?

The best thing was getting to know the way the players of other countries play,

and the organization of the event itself.

Please describe one unforgettable moment during your trip or visit in Sweden.

The championship was very impressive, but the party our team had every time we went to the matches was even better, the songs, etc. People were amazed just because we are Brazilian.



Shubham Jadhav – India

What was your best Gothia Cup experience?

It was a dream come true to play with professional football players at international level. The arrange-

ment of the Gothia Cup was excellent especially the fireworks at the opening ceremony.

What was best with your Meet the World experience?

I got the chance to play with international players. It was the place where people from all the world had gathered. My biggest experience was seeing the aeroplane and sitting in it and making friends from different parts of the world.

Supporting youth and sports has been a top priority for SKF over the years. SKF was once again a partner of the Gothia Cup in 2014 – an annual event in Gothenburg for over 30,000 young people. SKF has been sponsoring the event since 2006 and it is the largest football tournament in the world for boys and girls between the ages of 11 and 19, read more at gothiacup.com

SKF Meet the World is an initiative that makes it possible for young people all over the world to qualify for taking part in 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 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 in 2014 qualifying tournaments were held in about 24 countries.

The Meet the World tournament is all about inspiration. It is a chance for children to meet other cultures, exchange ideas and

dreams, and all this by following their passion for football. Read above for reflections from a few participants.

In 2014, SKF India introduced SKF Sports Academy at its site in Ahmedabad. SKF Sports Academy concept was started in 2005 at SKF in Pune with the help of Pimpri Chinchwad Municipal Corporation. The academy provides proper sporting infrastructure to develop talented youngsters from less privileged backgrounds. The participants are offered wide-ranging of training, where in addition to their sporting skills, their overall growth and development is also considered.

A number of SKF's organizations support different sports programmes, especially for those who are physically challenged. SKF Polska SA has chosen to partner the Four King wheelchair rugby team, to help them with technical issues, marketing their team and their sport and creating awareness about the physically challenged in general.

Helping to tackle challenges faced by local communities

The local SKF units always have the empowerment to identify local community needs – and what the local SKF organization can do to address these. The different needs in all parts of the world are reflected by the nature of the community care programmes.

In the Philippines, SKF has supported Habitat for Humanity to rebuild homes after the devastating Haiyan typhoon that struck the country in November 2013. The first response was to provide immediate assistance to the affected families. Several SKF units swiftly responded and provided financial relief and other aid to help people in the immediate aftermath. Secondly, the SKF Group made a donation through Habitat for Humanity to support their efforts in constructing decent homes for those people sadly displaced by the typhoon. A third component of SKF's Haiyan initiatives is the reconstruction of school buildings in Tongonan, Leyte, another area devastated by the super typhoon. The reconstruction project has been organized by SKF Philippines in collaboration with the Energy Development Corporation and the Department of Education.

SKF is also an active partner with Habitat for Humanity in North America. The mission of Habitat for Humanity in North America is to build affordable houses for low-income families. SKF USA has supported the NGO since 2011 with both financial aid and by arranging volunteer days for employees. Since then the support has spread to other SKF units and in 2014, SKF USA arranged local volunteer days in St Louis, Elgin, Flowery Branch and Plymouth and also in Toronto, Canada.

In South America, several SKF companies support house construction in different ways. SKF Argentina has volunteered for the non-governmental organization Un Techo Para Mi País (A roof for my country), or just TECHO. The non-governmental, non-profit organization's mission is to promote community investment in slums and foster social awareness and action by creating interaction between the volunteers and the underprivileged families.

HIV and AIDS remains a major challenge in large parts of the world and in sub-Saharan Africa in particular. In Kenya, Zambia and South Africa, HIV/AIDS is one of the most difficult hindrances for development. SKF is a member of the Swedish Workplace HIV/AIDS Programme (SWHAP) that supports over 290 workplace programmes on HIV and Wellness, in ten countries in Sub-Saharan Africa. The programme contributes to the response to HIV/AIDS in sub-Saharan Africa. It was jointly initiated in 2004 by the International Council of Swedish Industry and the Indus-

trial and Metal Workers' Union of Sweden. The main aim of SWHAP is to support companies and employees to prevent further spread of HIV and reduce the effects of the pandemic at Swedish-related workplaces.

HIV/AIDS in South Africa is a prominent health concern; South Africa is believed to have more people with HIV/AIDS than any other country in the world. In addition to its workplace programmes, SKF South Africa is also supporting two community projects, namely the St Francis Care Centre in Boksburg and Legae in Daveyton, who mainly focus on vulnerable children either infected or affected by HIV/AIDS, either financially or through fundraising projects and volunteering. SKF managers also serve on the Boards of Directors of both these institutions.

In Kenya, there are an estimated 1.6 million people living with HIV/AIDS. Over 6% of the adult Kenyan population is infected. In addition to the workplace programme, SKF Kenya is part of a fraternity called Neighbours Against Aids (NAA) – a group of nine companies in the area who pool resources and work in nearby slum areas where the knowledge level about health is lower and resources are scarce.

SKF concluded its 5-year afforestation project in Northeast China in 2014 as very successful. In total, the project has resulted in over 2,800,000 seedlings planted over 935 hectares, with an average survival rate of 93% so far. The next phase of the project will focus on maintaining and stewarding fields and ensure a sustainable handover to suitable local stakeholders. The main purpose of the project is to facilitate knowledge transfer between Swedish and Chinese forestry agencies. It has also made significant contributions to improving biodiversity, preventing land desertification and protecting clean sources of water, as well as providing job opportunities for local residents. In the long-term, the forestation campaign can hopefully contribute to preventing devastating sandstorms due to desertification which has plagued northern China periodically and facilitate the absorption of atmospheric CO₂.

SKF Italy has initiated a partnership with SOS Children's village stretching from 2014–2016. The SOS Villages' mission is to support the children, their needs, their rights and their family, and starts from the principle that a healthy development is best done in a family friendly atmosphere. The support includes redevelopment of SOS Children's village in Ostuni in the south of Italy, close to SKF's facility in Bari.



Habitat for Humanity USA

SKF Lincoln in St. Louis spent 250 man hours during three building days on assignments to finish five houses in one of the St Louis suburbs. "The teams did a great job every day – stayed positive, worked together, got to know some colleagues new to them and had a lot of fun too!" says one of the SKF volunteers.

Sponsorship



Formula Student in Germany.



The Gothenburg Award for Sustainable Development.



The Gothenburg International Science Festival.

Energy efficient high-speed innovations

Formula Student

In 2014, SKF Germany supported 7 German university teams in the Formula Student (FS). The annual event was initiated in 1981 by the SAE (Society of Automotive Engineers) as an international design competition. Each year, teams of students compete to design, develop and build a new car. The focus areas are innovation and efficiency in a racing environment. Following the trends in the automotive industry, a growing number of the cars are equipped with electric motors and drivelines.

The services provided by SKF include:

- Free supply of materials from the entire SKF product portfolio within the contractually agreed budget
- Comprehensive technical and logistical services
- The organization of Tech Days, called "SKF Pit Stop" (held at SKF HQ in Schweinfurt; consists of technical lectures as well as information about SKF, factory tours, job possibilities and informal mingling)
- Sponsorship of the FS Grand Prix Germany (at Hockenheim)
- Lectures at the universities
- Support in the procurement of vehicle parts

Shell Eco-marathon event

The Shell Eco-marathon aims to improve energy-saving and environmental awareness of the whole society, cultivate comprehensive ability of university students, such as innovation consciousness, practical ability and team collaboration ability. In 2014, the Shell Eco-marathon Asia was held in the Philippines for the very first time, attracting 126 racing teams from 16 Asian countries. SKF has been a major sponsor of the Shell Eco-marathon Asia, Americas and Europe for many years. The goals of the Shell Eco-marathon fit perfectly with SKF's commitment to improving energy and resource efficiency and minimizing friction loss. During the design phase, SKF offers participants free access to their engineering and products as they design their vehicles by providing an engineering hotline to help students resolve energy-efficiency challenges.

The Gothenburg Award for Sustainable Development

SKF is one of the sponsors of the Gothenburg Award for Sustainable Development.

The SEK 1 million award is presented annually to individuals or organizations for their significant contribution to sustainable development. 2014's theme was Transformative Leadership for Global Business and the award was presented to Paul Polman,

President and CEO of Unilever in recognition of the global consumer goods conglomerate for their "Sustainable Living Plan" - Unilever's business strategy for more sustainable operations and society.

The award ceremony and seminars in November included a panel discussion with, among others, Paul Polman and SKF's President and CEO Tom Johnstone, focusing on leading change for sustainability.

Alan Atkisson, the moderator for the panel discussion said about the Gothenburg Award:

"I have started to call it the "Nobel price of Sustainable Development". I think it is a reflection of the wisdom of the jury, which has consistently chosen excellent award winners, with a very thoughtful justification. Some Gothenburg Award winners are people, who are well-known in their respective fields, but they are not really famous and they deserve to be. Not for the sake of fame itself, but in order to spread hope and optimism. So I hope the profile of the award itself continues to grow as well."

Previous prize winners include, Kofi Annan, Al Gore and Gro Harlem Brundtland, see gothenburgaward.com

SKF continues its support to Bräcke Diakoni

Bräcke Diakoni is a non-profit organization and one of Sweden's leading, private players in healthcare. In addition to healthcare, hospice and education, the organization is also driving research in, among other areas, cognitive pedagogy, which is a special type of pedagogy applied in the treatment of neurological disorders. Examples of these are cerebral palsy, strokes, multiple sclerosis (MS) and Parkinson's.

SKF has supported Bräcke for many years on a project basis, where SKF can choose which improvement projects the company's contribution goes to. SKF also supports Bräcke's sister organization Si-Tu (You too) in Constanta, Rumania, which is training facility aiming to integrate disabled children into society.

The Gothenburg International Science Festival

SKF has been a proud sponsor of this event since 1996. The aim of the event is to stimulate positive attitudes towards science and its role in society by bringing science to the general public. It is also to provide a meeting place for the research community. The festival is an excellent meeting place for the general interests or enthusiasts in natural science and technology held at various venues, from museums and libraries to shopping centres and city parks, see vetenskapsfestivalen.se/english

SKF's markets

In this chapter we describe SKF's main addressable markets from a product, solutions and services perspective covering bearings, products for linear and actuation and motion control, polymer seals, lubrication systems, products for mechanical power transmission and products and services for asset efficiency.



Bearings market

The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units.



Linear and actuation and motion control market

This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion.



Polymer seals market

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into automotive, industrial or aerospace seals.



Lubrication systems market

The global lubrication market consists of automatic lubrication systems equipment, design and installation and lubrication tools and equipment.



Mechanical power transmission market

The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V- and synchronous belt drives, chain drives and shaft couplings.



Asset Efficiency Optimization market

The Asset Efficiency Optimization market addresses clients' need to improve the productivity, efficiency, and performance of their assets.

International standards



SKF is actively contributing as part of the ISO Technical Committee since its start in 1949 to set the standards for the bearing industry. Most of the standards projects on rolling bearings were initiated by SKF engineers. SKF is involved in many standardization bodies, some of the most prominent being:

- ISO** (International Organization for Standardization)
- ANSI** (American National Standards Institute)
- DIN** (Deutsches Institut für Normung)
- BSI** (British Standards Institute)
- SIS** (Swedish Standards Institute)

Bearings market

The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units. SKF estimates that the global rolling bearing market size in 2014 in volume increased by 4% year-over-year and reached between SEK 330 and 340 billion.



SEK
330–340
billion

The industrial original equipment bearing markets accounted for almost 40% of world demand and included manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) maintained around 30% of world bearing demand, of which around 30% is related to the vehicle service market and around 70% to the industrial market.

The automotive original equipment bearing markets, including two and four-wheelers, accounted for more than 30%.

Europe accounts for 25% of the total world market with Germany alone accounting for almost 10%.

The Americas now represent slightly more than 20% of global demand, of which the USA, Canada and Mexico together account for about 80%. In South America, Brazil is the major market and makes up more than 60% of regional demand.

Asia's share of the world bearing market was relatively unchanged and accounted for almost 50% compared with less than 30% ten years ago. China's share of the total world bearing market was slightly down to about 25%. Japan's share of the world bearing market accounts for slightly more than 10%. Other Asian markets with sizeable bearing production account for about 10%, including India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which remains the largest of the emerging markets, is very fragmented, with the main international bearing companies accounting for about one third of the market while the other two thirds of the market consists of a host of local manufacturers. Some of the largest include: Wafangdian

(ZWZ), Luoyang (LYC), Harbin (HRB), Zhejiang Tianma (TMB), Wanxiang Qianchao, and C&U.

The Indian bearing market accounts for less than 5% of the world bearing market. The players in that market include international manufacturers and several local manufacturers such as NEI, NRB, ABC and TATA.

SKF is the world leader on the bearings market with other major international companies including the Schaeffler Group, Timken, NSK, NTN, and JTEKT.

SKF estimates that the top 6 world bearing manufacturers represent about 60% of the global rolling bearing market while the group of Chinese bearing companies, including small and larger ones, represents less than 20% in the world with more than 80% of their sales in Asia, less than 10% in Europe, less than 7% in Americas. The remaining 20% of Chinese bearing companies includes many smaller regional competitors.

Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30% of the world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub ball bearing units. Roller bearings account for less than half of worldwide rolling bearing sales.

Roller bearings are named after the roller shape, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings and spherical roller bearings. All of these are available for loads acting across the shaft (radial bearings) and for loads that are parallel with the shaft (thrust bearings). The largest roller bearing family is the tapered roller bearing, with about 20% of the world bearing market.

Example of products



Wheel hub bearing



Deep groove ball bearing



Self-aligning ball bearing



Angular contact ball bearing



Tapered roller bearing



Spherical roller bearing



Cylindrical roller bearing

Linear and actuation and motion control market

This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion. SKF estimates that the global markets for linear and actuation technologies slightly increased in 2014 over the previous year, to around SEK 52 billion worldwide.

SEK
52 billion

More than half of the market is in Asia, one third in Europe and the remainder in the Americas. The market consists of many suppliers with different backgrounds and offers: from producers of basic mechanical components to specialists in motors, software or controls.

The linear motion and actuation market embraces a wide range of products from pure mechanical components to fully integrated systems. Market growth is driven by the technology shift from pneumatic and hydraulic towards electromechanical systems, to meet the needs of higher precision, more flexibility, reliability and greater efficiency with reduced energy use. This trend of machinery that is more efficient is expected to continue and sustain the industry's growth especially in Europe and the Americas.

The market can be split in two main categories: linear motion and actuators.

Linear motion consists of various types of products and solutions required to obtain a linear movement. The major ones are linear guides and ball and roller screws.

The linear guides market has been established for many years and represents two thirds of the global linear motion market, while ball and roller screws represent one third.

Even if linear motion products are used in a very wide range of industries, the market is strongly influenced by machine tools, electronics, semi-conductor and production machinery.

The actuators market is at the core of the technology shift towards electromechanical solutions. For many years the main industries have been medical and healthcare, off-highway and the furniture industries, but as the sector is now growing more significantly, year-on-year, factory automation is driven by developments in the automotive and food & beverage production lines. An important consequence of these changes is a deep modification of the supplier base with new players from different backgrounds like automation, pneumatic, hydraulic, actuators etc.

SKF is active in developing and offering a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, which provide extensive customer benefits.

SKF's main focus industries in this market include the medical industry, factory automation, semi-conductors, off-highway and the oil and gas industry. SKF is very active in the oil and gas industry and involved in developing products and solutions for sub-sea applications, which are considered tomorrow's new technological frontier of this industry.

SKF is a leading supplier for light and medium industrial actuation systems, roller screws and magnetic system solutions, including magnetic bearings, controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and positioning tables. SKF's largest competitors include NSK, THK, Hiwin, Linak and Bosch Rexroth.

Example of products



ElectroMechanical Cylinder (LEMC) for the automation and machine tool industry. Typical application are car body assembly lines and woodworking machines.



SKF S2M Magnetic Bearings cartridge (radial and half axial) for natural gas stand-alone compressor.



The assortment of SKF linear guidance is composed of linear ball bearings, profile rail guides, miniature profile rail guides and precision rail guides, to provide the best fit for all application demand.

Polymer seals market

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into industrial, automotive or aerospace seals. In 2014, the total polymer seals market experienced a fairly flat development, reaching an estimated SEK 75–80 billion.

SEK
75–80
billion

Industrial seals can be segmented into power transmission seals and fluid system seals. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Fluid systems seals include fluid power seals and fluid handling seals. The majority of the fluid power seals are made for reciprocating motion and are used in both mobile and stationary fluid power applications, for example in off-highway, mining and other heavy industries. The off-highway applications represent the largest part of the market. Asia represents a major share of the industrial seals market with the remainder almost equally split between the Americas and Europe.

The technology trend for dynamic seals in the automotive industry is shifting to powertrain and driveline applications, with customized solutions meeting more demanding requirements for reducing weight and friction, for more driving comfort and less fuel consumption. While China became the biggest car market globally, automotive original equipment manufacturers are still developing core technology in their mature markets in North America, Western Europe and Japan. In 2014, Asian markets, except for China, suffered from a challenging economic environment while the mature markets and China continued to grow slightly.

In aerospace applications, products are required to withstand extreme conditions and are often critical to the system's operational reliability. In order to meet such requirements, aerospace seals are custom designed with light weight and corrosion resistant material solutions. North America and Europe are still the most important markets, but the demand in Asia is growing.

SKF is among the top global players with a strong offer in most applications across each industry. The German Freudenberg Group with its automotive-focused Japanese affiliate NOK (Nippon Oil Seal Co) is the largest supplier on the world polymer seals market across all industries. Trelleborg AB and Parker Hannifin are important players on the industrial seals market and Federal Mogul, Dana, ElringKlinger, Sabo and Bruss are significant suppliers of automotive seals. The aerospace seals market is fragmented and split between 8–9 companies. In addition to SKF the major players are Trelleborg AB, FNOK (Simrit), St Gobain and Greene Tweed.

In addition, Aerospace Sealing Solutions manufactures precision elastomeric vibration control products. These elastomeric bearings, isolators, dampers, and mounts are custom-engineered solutions, specifically designed for each application in fixed wing and helicopter applications. The Aerospace elastomeric vibration control market is split between 5–6 companies and in addition to SKF the major players are Lord Corp, Hutchinson, and ITT/Enidine.

Example of products



Industrial seals
HMSA10 (Power transmission seal)
S1S (Fluid power seal)



Automotive seals
SKF Scotseal (Wheel-end seal)
Bonded piston seal (Transmission and driveline seal)



Aerospace seal
Radial lip shaft seal



Precision elastomeric devices
Tail rotor spherical thrust bearing.
Main rotor spherical thrust bearing

Lubrication systems market

The global lubrication market, consisting of automatic lubrication systems, design and installation and manual lubrication tools and equipment, was relatively unchanged over the previous year in local currencies, and remained at SEK 30 billion in 2014 worldwide.

SEK 30
billion

Automatic or centralized lubrication systems provide precise amounts of lubricants – oil or grease – to moving parts, notably bearings, to minimize friction and wear. These systems are increasingly seen as mission-critical products aimed at improving the productivity, reliability, energy efficiency, environmental compliance and maintenance of vehicles and industrial machinery.

Automatic lubrication systems include pumps, reservoirs, valves, pipes, metering system connectors and controllers. Tools and equipment include grease guns, reels, meters, pumps and fluid drain systems. Design and installation services play a significant role.

The market trend is to move from manual solutions to automatic and centralized lubrication systems, this drives market growth above the underlying market growth. SKF estimate that only 20% of the lubrication points today have automated lubrication.

Large industrial processing equipment in the cement, mining and mineral processing, steel and paper industries accounts for almost 50% of global demand, while vehicles – agricultural, mobile mining and construction, trucks and trailers – and industrial machines, such as machine tools and printing machines, each account for around 25% of the market.

By region, European markets account for about 35%, North and Latin America together make up about 35%, and Asia and the rest of the world account for 30%.

SKF has a strong presence in both the grease and the oil-based lubrication systems market globally. For tools and equipment SKF has a strong presence in the North American market. The remainder of the market is highly fragmented with few truly international suppliers and a large amount of small to mid-sized competitors. SKF's competitors include BEKA (Germany), Groeneveld Group (Netherlands), LUBE Corp (Japan), Bijur Delimon (USA), Graco (USA), and Samoa Group (Spain).

Example of products



The new PPS30 is a pneumatic pump capable of dispensing both oil and fluid grease for single-line lubrication of small- and medium-size machine centers and other industrial equipment.



The new free-standing 20v PowerLuber combines an ultra-efficient powertrain with new metering technology to protect from over- or under-greasing while minimizing waste.

Mechanical power transmission market

The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V and synchronous belt drives, chain drives and shaft couplings. SKF estimates the total size of the global power transmission market remained at around SEK 150–170 billion. This market encompasses the industries covered by SKF's other markets.

SEK
150–170
billion

Growth in the power transmission market over the last 10–15 years has been between 3 to 10% per year. In 2007, SKF began offering a new and comprehensive range of industrial power transmission products, which have seen continuous growth of around 20 to 30% year-on-year.

The global power transmission market is quite fragmented with competitors generally being regional and/or industry-specific suppliers generally providing only partial product offerings. Many competitors offer belts or chains (usually not both), and ordinarily they offer limited or no ironware such as pulleys, sprockets, couplings, etc. Other competitors offer only the ironware without the corresponding belts or chains. Regionally speaking, the more mature markets like Europe and North America have strong competitors covering specific but limited product ranges, while the emerging markets are less well attended.

As power transmission products greatly affect a customer's up-time and total cost of equipment ownership, they demand better availability, technical support and know-how, enhanced performance, reduced energy consumption, easier installation, smoother operation, reduced noise levels, and ultimately increased reliability and service life. SKF has a unique understanding of rotating equipment and how machine components and industrial processes are interrelated in every major industry worldwide. SKF is therefore particularly well positioned to offer a complete range of power transmission products and solutions in parallel with the already broad industrial product and service platforms. Important players in the global market are ABB (Sweden/USA), Altra (USA), Emerson (USA), Tsubaki (Japan), Renold (UK), Rexnord (USA), Donghua (China), Gates (USA), Carlisle (USA), Optibelt (Germany), ContiTech (Germany).



Asset efficiency optimization market

The asset efficiency optimization (AEO) market addresses customers' need to improve the productivity, efficiency and performance of their assets. It consists of products and services that enable customers to increase the availability and reliability of plant assets, reduce environmental impact and improve health and safety.



Rapidly
expanding
market

This area involves a range of products and services, including Asset Reliability Consulting, which helps companies set up the right maintenance programme, Remanufacturing Services, and high-technology Condition Monitoring products and services, which provides early diagnostics about equipment problems. The industrial internet is particularly relevant to this market and is shifting the market dynamics. As more industrial plants are fitting their equipment with sensors and companies are focusing on major data analytics to predict equipment performance, it will drive adoption of AEO products and services. SKF sees future growth in AEO, particularly in wireless condition monitoring and cloud-based monitoring, as companies increasingly start using these technologies. The market continues to shift from reactive to proactive maintenance, as existing and new facilities recognize the value of implementing AEO services and products to maximize productivity and take advantage of the vast amount of information available.

Growth in this market remains particularly strong in developing regions, especially Latin America and Asia, which continue to show double-digit growth, while established markets like North America and Europe were affected more by the weakened macro-economic conditions. More established markets such as North America and Europe show high growth potential, especially as older manufacturing sites seek to get more productivity from existing plant assets. As manufacturers scale back investment in new facilities, it will be more important than ever to maximize

productivity of existing assets through new technology and services. The ageing workforce in many countries will drive the growth of outsourced maintenance and reliability activities that are non-core to manufacturers' business. Increasing regulatory requirements driven by health, safety and environmental concerns require customers to inspect and monitor a greater portion of their plant assets with increasing frequency. In most cases this includes traceable documentation. This is resulting in the greater use of mobile inspection and wireless devices.

All of the market factors above are leading to a greater emphasis on life cycle management of key plant assets. This is defined as a more integrated approach from the design, manufacture and delivery from the OEM to the installation, use and maintenance from the end-user.

SKF is one of the global market leaders in this rapidly expanding market and continues to hold the strongest portfolio of products and services within its area. By combining its extensive knowledge of industrial machinery in economic, technical and environmental terms with its local service presence, SKF can deliver effective implementation of monitoring instrumentation and software solutions to customers worldwide. The competitive landscape remains dominated by a few key players with many small local suppliers and niche, technology-driven companies. The largest competitors in the market are Emerson CSI, Bentley-Nevada, GE and Rockwell.

Example of products



The SKF Shaft Alignment Tool TKSA 11 is the first instrument on the market that uses inductive proximity sensors. Using mobile devices, the instrument intuitively guides the user through the whole alignment process.



The SKF Wireless Machine Condition Sensor combines a sensor, data collector and radio into one compact, battery-operated device that measures both vibration and temperature data.

Shares and shareholders

SKF's shares as of 31 December 2014

SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914 and the total number of shares traded on this marketplace in 2014 was 571,899,254.

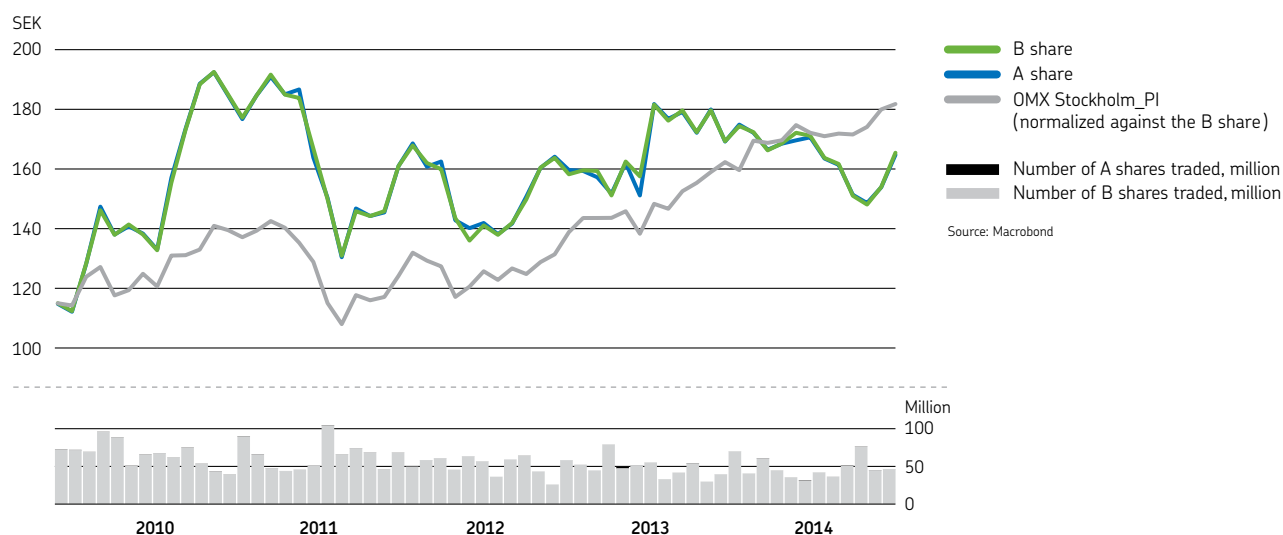
SKF's B shares are also traded on other market places, the most important are Chi-X Europe Limited, Bats Europe, Turquoise and Burgundy. The total number of shares traded on these four market places together in 2014 was 304,151,804. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	37,649,081
B shares, unrestricted	417,701,987
Total	455,351,068

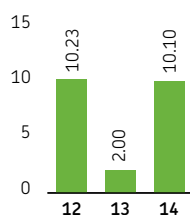
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 909,185 A-shares were converted to B shares in 2014.

A-shares are constituting 8.3% of total number of shares, to be compared to 8.5% in December 2013 and 43.3% in December 2001.

Price trend of SKF's shares

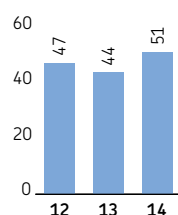


Basic earnings per share, SEK*

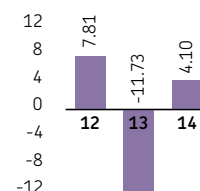


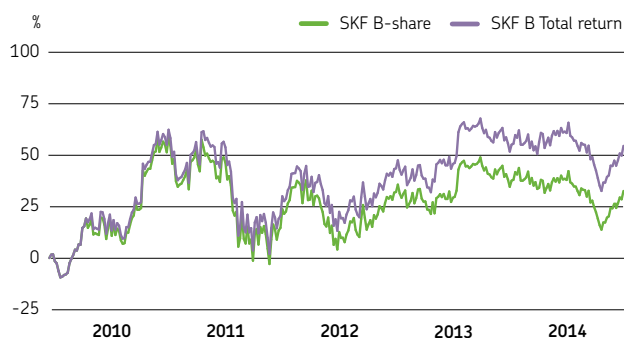
* 2012 restated for amended IAS 19.

Shareholders' equity per share, SEK



Cash flow after investments, before financial items per share, SEK



Total return 2010–2014

The total return from investing in SKF shares over the past five years was 55%.

Total return, for a given period, is defined as share price performance including the value of all reinvested dividends. The dividend is calculated reinvested as from the day the share is traded exclusive the right to the dividend. Total return is presented in per cent.

Per-share data

Swedish kronor per share unless otherwise stated	2014	2013	2012 ²⁾	2011	2010	2009	2008	2007
Earnings per share	10.10	2.0	10.23	13.29	11.28	3.61	10.14	10.09
Dividend per A and B share	5.50 ¹⁾	5.50	5.50	5.50	5.00	3.50	3.50	5.00
Total dividends, SEKm	2,504	2,504	2,504	2,277	1,594	1,594	2,277	2,049
Redemption per share	–	–	–	–	–	–	–	5.00
Total redemption, SEKm	–	–	–	–	–	–	2,277	4,554
Purchase price of B shares at year-end on NASDAQ OMX Stockholm	164.9	168.7	163.2	145.60	191.60	123.60	77.25	104.79
Equity per share	51	44	47	47	42	38	41	40
Yield in percent (B)	3.3 ¹⁾	3.3	3.4	3.8	2.6	2.8	4.5	4.8
Yield in percent (B), incl. share redemption	–	–	–	–	–	–	–	9.5
P/E ratio, B (share price/earnings per share)	16.3	84.2	16.0	11.0	17.0	34.2	7.6	10.4
Cash flow from operations, per share	9.9	11.7	13.6	12.3	12.2	17.6	8.1	10.8
Cash flow, after investments and before financing, per share	4.1	-11.73	7.81	8.45	-6.23	12.63	0.14	4.67

¹⁾ According to the Board's proposal for the year 2014.

²⁾ 2012 restated for amended IAS 19. All years prior to 2011 continue to use the old IAS 19 rules, see Note 1.

The ten largest shareholders	A shares	B shares	Number of shares	Number of votes	In per cent of share capital	In per cent of voting rights
FAM AB	19,050,000	39,800,000	58,850,000	23,030,000	12.92	29.00
Alecta Pensionsförsäkring	2,192,404	7,874,148	10,066,552	2,979,819	2.21	3.75
Didner & Gerge fonder		8,124,410	8,124,410	812,441	1.78	1.02
Swedbank Robur fonder		7,114,528	7,114,528	711,453	1.56	0.90
AFA Försäkring	1,378,300	5,658,874	7,037,174	1,944,187	1.55	2.45
Handelsbanken fonder	38,090	5,102,693	5,140,783	548,359	1.13	0.69
Norges Bank		5,075,339	5,075,339	507,534	1.11	0.64
Carnegie fonder		4,250,000	4,250,000	425,000	0.93	0.54
Andra AP-fonden		4,233,260	4,233,260	423,326	0.93	0.53
ODDO Asset Management		4,215,001	4,215,001	421,500	0.93	0.53

Source: Euroclear Sweden AB's public share register as of 31 December, 2014.

FAM AB, wholly owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing at least 10% of the voting rights in SKF.

As of 31 December 2014, about 50% of the share capital was owned by foreign investors, about 42% 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.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1 000	53,093	83.0	16,412,738	3.6
1 001 – 10 000	9,696	15.1	26,887,033	5.9
10 001 – 100 000	879	1.4	25,333,797	5.6
100 001 –	298	0.5	386,717,500	84.9
	63,966	100	455,351,068	100

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2014.

Changes in share capital 1982–2014

	Amount paid SEKm	Share capital SEKm	Number of shares in millions	Quoted value per share, SEK
1982 Bonus issue 1:4	–	1,350	27.0	50.00
1989 Split 4:1	–	1,350	108.0	12.50
1990 Conversion of debentures	62	1,412	113.0	12.50
1997 Conversion of bonds	11	1,423	113.8	12.50
2005 Split 5:1 and redemption	–	1,138	455.3	2.50
2007 Split 2:1 and redemption	–	1,138	455.3	2.50
2008 Split 2:1 and redemption	–	1,138	455.3	2.50

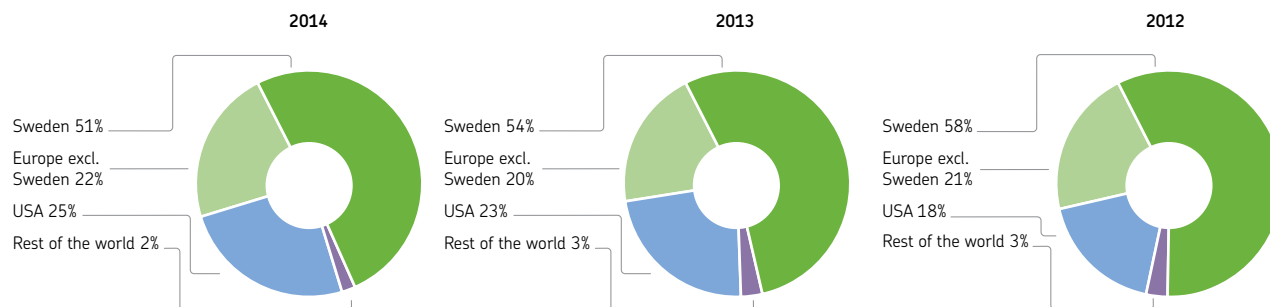
Share savings fund for employees

SKF Allemansfond, a national security savings fund for SKF employees in Sweden was started in 1984. On 31 December 2014, the SKF Allemansfond had 1,902 members. 29,3% of the fund was invested in SKF's shares. Assets amounted to SEK 134 million.

There are currently around 30 analysts who analyze and follow SKF and give recommendations on the shares. Names and companies can be found at skf.com. Go to "Investors", then "SKF's shares" and then "Analysts".

Geographic ownership

Source: SIS Ownership Data Corp.



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 limitations exist limiting the number of votes which 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.

AB SKF Stock Fund in the USA

SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds. Through 31 December 2011, deferrals could be invested in an AB SKF Stock Fund. Effective 1 January 2012, deferrals and transfers into this fund are no longer permitted, although employees could maintain balances existing at 1 January 2012. The employees have no direct voting rights based on the shares held in the fund. The fund held 508,235 SKF B shares at the end of 2014.

Sensitivity analysis

This analysis shows how changes of a number of factors could affect the Group's operating profit for a year. Calculations are based on year-end figures as well as on the assumption that everything else is equal.

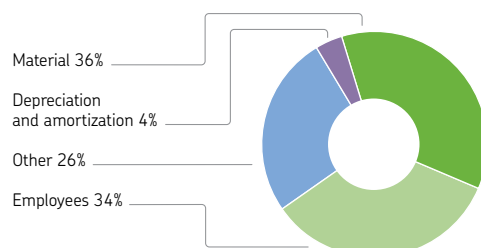
Costs

- The annual cost of raw materials and components is around SEK 22 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 220 million. Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices decrease/increase SKF's operating profit by around SEK 65 million, which is already included in the figure for raw materials and components that impacts the operating profit. See also page 78.
- 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 240 million, based on the current position. The Group had net interest bearing liabilities of SEK 30,150 million on 31 December 2014.

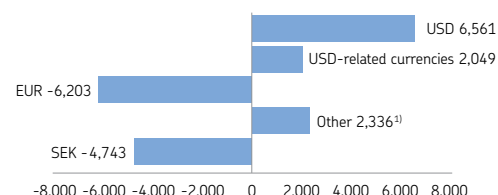
Currency impact

- 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 2014 operating profits in local currencies, a weakening/strengthening of 5% of the SEK versus all currencies would have caused an increase/ decrease in the Group's reported operating profit in 2014 of some SEK 400 million.
- Transaction effects: With regard to commercial flows, the Group is primarily exposed to the USD and EUR against SEK. Based on 2014's USD currency flows, the operating profit in 2014 would have increased/decreased by around SEK 300 million with a strengthening/weakening of 5% of the USD versus the SEK.

Cost split 2014, operating expenses SEK 63,297 m



Net currency flows 2014, SEKm



¹⁾ Other is a sum comprising 10 different currencies.

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 2014, the gearing was 60.5% (59.2), the equity/assets ratio 29.9% (29.8) and the net debt/equity ratio 126.6% (117.3). The capital structure in 2014 was affected by the financing of the debt related to the acquisition of Kaydon Corporation. All things being equal, the Group expects to return to the targeted capital structure within a couple of years.

Gearing: Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity, all at year-end.

Equity / assets ratio: Equity as a percentage of total assets at year-end.

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.

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December 2014, the average maturity of SKF's loans was five years. SKF has three notes issued on the European bond market, two with outstanding amounts of EUR 500 million each, due 2018 and 2019 and one with an outstanding amount of EUR 750 million, due 2020. Furthermore, SKF has issued one note of EUR 100 million on the Swedish market with a due date in 2015. 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 agreement. In addition to the loans mentioned above SKF also has four loans, two of EUR 100 million each, due in 2016, 2020, one of EUR 200 due in 2021 and one of SEK 1,000 million due in 2017.

Credit rating.

On 31 December 2014, the Group had a BBB+ rating with a negative outlook for long-term credit from Standard and Poor's and a Baa1 rating with a stable 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 2015, see page 174, Proposed distribution of surplus.

Financial risks

SKF's operations are exposed to various types of financial risk. The Group's financial policy defines the main risks as currency, interest rate, credit and liquidity risks and defines responsibility and authority to manage them. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through active risk management. The responsibility for risk management and treasury operations are largely centralized to the SKF Treasury Centre, the Group's internal bank.

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. According to SKF's policy SKF may hedge 75% of the estimated net USD exposure for one to six months. At year-end, the hedging with derivatives conformed to the Group policy. Translation exposure on net assets of foreign subsidiaries is hedged to some extent by loans and derivatives in foreign currencies.

Interest rate risk

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

The Group policy states that only well-established financial institutions will be approved as counterparties. Exposure per counterpart is continuously monitored.

Liquidity risk

In addition to its own liquidity, AB SKF had three committed credit facilities, one of SEK 3,000 million with due date 2016 and one of EUR 150 million with due date 2017 and EUR 500 million with a due date in 2019.

More details about risk management and hedging activities can be found in the Consolidated financial statements, Note 28.

Risks 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 both transaction and translation of currency exposure. For commercial flows the SKF Group is primarily exposed to the USD and to US dollar-related currencies. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies.

The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit 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 U.S. Department of Justice and the Korea Fair Trade Commission regarding a possible violation of antitrust rules. In October 2014, an investigation against bearing manufacturers, including SKF, was launched in Brazil by the General Superintendence of the Administrative Council for Economic Defense regarding an alleged violation of antitrust rules. 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.

Internal control and risk management regarding financial reporting

The Group's systems for internal control and risk management in relation to the preparation of the Consolidated Financial Statements are described in the Corporate Governance Report under the heading "Internal control and risk management regarding financial reporting", see page 192.

SKF Ethics and compliance programme

SKF's ethics and compliance programme is made up of four building blocks – prevent, detect, respond and improve.



The main improvements of SKF's ethics and compliance programme during 2014 can be summarized as follows:

- Update of SKF's Code of Conduct.
- Development of a comprehensive code of conduct e-learning course. The course includes videos filmed on site at SKF. The course will be launched at the beginning of 2015 and will be mandatory for all SKF employees.
- Update of the Group Export Control Policy and detailing of the group export control processes.
- Launch of new mandatory e-learning courses in the areas of antitrust and export control.
- New whistle-blower reporting line guaranteeing total anonymity.

To further improve reporting possibilities SKF has decided to implement a reporting tool hosted by a third party. The project was on-going during 2014 and will be implemented globally during 2015. SKF has named the tool SKF's Ethics and Compliance Reporting Line. The tool will make it possible for SKF's employees to report concerns in their own language via an external web portal or by calling a local telephone number. The tool includes an integrated case management system that will enable SKF to handle reported concerns systematically. When fully implemented, the tool will replace the current internal helpline.

SKF has several training courses on-going for specific topics related to ethics and compliance, such as antitrust, fraud and corruption and export control. These courses are mandatory

for relevant employee categories and completion of the courses is monitored through SKF's central learning management system. Training course status at year end 2014:

- Anti-corruption: 72% (14,670) of the employees in the scope had completed the course.
- Fraud awareness: 82% (7,132) of the employees in the scope had completed the course.
- Antitrust awareness: 70% (8,124) of the employees in the scope had completed the course.
- Export control: 71% (17,081) of the employees in the scope had completed the course.

SKF carries out a number of audits every year to check and confirm if adequate processes are in place at the local units in relation to financial internal control and compliance to the code of conduct. In 2014, audits were conducted at 44 units, of which 20 were in Europe, 9 in Asia, 13 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 mainly to overtime hours worked above the legal limit. Corrective action was taken in all cases. Please read more on the code of conduct audit procedures in the Employee Care section on page 92.

In 2014, 13 cases were reported to the SKF internal hotline. 5 of these cases were handled by SKF USA and the rest were managed by the SKF Group.

During 2014, 18 investigations relating to fraud and corruption were carried out by Group Audit. 15 of these investigations were finalized and closed during the year. 5 of these investigations did not give any conclusive evidence that anything improper had taken place. 10 of the investigations either led to the people under investigation leaving the company or that they received warning letters.

Going forward

One of the major activities in the area of ethics and compliance during 2015 will be the global implementation of SKF's ethics and compliance reporting line and the launch of the new code of conduct e-learning course. SKF will further increase its efforts during 2015 within the area of export control compliance. These efforts include the development of an IT tool, which will support the Group to comply to export control regulations.

What is the SKF Code of Conduct?

The SKF Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN Global Compact principles.

The SKF Code of Conduct constitutes the ethical foundation for all activities at SKF. It defines at the highest level, how ethical considerations related to economic, environmental and social

aspects should be applied within the Group and along its value chain. All other policies are subordinate to the SKF Code of Conduct. There are adapted versions for SKF's business partners such as suppliers, sub-contractors and distributors. The SKF Code of Conduct highlights how SKF applies its values.

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 2015. 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 – 2014). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2015.

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 2015–2017 compared to the financial year 2014. 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 2015 and a share price of SEK 169, the cost, including social security costs, is estimated at around SEK 158 million. On the basis of a share price of SEK 348, the cost, including social security costs, is estimated at around SEK 325 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 – 2014 resolved on SKF's Performance Share Programmes 2008 – 2014.
- No allotment of shares has been or will be 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 will be made under SKF's Performance Share Programme 2012 – 2013 due to non-fulfillment of the TVA target for the financial years 2012 – 2013. Any allotment of shares under SKF's Performance Share Programme 2014 will be made during 2017.
- The pension conditions of the President are described on page 155.
- Certain members of Group Management have defined benefit pension solutions.
- The normal retirement age for Group Management members is 65 years. Certain members of Group Management still have a retirement age of 62 years based on already existing agreements.
- 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 2014 and remuneration of Group Management 2014, see Consolidated Financial Statements Note 25.

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.

Administration report for the 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, entitled to the residual profit and taking costs for R&D and management services.

Dividend income from consolidated subsidiaries amounted to SEK 3,193 million (8,227).

Net increase in investments in subsidiaries amounted to SEK 4,089 million (9,900) of which SEK 634 million (9,628) is related to acquisitions from companies within the SKF Group, SEK 37 million (0) is related to acquisitions from companies outside the SKF Group; SEK 3,425 million (1,170) to capital contributions to existing units and SEK 7 million (898) 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 13,641 million.



See pages 208–209, SKF's global campaign 2014.

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Consolidated income statements

SEKm	Note	Years ended 31 December	
		2014	2013
Net sales	2	70,975	63,597
Cost of goods sold	5, 6	-53,228	-47,925
Gross profit		17,747	15,672
Selling expenses	6	-9,446	-8,417
Administrative expenses	6	-623	-451
Other operating income	7	413	567
Other operating expenses	7	-296	-3,680
Profit from associated companies	12	6	2
Operating profit		7,801	3,693
Financial income	8	147	123
Financial expenses	8	-1,280	-995
Profit before taxes		6,668	2,821
Income tax	9	-1,918	-1,777
Net profit		4,750	1,044
Net profit attributable to:			
Shareholders of AB SKF		4,600	912
Non-controlling interests		150	132
Basic earnings per share (SEK)	17	10.10	2.00
Diluted earnings per share (SEK)	17	10.10	2.00

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2014	2013
Net profit		4,750	1,044
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	18	-3,208	844
Income tax	9	960	-315
		-2,248	529
Items that may be reclassified to the income statement			
Currency translation adjustments		2,824	-290
Available-for-sale assets	14	85	16
Cash flow hedges	28	-53	-39
Income tax	9	477	104
		3,333	-209
Other comprehensive income, net of tax		1,085	320
Total comprehensive income		5,835	1,364
Total comprehensive income attributable to			
Shareholders of AB SKF		5,498	1,303
Non-controlling interests		337	61

Amounts in parentheses refer to comparable figures for 2013.

General

The Group's income statement for 2013 includes the result of Kaydon for the period 16 October – 31 December.

Net sales

Net sales amounted to SEK 70,975 m (63,597). The 11.6% increase in net sales compared to 2013 was attributable to volume by 3.3%, to price and mix¹⁾ by 0.6%, to structure by 3.7%, and to currency effects by 4.0%. Qualifying hedging activities affected net sales by SEK -25 m (16).

Operating profit

Operating profit amounted to SEK 7,801 m (3,693) resulting in an operating margin of 11.0% (5.8). The operating profit includes one-time items of SEK -490 m (-3,875) whereof SEK -340 m (-500) relates to the restructuring programme started in 2012, SEK 150 m is the reversal of the European Commission provision made in 2013, and the remaining SEK -300 m includes impairments and other one-time costs.

In January 2015, the Group announced restructuring activities related to the merger of the two industrial businesses into one Industrial market business area, as well as the rationalisations of Group and Automotive staff functions, which in total will result in reduction of an estimated 1,500 employees. These activities will provide an estimated full year saving of some SEK 1.2 billion with the costs estimated at SEK 1.4 billion, none of which has been taken in the 2014 results. See page 28 of the Administration report.

Exchange rates for the full year 2014, including translation effects and flows from transactions, had a positive effect on operating profit of SEK 180 m (-660).

Cost of goods sold, selling and administrative expenses amounted to SEK 63,297 m (56,793). The costs were divided into 34% (35) employee benefit expense, 36% (36) raw material and components consumed, 26% (26) other expenses and 4% (3) depreciation, amortization and impairments. For details, see Note 6.

Other operating income and other operating expenses include items such as foreign exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of property, plant and equipment and businesses as well as rental revenues and acquisition-related expenses. Additionally, other operating expenses include the provision for the European Commission payment and reversal, in 2013 and 2014 respectively, see Note 7.

Profit before taxes

Profit before taxes amounted to SEK 6,668 m (2,821). Financial income and expenses, net, amounted to SEK -1,133 m (-872) and includes a one-time effect of around SEK -100 m related to changes in currency regulation and currency rates in Venezuela. Net interest costs on post-employment benefits have affected the financial net negatively by SEK -370 m (-314).

Net profit

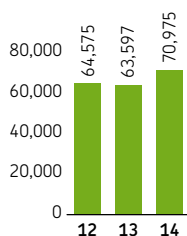
Net profit amounted to SEK 4,750 m (1,044). The actual tax rate was 28.8% (63.0). Excluding the European Commission provision, the actual tax rate was 30.5% for 2013.

¹⁾Mix refers to volume shifts between various customer industries and products with different price levels.

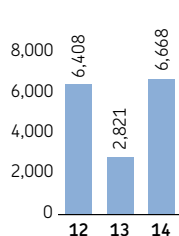
Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2014
Net sales	16,734	17,955	17,787	18,499	70,975
Operating profit	2,024	2,096	2,073	1,608	7,801
Profit before taxes	1,787	1,761	1,827	1,293	6,668
Basic earnings per share (SEK)	2.72	2.54	3.01	1.84	10.10

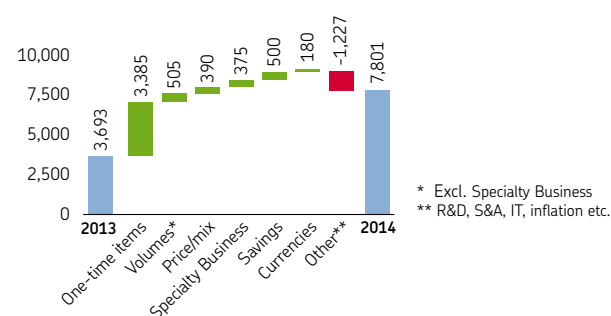
Net sales



Profit before taxes



Operating profit development, full year 2014



Consolidated balance sheets

SEKm	Note	As of 31 December	
		2014	2013
ASSETS			
Non-current assets			
Goodwill	10	12,233	10,717
Other intangible assets	10	9,905	8,306
Property, plant and equipment	11	15,482	14,095
Long-term financial assets	14	1,705	1,083
Deferred tax assets	9	3,350	2,015
Investments in associated companies	12	65	54
Other long-term assets	18	92	139
		42,832	36,409
Current assets			
Inventories	13	15,066	13,700
Trade receivables	14	12,595	11,189
Income tax receivables		825	964
Other short-term assets	15	2,880	2,528
Other short-term financial assets	14	1,521	832
Cash and cash equivalents	14	5,920	5,369
		38,807	34,582
Total assets		81,639	70,991
EQUITY AND LIABILITIES			
Share capital	16	1,138	1,138
Share premium		564	564
Available-for-sale reserve		295	210
Hedging reserve		-46	-5
Translation reserve		553	-2,549
Retained earnings		20,585	20,742
Equity attributable to shareholders of AB SKF		23,089	20,100
Equity attributable to non-controlling interests		1,315	1,052
		24,404	21,152
Non-current liabilities			
Long-term financial liabilities	20	22,200	19,698
Provisions for post-employment benefits	18	13,978	9,902
Deferred tax provisions	9	1,717	2,207
Other long-term provisions	19	1,278	1,226
Other long-term liabilities		83	65
		39,256	33,098
Current liabilities			
Trade payables	20	5,938	4,740
Income tax payables		387	433
Short-term provisions	19	805	3,785
Other short-term financial liabilities	20	3,905	1,646
Other short-term liabilities	22	6,944	6,137
		17,979	16,741
Total equity and liabilities		81,639	70,991

Amounts in parentheses refer to comparable figures for 2013.

Currency effects

The weakening of the SEK against the major currencies USD, EUR and CNY during 2014 caused significant translation variations in the Group's balance sheet 2014 over 2013. The currency effect on total equity was some SEK 2,800 m coming from primarily the USD, EUR and CNY. Largest translation increases on assets were intangibles with some SEK 3,000 m, plant property and equipment with some SEK 1,300 m, inventories with some SEK 1,600 m and trade receivables with some SEK 1,200 m. The largest currency increases on liabilities were post-employment benefits with some SEK 1,100 m, financial liabilities with some SEK 1,700 m and trade payables with some SEK 450 m.

Return on capital employed

The target for return on capital employed as a percentage of sales is set at 20%. At 31 December 2014 it was 13.9% (7.5).

Net working capital

The target for net working capital as a percentage of sales is set at 27%. At 31 December, 2014 it was 30.6% (31.7) consisting of the following components:

% of net sales	2014	2013
Inventories	21.2	21.5
Trade receivables	17.8	17.6
Trade payables	-8.4	-7.4
Net working capital	30.6	31.7

- Inventories amounted to SEK 15,066 m (13,700) being 21.2% (21.5) of annual sales. The change in inventories was caused by some SEK 1,600 m due to a weaker Swedish krona and included a decrease in volumes of some SEK 240 m.
- Trade receivables amounted to some SEK 12,595 m (11,189) which is 17.8% (17.6%) of annual sales. The change in trade receivables was attributable to currencies with some SEK 1,200 m, and also included a slight volume increase of some SEK 140 m. The average days of outstanding trade receivables were 64 days (64).

- Trade payables amounted to SEK 5,938 m (4,740) being 8.4% (7.4) of annual sales. The change attributable to currencies was SEK 450 m and the remainder was volume.

Plant and property

Plant and property amounted to SEK 15,482 m (14,095) at 31 December 2014. This was as a percentage of annual sales 21.8% (22.2). The change attributable to currencies was some SEK 1,350 m.

Interest bearing liabilities

Post-employment benefit provisions were SEK 13,978 m (9,902). In addition to the significant increase due to currencies, being mainly EUR and USD, the provisions increased by some SEK 3,200 m due to remeasurement losses caused mainly by decreasing discount rates primarily in Germany and the USA.

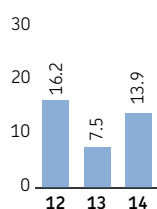
Long-term and short-term borrowings totalled SEK 26,105 m (21,344). During 2014, new loans of some SEK 1,800 m were taken and some SEK 940 were repaid. Additionally, the strengthening EUR caused an increase of some SEK 1,700 m.

Equity

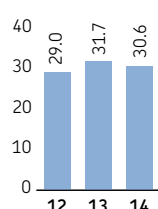
During the year, equity increased from SEK 21,152 m to SEK 24,404 m. The increase caused by translation effects of some SEK 3,300 m net of tax, were offset by some SEK 2,200 m net of tax related to remeasurement losses on post-employment benefits.

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, while maintaining a strong credit rating. On 31 December 2014, the gearing was 60.5% (59.2), the equity/assets ratio 29.9% (29.8) and the net debt/equity ratio 126.6% (117.3).

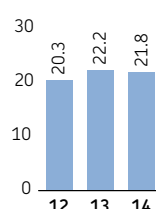
Return on capital employed, %



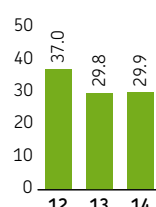
Net working capital, %



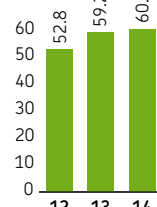
Property, plant and equipment / Sales, %



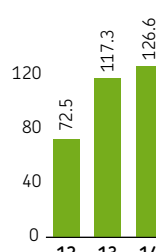
Equity/Assets, %



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2014	2013
Operating activities			
Operating profit		7,801	3,693
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	2,392	1,893
Net gain on sales of businesses, property, plant and equipment and equity securities		16	-38
Other non-cash items		-3	3,882
Income taxes paid		-2,090	-2,351
Contributions to and payments under post-employment defined benefit plans	18	-912	-625
Associated companies		3	-8
<i>Changes in working capital</i>			
Inventories		238	-285
Trade receivables		-138	-837
Trade payables		749	409
Other operating assets and liabilities, net		-2,865	-355
Interest received		84	62
Interest paid		-533	-359
Other financial items		-214	234
Net cash flow from operating activities		4,528	5,315
Investing activities			
Additions to intangible assets	10	-792	-534
Additions to property, plant and equipment	11	-1,852	-1,746
Sales of property, plant and equipment		61	83
Acquisitions of businesses, net of cash and cash equivalents	3	-69	-8,723
Sales of businesses, net of cash and cash equivalents	4	-	264
Investments in equity securities		-8	-1
Net cash flow used in investing activities		-2,660	-10,657
Net cash flow after investments before financing		1,868	-5,342
Financing activities			
Proceeds from medium- and long-term loans		1,813	7,414
Repayment of medium- and long-term loans		-941	-2,429
Change in short-term loans		-12	-2
Other, including payment of finance lease liabilities		-6	-9
Cash dividends to shareholders of AB SKF		-2,504	-2,504
Cash dividends to non-controlling interests		-74	-31
Investments in financial assets		-374	-262
Sales of financial assets		494	317
Net cash flow used in financing activities		-1,604	2,494
Increase(+)/decrease(-) in cash and cash equivalents		264	-2,848
Cash and cash equivalents at 1 January		5,369	8,244
Cash effect excluding acquired/sold businesses		264	-3,647
Cash effect from acquired/sold businesses	3, 4	-	799
Translation effect		287	-27
Cash and cash equivalents at 31 December		5,920	5,369

Amounts in parentheses refer to comparable figures for 2013.

General

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

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 10,193 m (5,586). The gross cash flow was 14.4% (8.8) of annual net sales.

Other non-cash items include certain expenses for which cash flow have not yet occurred. For 2014 the most significant items are operating expenses on post-employment defined benefit plans and the reversal of the European Commission provision. For 2013 the most significant item was the provision for the European Commission payment.

Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measurement used in the Group, amounted to SEK 1,868 m (-5,342). Adjusted for acquisitions of businesses,

the cash flow amounted to SEK 1,937 m (3,381) and adjusted for the European Commission payment the cash flow amounted to SEK 4,693 m (-5,342).

Net cash flow used in investing activities

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,852 m (1,746), whereof approximately SEK 118 m (122) was spent on internal and external environmental improvements.

In 2013 the Group's cash outflow for acquisitions of businesses was SEK 8,723 m attributable to the acquisition of Kaydon Corporation and BVI, see Note 3.

Cash flow from financing activities

Interest-bearing loans totalled SEK 23,388 m (20,874) at year end. During the year, the SKF Group arranged new long-term financing of EUR 750m and EUR 100m and repaid a loan amounting to EUR 265.

The change in cash and cash equivalents was SEK 551 m (-2,875). In 2014, changes in exchange rates affected cash and cash equivalents by SEK 287 m (-27).

	2014 Closing balance	Cash change	Businesses acquired	Other non- cash changes	Translation effect	2014 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>						
Loans ¹⁾	23,388	860	–	-26	1,680	20,874
Post-employment benefits, net ²⁾	13,942	-912	–	3,928	1,111	9,815
Other financial assets, other ³⁾	-1,260	-126	–	243	-174	-1,203
Cash and cash equivalents	-5,920	-264	–	–	-287	-5,369
Net interest-bearing liabilities	30,150	-442	–	4,145	2,330	24,117

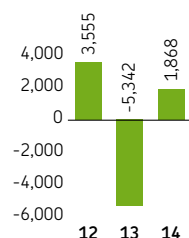
	2013 Closing balance	Cash change	Businesses acquired	Other non- cash changes	Translation effect	2013 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>						
Loans ¹⁾	20,874	4,983	–	-30	653	15,268
Post-employment benefits, net ²⁾	9,815	-625	398	-16	229	9,829
Other financial assets, other ³⁾	-1,203	55	–	-89	26	-1,195
Cash and cash equivalents	-5,369	3,647	-799	–	27	-8,244
Net interest-bearing liabilities	24,117	8,060	-401	-135	935	15,658

¹⁾Excludes derivatives, see Note 20.

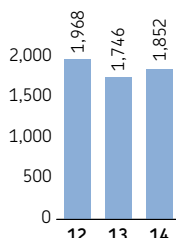
²⁾Other non-cash changes includes remeasurements as well as expenses on defined benefit plans.

³⁾Other financial assets exclude equity securities, cash and cash equivalents, derivatives and include other long-term assets less defined benefit assets.

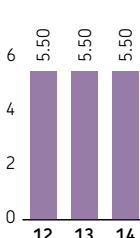
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share, SEK



The Board of Directors' proposed distribution of surplus for the year 2014, which is subject to approval at the Annual General Meeting in March 2015, includes an ordinary dividend of SEK 5.50 per share, see Note 16.

Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF							Non-controlling interests	Total
	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal		
Opening balance 1/1/2013	1,138	564	194	24	-2,422	21,842	21,340	1,128	22,468
Net profit	–	–	–	–	–	912	912	132	1,044
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-220	–	-220	-70	-290
Change in fair value of available-for-sale assets and cash flow hedges	–	–	16	-28	–	–	-12	–	-12
Release of cash flow hedges	–	–	–	-11	–	–	-11	–	-11
Remeasurements	–	–	–	–	–	846	846	-2	844
Income taxes	–	–	–	10	93	-315	-212	1	-211
Transactions with shareholders									
Cost for Performance Share Programmes, net ¹⁾	–	–	–	–	–	-39	-39	–	-39
Dividends	–	–	–	–	–	-2,504	-2,504	-31	-2,535
Non-controlling interest	–	–	–	–	–	–	–	-106	-106
Closing balance 31/12/2013	1,138	564	210	-5	-2,549	20,742	20,100	1,052	21,152
Net profit	–	–	–	–	–	4,600	4,600	150	4,750
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	2,638	–	2,638	186	2,824
Change in fair value of available-for-sale assets and cash flow hedges	–	–	85	-84	–	–	1	–	1
Release of cash flow hedges	–	–	–	31	–	–	31	–	31
Remeasurements	–	–	–	–	–	-3,203	-3,203	-5	-3,208
Income taxes	–	–	–	12	464	955	1,431	6	1,437
Transactions with shareholders									
Cost for Performance Share Programmes, net ¹⁾	–	–	–	–	–	-5	-5	–	-5
Dividends	–	–	–	–	–	-2,504	-2,504	-74	-2,578
Closing balance 31/12/2014	1,138	564	295	-46	553	20,585	23,089	1,315	24,404

¹⁾ See Note 25 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 1 for accounting principles and Note 14 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 1 for accounting principles and Note 28 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 28 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 819 m relating to SKF India Ltd, representing a 46.4% shareholding.

Notes to the consolidated financial statements

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2013.

1 Accounting policies

Critical 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 3 March 2015. 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 26 March 2015.

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

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" 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, where 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.

Intercompany accounts, transactions and unrealized profits have been eliminated in the consolidated financial statements.

Business combinations and goodwill

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, the acquired assets, assumed liabilities and contingent liabilities (net identifiable assets) are measured at fair value, which requires the use of estimates.

The most significant acquired net assets are intangibles, such as customer lists, tradenames and trademarks, and technology. The fair values of these are derived with the assistance of external valuation experts using generally accepted valuation techniques based on forecasted future cash flows. Acquired land, buildings and equipment are either appraised by independent valuers, or internally appraised with reference to observable market data. Financial assets and liabilities (including post-employment benefits), as well as inventories, are valued using references to available market information.

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognized as goodwill. If such fair values exceed the cost of acquisition, this excess is credited to the income statement in the period of acquisition. Acquisition-related costs are expensed as incurred.

This purchase price allocation, PPA (the process of allocating the acquisition cost to the net identifiable assets acquired and goodwill), is required by IFRS to be completed within twelve months of the acquisition date. Once the PPA has been reviewed and approved by management, goodwill is allocated to the cash generating units ("CGUs") expected to benefit from the synergies of the acquisition. Goodwill is not amortized, but is tested for impairment annually and whenever there is an indication of impairment.

Investments in associated companies

Companies in which the Group has a significant influence, are referred to as associated companies. Significant influence is the power to participate in the financial and operating policy decisions of the investee. For these companies, the Group's ownership is between 20-50%, and via contractual rights has only the power to participate in decisions over the company's relevant activities. Investments in associated companies are reported in accordance with the equity method.

Under the equity method, the carrying value of the investment is equal to the Group's share of equity in the company, determined in accordance with the accounting policies of the Group, as well as any goodwill or other fair value adjustments arising upon acquisition less any impairment. The Group's share in the result of these companies is based on their net profit/loss.

Classification

The assets and liabilities classified as current are expected to be recovered or settled within twelve months from the balance sheet date. All assets and liabilities expected to be recovered or settled later are classified as non-current. No other liabilities than loans, financial leases and certain derivative instruments are expected to be settled later than five years from the balance sheet date.

Segment information

The Group has four reportable operating segments: Strategic Industries, Regional Sales and Service, Automotive, and Specialty Business.

Operating segments are identified based on the internal structure of the Group's business activities whose operating results are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources and assess performance. The Group's internal reporting and consequently information to the CODM is structured into the Strategic Industries, Regional Sales and Service, Automotive, and Specialty Business.

The measurement principles for the Group's operating segments are based on the IFRS principles adopted in the consolidated financial statements. Sales and other transactions between segments are based on market conditions.

Segment assets include all operating assets used and controlled by a segment and consist principally of property plant and equipment, intangibles, 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 reported assets and liabilities include consolidation eliminations, all tax-related balances as

1 Accounting policies (cont.)

well as items of a financial, interest bearing nature, including post-employment benefit assets and provisions.

Segment profit represents the business result generated by the capital employed of the segment and includes allocated corporate expenses as well as general expenses and eliminations which in previous years were considered as reconciling items to the Group profit. The only reconciling item to the Group profit 2013 and 2014 relate to the European Commission provision and its reversal respectively.

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.

Translation of foreign financial statements

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

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

Translation of items denominated in foreign currency

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.

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. Whether the price is fixed or determinable is assessed based on the payment terms associated with the transaction. 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. Approval procedures include approval of new customers by management.

Revenues from service and/or maintenance contracts where the service is delivered to the customer at a fixed price is accounted for on a straight-line basis over the duration of the contract or under the percentage-of completion method 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.

Property, plant and equipment (PPE)

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 losses.

Borrowing costs are included in the cost of property plant and equipment if a substantial period of time is required to get the asset ready for its intended use. The Group considers a period in excess of one year to be a substantial period of time.

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. These 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.

Exchange rates

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

Country	Unit	Currency	Average rates		Year-end rates	
			2014	2013	2014	2013
China	1	CNY	1.12	1.06	1.26	1.07
EMU countries	1	EUR	9.10	8.65	9.52	8.96
India	100	INR	11.29	11.13	12.31	10.52
Japan	100	JPY	6.50	6.72	6.55	6.19
United Kingdom	1	GBP	11.31	10.21	12.16	10.74
USA	1	USD	6.88	6.52	7.82	6.52

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

Intangible assets other than goodwill

Intangible assets other than goodwill are stated at initial cost less any accumulated amortization and any impairment. Amortization is made on a straight line basis over the estimated useful lives and begins once the asset is ready for its intended use. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset. The useful lives are:

- Patents and similar rights up to 11 years;
- Software in use 4 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;
- Tradenames and trademarks from the PEER, GBC, Lincoln and Kaydon acquisitions have indefinite lives since the Group intends to promote these in the future and there is no foreseeable limit to the period over which these are expected to generate cash flows. These intangibles are however tested for impairment annually and whenever there is an indication that the carrying value may not be recoverable.

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

Internally developed intangibles

The Group's most significant internally developed intangibles are software developed for internal use and to a minor extent product development. Development expenditures are capitalized when in management's judgement 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. In evaluating internal use software, management 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.

Leases

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. Finance leases are initially recorded as property, plant and equipment at an amount equal to

the present value of the minimum lease payments during the lease term and as a finance lease obligation. Finance leases are depreciated in a manner consistent with the Group's useful lives for owned property, plant and equipment. Lease payments are apportioned between the finance charge and the reduction in the outstanding finance lease obligation. The finance charge is allocated to periods during the lease term as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Other leases are accounted for as operating leases, where rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

Inventories

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 purchase cost and work in process and manufactured finished goods are valued at production cost. Production cost includes direct production costs such as material and labour, as well as manufacturing overhead as appropriate.

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.

Long-term employee benefits

Employee benefits, which are both earned and paid out during employment, and are expected to be settled more than twelve months after they are earned yet before employment ends, are long-term employee benefits. These include part-time retirement programmes, anniversary bonuses, long-stay and jubilee payments. All such programmes are calculated using the projected unit credit method and appropriate assumptions, as described under post-employment benefits, except that all remeasurements (actuarial gains and losses) are recognized immediately in the income statement.

Financial assets and financial liabilities

General

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, equity securities and derivative assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade payables, liabilities to banks, finance lease payables and derivative liabilities.

Recognition

Financial assets and financial liabilities are recognized in the balance sheets when the Group becomes a party to the contractual provisions of the instrument. Settlement day recognition is applied for regular way purchases and sales of financial assets. Derivatives are recog-

1 Accounting policies (cont.)

nized at trade date. 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 and liabilities that are not subsequently measured at fair value through the income statement. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the Group currently has a right to set off the recognized amounts and intends to settle on a net basis.

Classification and Measurement

Subsequent measurement depends on the classification of the instrument, as determined by management. Measurements used are cost, amortized cost and fair value. All valuation techniques applied to determine fair value, either for valuation or disclosure purposes, are accepted in the market and take into account parameters that the market would consider in its pricing of similar instruments. 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.

Fair value of foreign exchange contracts is determined based on the listed price on the balance sheet date. The fair value of interest rate swaps is determined by applying discounted cash flow techniques. For current receivables and liabilities (such as trade receivables and payables) the carrying amount is considered to correspond to fair value.

- **Available-for-sale**

Debt securities and strategic investments in equity securities are categorized as available-for-sale. The exception is securities held by SKF Treasury Centre which are categorized as fair value through profit or loss at inception. Changes in the fair value of available-for-sale financial instruments are recognized in other comprehensive income, except for impairment losses which are recognized in the income statement. Reversals of impairment losses are recognized in the income statement for debt securities but in other comprehensive income for equity securities.

When the investments are derecognized, the cumulative gain or loss recognized in the available-for-sale reserve is released and recognized in the income statement. The fair values of quoted equity securities and debt securities held are 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.

- **Loans and receivables**

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. Loans and receivables include trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Loans and receivables are measured at amortized cost using the effective interest method. Impairment losses 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.

- **Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

The fair value of assets in these sub-categories is based on quoted market prices or measured using valuation techniques, mainly discounted cash flow analyses based on observable market data. 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 liabilities at fair value through profit or loss**

Derivatives with a negative fair value that are not subject to hedge accounting are classified as held for trading and reported at fair value through profit and loss.

- **Other financial liabilities**

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. For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

Fair value hierarchy

Financial instruments at fair value are classified in a hierarchy that shows the significance of the inputs used in the measurements. Level 1 includes financial instruments with a quoted price in an active market. Level 2 includes financial instruments with inputs based on observable data other than quoted prices in an active market. Level 3 includes financial instruments with inputs that are not based on observable market data.

Derecognition

Financial assets are derecognized when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards. Financial liabilities are derecognized when they are extinguished.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts for expected losses on trade receivables resulting from the inability of customers to make required payments. 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.

Cash and cash equivalents

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

Hedge accounting

General

The Group applies hedges aimed at reducing risks related to the volatility of balance sheet items and future cash flows, which

otherwise would affect the income statement. 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. Hedge accounting is used to reflect the outcome of the hedges in the financial statements. 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.

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. Forward exchange contracts are used as hedge instruments for forecasted net sales and electricity forward contracts for 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 the same period during which the forecasted net sales and electricity consumption affects the income statement, the cumulative gain or loss recognized in the hedging reserve is recycled to the income statement and included in net sales and cost of goods sold, respectively. When a hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedging reserve, and is recognized in the income statement when the committed or forecasted transaction is recognized in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in the hedging reserve in equity is transferred via other comprehensive income to the income statement as net sales or cost of goods sold 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. The currency and/or interest risk exposure is hedged by cross-currency interest rate swaps. Changes in the fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for fair value hedges 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.

Hedges of net investments in foreign operations

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 instrument meeting the criteria for hedges of net investments is recognized in the foreign currency translation reserve via other comprehensive income.

Financial income and financial expenses

Financial income consists of interest income, dividend income and gains on the disposal of financial assets available-for-sale. Financial expenses consists of interest expense the discounting effect of provisions, impairment losses recognized on financial assets, bank charges and other transaction-related costs. Foreign exchange gains and losses are recognized net in either financial income or financial expense.

Share-based compensation

The share-based compensation programmes of the Group are mainly equity-settled through the SKF Group's three year Performance Share programmes, for details see Note 25.

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 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.

A minor part of the remuneration granted to the Board of Directors of the Parent company is a cash-settled share-based compensation. The liability and expense incurred is recognized over the period when the services are rendered. At each balance sheet date, and ultimately at settlement date, the fair value of the liability is remeasured with any changes in fair value recognized in the income statement for the period.

Earnings per share

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.

Income taxes

General

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.

1 Accounting policies (cont.)

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.

Current taxes

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.

Deferred taxes

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. 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.

Impairment of intangible assets and property, plant and equipment

Assets with definite useful lives

Intangible assets with definite useful lives and property, plant and equipment 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. When an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected CGU exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested for impairment annually and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the lowest level of CGU or groups of CGUs at which these assets are monitored for internal

management purposes. In most cases this is the acquisition level but over time as integration occur, can become the business unit level.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Any impairment loss would first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Calculation of 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 have been reviewed by management and are consistent with internal forecasts and 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 and 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;
- *extrapolated for another seven years* using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors;
- *after which a terminal value* is calculated based on the Gordon Growth model, which includes a terminal growth factor representing the real growth rate and inflation expected in the country in which the assets operate.

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.

If the calculated recoverable amount is less than the carrying amount of the CGU an impairment is recognized. The impairment loss would then first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Provisions

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 the best estimate of the expenditure

required to settle the present obligation at the balance sheet date. As the estimates may involve uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

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.

Restructuring provisions including termination benefits

Restructuring programmes are defined as activities that materially change the way a unit does business. Restructuring provisions are recognized according to the general rules for provisions explained above, where an obligation is assumed to exist only 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. Restructuring provisions often include termination benefits, which can be either voluntary or involuntary. Termination benefits are recognized in accordance with the above, except where there is a service requirement in connection with the benefits, in which case the cost is allocated over the service period.

Restructuring provisions involve estimates of the timing and cost of the planned future activities. The most significant estimates involve the costs necessary to settle employee severance or other employee separation obligations, as well as the costs involved in contract cancellations and other exit costs. Such estimates are based on historical experience and the expected future cash outflows, based on the current status of negotiations with the affected parties and/or their representatives.

Provisions for claims

Provisions for claims include provisions for litigations, fines, and warranty. Provisions for litigation and fines are estimates of the future cash flows necessary to settle the obligations. Such estimates are based on the nature of the litigation, the legal processes and potential level of damages in the jurisdiction in which the litigation has been brought, the progress of the cases, the opinions and view of internal and external legal counsel and other advisers regarding the outcome of the case and experience with similar cases.

Warranty provisions involve estimates of the outcome of warranty claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers or to the customers of these customers and potential liability for consequential damage. Assumptions are required for determining both the likelihood of favorable outcomes of warranty disputes and the cost incurred when replacing the defective products and compensating customers for damage caused by the Group's products. Warranty provisions are estimated with consideration of historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the company.

Post-employment benefits

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 is disclosed in the notes 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.

Estimating the obligations and costs involves the use of assumptions. 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 or indexes 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.

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.

1 Accounting policies (cont.)

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.

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.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect reported assets, liabilities, revenues and expenses. These estimates can be based on historical experiences, other internal/external sources, and/or assumptions that management believes are reasonable under the circumstances. These estimates also form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from management's estimates which could have a significant impact on the Group's financial statements.

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 Groups financial statements in the upcoming year.

- Judgement on the realizability of deferred tax assets (note 9)
- Judgements used in the recognition of internally developed software (note 10)
- Estimates and key assumptions used in impairment testing of intangibles (note 10)
- Significant assumptions used in the calculation of the post-employment benefit obligations (note 18)

2 Segment information

The SKF Group operates primarily through four business areas: Strategic Industries, Regional Sales and Service, Automotive, and Special Business. These business areas each focus on specific customer industries representing groups of related industrial and automotive products worldwide. For more information on the Business areas and related products, see the Administration report pages 34-35.

Both Strategic Industries and Regional Sales and Service serve the industrial market by delivering products, services and solutions to both OEMs and end-users within the different industries: Aerospace, Energy, Industrial drives, Precision, Railway, Off-highway, Lubrication systems, Industrial distribution, General industries (Automation, Machine tool, Medical) and Heavy and Special industry (Metals, Pulp and Paper, Mining and Cement, Food and Beverage and Marine).

New accounting principles

New accounting principles 2014

IASB issued several amended accounting standards effective starting 1 January 2014. None of these had a material impact on the SKF Group's financial statements.

New accounting principles 2015

IASB issued several amended accounting standards effective starting 1 January 2015. None of these are expected to have a material impact on the SKF Group's financial statements.

Other new accounting principles issued but not yet effective

The following have been issued by the IASB and are effective for annual periods after 2015 as noted. The effect upon the Group's financial statements has not yet been determined.

* IFRS 9 "Financial Instruments" includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting (2018).

* IFRS 15 "Revenue from Contracts with Customers" 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 (2017).

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

Automotive serves the automotive market by delivering products, services and solutions to both OEMs and end users within the different industries; Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

Specialty Business consists of the businesses Kaydon, PEER, GBC, as well as SKF Logistics Services.

Previously published amounts have been reclassified to conform to the current Group structure in 2014. Additionally, previous reconciling items to the Group profit are now included in the segment profit.

As from 1 January 2015 the Group will merge the two industrial businesses, Strategic Industries and Regional Sales and Services into one business area. The Group will then operate through three business areas, Industrial Market, Automotive Market and Specialty business. Results according to the new structure with restated comparison years will be available in the first quarter 2015. See administration report page 35.

SEKm	Net sales		Sales including intra-Group sales		Contribution to profit before tax	
	2014	2013	2014	2013	2014	2013
Strategic Industries	21,140	18,929	32,328	29,957	3,186	2,603
Regional Sales and Service	25,446	24,217	25,981	24,699	2,930	2,980
Automotive	18,331	17,370	21,561	20,568	505	715
Specialty Business	6,058	3,081	9,290	6,009	1,030	395
Subtotal operating segments	70,975	63,597	89,160	81,233	7,651	6,693
Eliminations of intra Group sales	–	–	-18,185	-17,636	–	–
Unallocated items	–	–	–	–	150	-3,000
Financial net	–	–	–	–	-1,133	-872
	70,975	63,597	70,975	63,597	6,668	2,821

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2014	2013	2014	2013	2014	2013
Strategic Industries	961	924	165	40	760	706
Regional Sales and Service	202	176	–	–	163	130
Automotive	633	601	7	–	636	635
Specialty Business	424	161	–	-9	135	177
Eliminations and unallocated items	–	–	–	–	950	632
	2,220	1,862	172	31	2,644	2,280

SEKm	Assets		Liabilities	
	2014	2013	2014	2013
Strategic Industries	26,943	24,823	4,438	3,832
Regional Sales and Service	10,013	8,994	2,279	2,025
Automotive	12,491	11,287	3,728	3,198
Specialty Business	14,390	12,542	1,322	1,099
Subtotal operating segments	63,837	57,646	11,767	10,154
Financial and tax items	13,321	10,263	42,171	33,870
Eliminations and other unallocated items	4,481	3,082	3,297	5,815
	81,639	70,991	57,235	49,839

Geographic disclosure

SEKm	Net sales by customer location		Non-current assets	
	2014	2013	2014	2013
Sweden	1,746	1,752	2,559	2,078
Europe excl. Sweden	27,423	25,265	11,313	10,931
North America (incl Mexico)	18,184	15,276	17,810	15,228
Asia-Pacific	17,756	15,422	5,542	4,897
Middle East/Africa	1,813	1,742	8	11
Latin America	4,053	4,140	680	367
Eliminations	–	–	-171	-288
	70,975	63,597	37,741	33,224

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 22% (20) were located in the USA, 12% (13) in Germany, and 13% (12) in China. 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, 45% (44) were located in the USA, 14% (16) in Germany, and 10% (10) in China.

3 Acquisitions

SEKm	2014	2013
Total fair value of net assets acquired		
Non-current assets, excluding goodwill	47	4,968
Current assets	–	2,580
Non-current liabilities	–	-2,069
Current liabilities	–	-801
Non-controlling interests	–	-3
Fair value net assets acquired	47	4,675
Goodwill	22	4,876
Total acquisition cost	69	9,551
Less:		
Cash and cash equivalents acquired	–	-826
Payment of consideration on prior years acquisitions	–	-2
Cash outflow	69	8,723

In 2014, the Group had total net cash outflows of SEK 69 m for the acquisition of GLOi and Hofmann Engineering North America.

GLOi is a Swedish-based company that has developed and launched an integrated shaft alignment solution based on the iOS software platform used by iPads and iPhones. It serves a similar customer base to that of SKF, including Marine, Steel, Mining, Pulp and Paper, and Hydrocarbon Processing.

Hofmann Engineering North America is a specialist engineering services company based in Ontario, Canada. The company predominantly serves OEM customers handling large components in North America, mainly in Canada. Its offerings include large pinion and gear solutions, precision grinding, and custom engineering projects.

In 2013, the Group had total net cash outflows of SEK 8,723 m mainly for the acquisition of Kaydon Corporation and Blohm + Voss Industries.

Acquisition of Kaydon Corporation

On 16 October 2013, the Group acquired 100% of the shares of Kaydon Corporation (Kaydon) through an all-cash tender offer on the New York Stock Exchange. Kaydon has over 2,100 employees and is headquartered in Ann Arbor, Michigan, in the USA.

The company is a leading designer and manufacturer of bearings and velocity control products such as industrial shock absorbers, gas springs and vibration isolation products. Their specialty products include filters and filtrations systems, custom rings and seals as well as environmental services. These products are used by customers in a variety of industries such as aerospace, defense, medical, semiconductor, wind energy, material handling and machine tool. The company has a global footprint with 62% of its sales generated in North America, 24% in Europe, 12% in Asia Pacific and 2% in the rest of the world. Kaydon has 19 manufacturing sites located in North America, Europe and Asia.

The Group expects to achieve significant synergies from the combination of greater cost efficiencies and improved sales opportunities. The acquisition of Kaydon is in-line with the Group's strategy to strengthen its technology platforms:

- Kaydon is a leader in its product categories, such as split bearings and thin section bearings, with highly engineered, performance-critical products.
- Kaydon's industry recognized brands and leading technologies serve high value, global market segments.

- Kaydon's product offering is highly complementary with the Group's product portfolio and will enhance the Group's offering to its customers worldwide.
- Kaydon serves a number of segments that are less represented in the Group's current customer base and provides an opportunity to expand its product offering to those customers.
- Kaydon has maintained a long track record of strong financial performance with robust profit margins and cash flow.

The table below shows the fair value of the net assets acquired in Kaydon.

SEKm	
Fair value of net assets acquired	
Trademarks	771
Customer relationships	1,897
Technology	800
Plant, property and equipment	861
Trade receivables	473
Inventory	800
Other assets	769
Deferred tax provisions	-1,300
Post-employment benefits	-193
Other liabilities	-649
	4,229
Goodwill	4,329
Total acquisition cost	8,558
Less:	
Cash and cash equivalents acquired	-656
Cash outflow	7,902

Selected trademarks and tradenames within Kaydon have been valued, including, Kaydon Bearings, Cooper, ACE, Hahn, Fabreeka and Purafile brands. The valuations assume an indefinite useful life as the Group expects to promote these for the foreseeable future. The values were allocated to other significant intangibles which included customer relationships to be amortized over an expected life of 15 years, and technology to be amortized over 12 years.

The assessment of goodwill is attributable to the significant expected synergies, market opportunities and potential efficiencies, as well as Kaydon's ability to deliver strong financial performance on a consistent basis. None of the goodwill is expected to be deductible for tax purposes.

The acquisition was paid using existing cash and credit facilities. Acquisition related costs of SEK 60 m were expensed as other operating expense.

Kaydon's results were included in the Group's income statement as from 16 October 2013. Kaydon contributed net sales of around SEK 700 m and net profit of SEK -40 m to the Group's results for 2013, which include the amortization of the inventory fair value adjustment of SEK 200 m, and exclude acquisition related costs.

Acquisition of Blohm + Voss Industries

On 14 February 2013, the Group acquired 100% of the shares of Blohm + Voss Industries (BVI) from Star Capital Partners. BVI is a leading manufacturer of, and service provider for, premium quality equipment for critical marine applications, including shaft components (seals and bearings), stabilizers, and oily water separators. The company has around 400 employees and is headquartered in Hamburg, Germany with subsidiaries in Shanghai, Hong Kong, Singapore, Busan, Andover and Kobe and sales agents and service stations worldwide.

The table below shows the fair value of the net assets acquired in BVI.

SEKm	
Fair value of net assets acquired	
Trademarks	127
Customer relationships	203
Technology	128
Other assets	717
Post-employment benefits	-221
Other liabilities	-507
Non-controlling interests	-3
	444
Goodwill	549
Total acquisition cost	993
Less:	
Cash and cash equivalents acquired	-170
Cash outflow	823

BVI was integrated into the Group's marine segment and reports into the business area Industrial Market, Regional Sales and Service. BVI's results are included in the Group's Income statement as from 1 March 2013. They contributed net sales of around SEK 700 m and net profit of around SEK 50 m to the Group's results for 2013.

4 Divestments of businesses

No divestments occurred in 2014. During 2013 the Group divested its metallic rods business to US-based Precision Castparts Corp, which included the operations at the the Group's sites in France and the USA. The profit on the sale was SEK 75 m based on net assets

sold of SEK 216 m and consideration of SEK 291 m. Net assets sold were mainly property and equipment, inventories and receivables. The total net cash inflow for the transaction was SEK 264 m, after reducing for the cash held by the sold companies of SEK -27 m.

5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled SEK 2,078 m (1,840), corresponding to 2.9%

(2.9) of annual sales. The number of first patent applications was 488 (468).

6 Expenses by nature

SEKm	2014	2013
Employee benefit expenses including social charges	21,881	19,810
Raw material and components consumed, including traded products	22,199	20,677
Change in work in process and finished goods	302	-340
Depreciation, amortization, and impairments	2,392	1,893
Other expenses, primarily purchased services, shop supplies and utilities	16,523	14,753
Total operating expenses	63,297	56,793

Depreciation, amortization and impairments were accounted for as (SEKm)	2014				2013			
	Depre- ciation	Amorti- zation	Impair- ments	Total	Depre- ciation	Amorti- zation	Impair- ments	Total
Cost of goods sold	1,623	104	172	1,899	1,480	89	31	1,600
Selling expenses	109	384	-	493	77	216	-	293
	1,732	488	172	2,392	1,557	305	31	1,893

7 Other operating income and expenses

SEKm	2014	2013
Other operating income		
Exchange gain on trade receivables/payables	317	356
Profit from sale of property, plant and equipment	24	44
Profit from sale of businesses	–	75
Other	72	92
	413	567
Other operating expenses		
Exchange loss on trade receivables/payables	-361	-411
Loss from sale of property, plant and equipment	-22	-9
Acquisition-related expenses	–	-77
Other	87	-3,183
	-296	-3,680

Other expenses include amounts related to the provision for the European commission payment, being SEK 3,000 m in 2013 and the reversal of SEK 150 m in 2014.

8 Financial income and financial expenses

SEKm	2014	2013
Interest income	142	104
Interest expense	-452	-439
Net gains/losses:		
Net interest cost on post-employment benefits	-370	-314
Exchange differences, net ¹⁾	-289	-57
Other financial income including dividends	5	19
Other financial expense ²⁾	-169	-185
Financial net	-1,133	-872
Reflected as:		
Financial income	147	123
Financial expenses ²⁾	-1,280	-995
Financial net	-1,133	-872

¹⁾ Includes one-time effect of around SEK -100 m related to changes in currency regulation and currency rates in Venezuela.

²⁾ Include 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 give rise to the financial income and expense as described above. See Note 1 for a description of the categories of financial

instruments. For a specification of the underlying financial assets and financial liabilities to these categories see Note 14 and Note 20.

<i>Financial net specified by category of financial instruments (SEKm)</i>	2014			2013		
	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	14	–	–	44	–	–
Derivatives held for trading	–	46	-355	-4	53	559
Derivatives held for hedge accounting	–	90	380	–	26	44
Financial assets classified as loans and receivables	128	–	532	64	–	-297
Financial assets classified as available-for-sale	–	–	7	–	–	5
Other financial liabilities, primarily loans	–	-588	-848	–	-518	-412
Other liabilities including post-employment benefits	–	–	-539	–	–	-436
	142	-452	-823	104	-439	-537

Derivatives classified as held for trading are mainly used for economic hedging, which mitigate the effect of certain items in the categories loans and receivables and other financial liabilities.

Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for other liabilities, which includes primarily net interest costs on post-employment benefits and other financial expenses.

9 Taxes

Tax expense (SEKm)	2014			2013		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,400	–	-2,400	-1,960	–	-1,960
Deferred taxes	482	1,437	1,919	183	-211	-28
	-1,918	1,437	-481	-1,777	-211	-1,988

Taxes charged to other comprehensive income includes SEK 961 m (-315) related to remeasurements of post employment benefits, SEK 12 m (10) related to cash flow hedges and SEK 464 m (94) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2014	2013
Tax calculated using statutory tax rate in Sweden	-1,467	-621
Difference between statutory tax rate in Sweden and foreign subsidiaries	-532	-486
Other taxes	-51	-61
Tax credits and similar items	140	162
Non-deductible/non-taxable differences	134	-813
Change in tax rate	-17	–
Tax loss carry-forwards	-69	-42
Current tax referring to previous years	-85	49
Other	29	35
Actual tax	-1,918	-1,777

The corporate statutory income tax rate in Sweden was 22.0% (22.0). The actual tax rate on profit before taxes was 28.8% (63.0). The actual tax rate for 2013 was negatively impacted by the European Commission provision. Excluding this the actual tax rate for 2013 was 30.5%.

Gross deferred taxes per type (SEKm)	2014		2013	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	-299	2,973	-256	2,580
Property, plant and equipment	-32	1,131	-120	1,202
Inventories	-492	519	-496	468
Trade receivables	-62	25	-34	8
Provisions for post-employment benefits	-3,429	12	-2,060	41
Other accruals and liabilities	-743	21	-630	27
Tax loss carry-forwards	-1,092	–	-434	–
Other	-251	86	-168	64
Gross deferred taxes	-6,400	4,767	-4,198	4,390
Net deferred taxes presented in the Consolidated balance sheet	-3,350	1,717	-2,015	2,207

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 245 m (306), whereof SEK 80 m (88) related to tax loss carry-forwards, SEK 16 (191) related to tax credits and SEK 149 m (27) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of SEK 29 m are related to tax losses which will expire during the period 2015 to 2019.

The remaining unrecognized assets will expire after 2020 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 14 m (16) relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that impacted deferred tax expense was SEK 92 m (34) 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 2014, the Group had tax loss carry-forwards amounting to SEK 5,124 m (2,203), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2015	35
2016	59
2017	60
2018	122
2019	117
2020 and thereafter	584
Never	4,147

10 Intangible assets

SEKm	2014 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2014 Opening balance
<i>Acquisition cost</i>								
Goodwill	13,314	–	22	–	–	-52	1,842	11,502
Patents, tradenames and similar rights	3,009	–	–	–	–	-3	447	2,565
Internally developed software	1,783	759	–	–	–	3	13	1,008
Customer relationships	5,465	–	–	–	–	–	765	4,700
Leaseholds	200	3	–	–	–	–	31	166
Product development	412	28	–	–	–	–	31	353
Technology	1,525	–	15	–	–	–	208	1,302
Other intangible assets	147	2	–	–	–	-2	13	134
	25,855	792	37	–	–	-54	3,350	21,730

SEKm	2014 Closing balance	Amort- ization	Businesses sold	Disposals	Impair- ments	Other	Translation effects	2014 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	1,081	–	–	–	159	–	137	785
Patents, tradenames and similar rights	340	29	–	–	–	-7	23	295
Internally developed software	475	8	–	–	–	–	11	456
Customer relationships	1,333	332	–	–	–	–	149	852
Leaseholds	31	9	–	–	–	–	4	18
Product development	127	16	–	–	–	–	8	103
Technology	203	86	–	–	3	7	22	85
Other intangible assets	127	8	–	–	–	–	6	113
	3,717	488	–	–	162	–	360	2,707
Net book value	22,138							19,023

SEKm	2013 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2013 Opening balance
<i>Acquisition cost</i>								
Goodwill	11,502	–	4,876	–	–	330	130	6,166
Patents, tradenames and similar rights	2,565	8	902	-1	–	21	23	1,612
Internally developed software	1,008	482	-2	–	–	–	3	525
Customer relationships	4,700	–	2,100	-6	–	3	46	2,557
Leaseholds	166	16	–	-1	–	35	3	113
Product development	353	18	51	-10	–	–	12	282
Technology	1,302	–	873	–	–	–	17	412
Other intangible assets	134	10	–	-1	–	-28	-2	155
	21,730	534	8,800	-19	–	361	232	11,822

SEKm	2013 Closing balance	Amort- ization	Businesses sold	Disposals	Impair- ments	Other ¹⁾	Translation effects	2013 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	785	–	–	–	–	330	9	446
Patents, tradenames and similar rights	295	35	–	-1	–	10	9	242
Internally developed software	456	6	-2	–	–	–	3	449
Customer relationships	852	202	–	-6	–	13	12	631
Leaseholds	18	8	–	-1	–	–	–	11
Product development	103	8	–	-10	–	–	4	101
Technology	85	38	–	–	–	–	–	47
Other intangible assets	113	8	–	-1	40	-29	–	95
	2,707	305	-2	-19	40	324	37	2,022
Net book value	19,023							9,800

¹⁾ Includes primarily reclasses from accumulated amortization and impairments to acquisition cost.

Impairment losses

The impairment loss on goodwill relates to the Actuation and Linear Motion business unit operating in China and Taiwan, which is part of the business area Strategic Industries. During 2014, the strategic direction for this unit was revised as profitability was not reaching expected levels partially due to recent increased competition. The recoverable amount for this CGU is value in use, which was estimated to be some SEK 240 m, and is based on a pre tax discount rate of 11.5% (11.1%). As the book value is now equal to the value in use, it is possible that a future negative development of one or several assumptions, including the discount rate or growth rates, could lead to additional impairment losses.

For 2013, impairment losses for the Group were minor.

Intangibles with indefinite useful lives

Certain tradenames and trademarks are considered to have indefinite useful lives as the Group anticipates continuing to promote these brands in the foreseeable future. This includes the tradenames and trademarks in Peer SEK 206 m (172), and GBC SEK 179 m (149) in addition to Lincoln and Kaydon mentioned below.

Significant intangibles

Internally generated software relates to the development of a new IT infrastructure to create and deploy improved processes and solutions across the Group. The balance of capitalized expenditures in 2014 was SEK 1,297 m. The project is still in the development phase and hence no amortization has been taken. Based on the current status of the project, management believes that the future benefits to be realized from the new technology and processes continue to be in line with expectations.

Other individual intangible assets that are material for the Group include the customer relationship intangibles for Lincoln amounting to SEK 1,474 m (1,393) having a remaining useful life of 11 years, and for Kaydon amounting to SEK 2,095 m (1,897) having a remaining useful life of 14 years.

CGUs with significant intangibles

Goodwill and intangibles with indefinite useful lives allocated to the CGUs Lincoln and Kaydon are considered to be significant in comparison to the total book value of such intangibles for the Group.

	Lincoln ¹⁾		Kaydon ²⁾
	2014	2013	2014
Goodwill, SEKm	4,095	3,428	5,146
Tradenames, SEKm	1,158	964	926
Average revenue growth rate	3.3%	3.4%	4.7%
Discount rate, pre tax	11.0%	13.7%	11.3%
Terminal growth factor	2.5%	2.5%	3.0%

¹⁾ 2014 and 2013 information in the above table is not comparable as the composition of the Lincoln CGU includes from 2014 additional European based lubrication operations and goodwill resulting from a merger of the businesses. This has led to a further decrease in the discount rate in addition to the market interest rate reduction that occurred in 2014.

²⁾ The Kaydon CGU was acquired in October 2013, and consequently 2014 is the first year for a value in use calculation.

The recoverable amounts used in the testing of the Lincoln and Kaydon CGUs have been calculated based on value in use using the DCF model as described in Note 1. 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 found in Note 1.

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 2 percentage points, each taken individually and while holding all other assumptions constant. No impairment needs were indicated.

Other CGUs

The Group has some 20 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 Note 1, with estimates and assumptions determined on an individual CGU basis. Sensitivity analyses, similar to those described for Kaydon and Lincoln above, have been performed with no impairment needs noted, except as commented previously for the Actuation and Linear Motion business unit.

11 Property, plant and equipment

SEKm	2014 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2014 Opening balance
<i>Acquisition cost</i>								
Buildings	7,450	245	–	-132	–	305	556	6,476
Land and land improvements	893	7	–	-7	–	3	58	832
Machinery and supply systems	26,991	619	32	-308	–	652	2,041	23,955
Machine toolings and factory fittings	3,761	173	–	-168	–	87	345	3,324
Construction in process including advances	1,566	808	–	-25	–	-1,031	154	1,660
	40,661	1,852	32	-640	–	16	3,154	36,247

SEKm	2014 Closing balance	Depreciation	Businesses sold	Disposals	Impair- ments	Other ¹⁾	Translation effects	2014 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,430	207	–	-114	–	24	224	3,089
Land improvements	194	5	–	-8	3	-2	11	185
Machinery and supply systems	18,457	1,260	–	-293	–	–	1,300	16,190
Machine toolings and factory fittings	3,098	260	–	-148	7	15	276	2,688
	25,179	1,732	–	-563	10	37	1,811	22,152

Net book value	15,482							14,095
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SEKm	2013 Closing balance	Additions	Businesses acquired/sold	Disposals	Impair- ments	Other ¹⁾	Translation effects	2013 Opening balance
<i>Acquisition cost</i>								
Buildings	6,476	151	182	-25	–	49	53	6,066
Land and land improvements	832	5	47	-20	–	26	–	774
Machinery and supply systems	23,955	847	413	-366	–	608	260	22,193
Machine toolings and factory fittings	3,324	140	51	-134	–	18	12	3,237
Construction in process including advances	1,660	603	26	-1	–	-941	4	1,969
	36,247	1,746	719	-546	–	-240	329	34,239

SEKm	2013 Closing balance	Depreciation	Businesses sold	Disposals	Impair- ments	Other ¹⁾	Translation effects	2013 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,089	178	-49	-16	–	-73	46	3,003
Land improvements	185	4	–	-2	–	-5	5	183
Machinery and supply systems	16,190	1,083	-129	-377	-9	-100	208	15,514
Machine toolings and factory fittings	2,688	292	-8	-106	–	30	27	2,453
	22,152	1,557	-186	-501	-9	-148	286	21,153

Net book value	14,095							13,086
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<i>Leased property, plant and equipment consisted of the following (SEKm)</i>		2014	2013
<i>Acquisition value</i>			
Buildings		76	81
Land and land improvements		15	20
Machinery, machine toolings, factory fittings and supply systems		0	50
		91	151
<i>Accumulated depreciation</i>			
Buildings		19	16
Machine toolings and factory fittings		0	-1
		19	15
Net book value		72	136

¹⁾Includes primarily reclassification between categories.

12 Associated companies

Investments in associated companies include a 25% shareholding of Simplex-Turbolo Co. Ltd. in the UK, as well as Bollfilter Japan Ltd. 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. Condensed balance sheet and income statement information for these associated companies is shown below.

<i>Aggregated financial statements of associated companies (SEKm)</i>	2014	2013
Non-current assets	120	101
Current assets	405	314
Total assets	525	415
Equity	265	205
Non-current liabilities	29	21
Current liabilities	231	189
Total equity and liabilities	525	415
Net sales	1,128	1,008
Profit before taxes	50	36

13 Inventories

SEKm	2014	2013
Finished goods	9,003	8,070
Raw materials and supplies	4,500	3,979
Work in process	1,563	1,651
	15,066	13,700

Inventory values are stated net of a provision for net realizable value of SEK 1,413 m (1,291). The amount charged to expense for net

realizable provisions during the year was SEK 140 m (198). Reversals of net realizable provisions during the year were SEK 13 m (18).

14 Financial assets

Trade receivables by due date (SEKm)	Carrying amount	Not yet due	Past due, net of allowance			
			1-30 days	31-60 days	61-90 days	> 91 days
2014	12,595	10,603	1,308	310	175	199
2013	11,189	9,100	1,296	324	150	319

The average days outstanding of trade receivables in 2014 were 64 days (64). Trade receivables as a percentage of annual net sales totalled 17.8% (17.6). Trade receivables included receivables sold with recourse amounting to SEK 74 m (92). 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 allowance accounts for credit losses on trade receivables.

Specification of reserve for doubtful accounts (SEKm)	2014	2013
Allowances as of 1 January	291	256
Additions	97	52
Reversals	-29	-32
Changes through the income statement	68	20
Allowances used to cover write-offs	-38	-15
Acquired companies	0	30
Currency translation adjustments	32	0
Allowances as of 31 December	353	291

Financial assets per category 2014

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Trade receivables	12,595	–	–	–	–	12,595	12,595
Cash and cash equivalent	2,144	–	3,776	–	–	5,920	5,920
Equity securities	–	545	–	–	–	545	–
Marketable securities	–	–	–	504	–	504	–
Deposits	425	–	–	–	–	425	425
Derivatives	–	–	–	303	1,174	1,477	1,003
Loans and receivables	188	–	–	–	–	188	27
Debt securities	–	21	66	–	–	87	66
Carrying amount	15,352	566	3,842	807	1,174	21,741	20,036
Fair value	15,350	566	3,842	807	1,174		

Financial assets per category 2013

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Trade receivables	11,189	–	–	–	–	11,189	11,189
Cash and cash equivalent	2,363	–	3,006	–	–	5,369	5,369
Equity securities	–	449	–	–	–	449	–
Marketable securities	–	–	–	407	–	407	–
Deposits	387	–	–	–	–	387	387
Derivatives	–	–	–	127	188	315	315
Loans and receivables	269	–	–	–	–	269	61
Debt securities	–	19	69	–	–	88	69
Carrying amount	14,208	468	3,075	534	188	18,473	17,390
Fair value	14,206	468	3,075	534	188		

Financial assets recorded at fair value, which includes the columns Available-for-sale, Fair value through profit or loss, and Derivatives for hedge accounting in the above table, are disclosed below according to the hierarchy that shows the significance of the inputs used in the fair value measurements. 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 (34) valued at cost and consequently not included in the specification below.

Fair value hierarchy for financial assets at fair value (SEKm)

	Level 1	Level 2	Level 3	2014	Level 1	Level 2	Level 3	2013
Fair value through profit or loss								
Trading securities	506	–	64	570	412	–	64	476
Cash and cash equivalents	3,776	–	–	3,776	3,006	–	–	3,006
Trading derivatives	–	303	–	303	–	127	–	127
Available-for-sale								
Equity securities	506	–	–	506	415	–	–	415
Debt securities	21	–	–	21	19	–	–	19
Derivatives used for hedge accounting	–	1,174	–	1,174	–	188	–	188
Total	4,809	1,477	64	6,350	3,852	315	64	4,231

<i>Reconciliation of financial assets in Level 3 (SEKm)</i>	Closing balance	Financial net	Withdrawals	Translation effect	Opening balance	Profit/loss related to assets included in closing balance
Fair value through profit or loss						
Trading securities 2014	64	5	-18	13	64	5
Trading securities 2013	64	5	-44	–	103	5

15 Other short-term assets

SEKm	2014	2013
Value added taxes receivables, net	1,173	961
Prepaid expenses	514	367
Accrued income	235	151
Advances to suppliers	149	134
Other current receivables	809	915
	2,880	2,528

16 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2013	42,649,282	412,701,786	455,351,068	1,138
Conversion of A shares to B shares	-4,091,016	4,091,016	–	–
Closing balance 31/12/2013	38,558,266	416,792,802	455,351,068	1,138
Conversion of A shares to B shares	-909,185	909,185	–	–
Closing balance 31/12/2014	37,649,081	417,701,987	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, 189,287,666 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 28, 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 Board has decided to propose to the Annual General Meeting a dividend of SEK 5.50 (5.50) per share to be paid to the shareholders on 2 April 2015. The proposed dividend for 2015 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 30 March 2015. 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 2014, a dividend of SEK 5.50 (5.50) per share was paid to the shareholders.

17 Earnings per share

	2014	2013
Net profit attributable to owners of AB SKF (SEKm)	4,600	912
Weighted average number of ordinary shares outstanding	455,328,679	455,332,624
Basic earnings per share (SEK)	10.10	2.00
Dilutive shares from Performance Share Programmes	–	–
Weighted average diluted number of shares	455,328,679	455,332,624
Diluted earnings per share (SEK)	10.10	2.00

To fulfill AB SKF's obligations under both the 2011 Performance Share Programme settled in 2014, and the Performance Share Programme 2010 settled in 2013, SKF International AB (SKF Treasury Centre) entered into equity swap agreements with a financial institution. The agreements include the possibility to get delivery of SKF shares from the financial institution to the

participants of the programmes. As the financial institution's acquisition of SKF B shares is equivalent to, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the weighted average number of ordinary shares for 2014 and 2013 in the table above has been reduced.

18 Provisions for post-employment benefits

<i>Amounts recognized in the consolidated balance sheet (SEKm)</i>	2014						
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	492	1,016	680	–	294	947	3,429
Present value of funded defined benefit obligation	9,096	–	8,495	3,130	1,443	1,578	23,742
Less: Fair value of plan assets	-6,269	–	-2,683	-2,376	-589	-1,312	-13,229
Total	3,319	1,016	6,492	754	1,148	1,213	13,942
<i>Reflected as</i>							
Other long-term assets	–	–	–	–	–	-36	-36
Provisions for post-employment benefits	3,319	1,016	6,492	754	1,148	1,249	13,978
Total	3,319	1,016	6,492	754	1,148	1,213	13,942

<i>Amounts recognized in the consolidated balance sheet (SEKm)</i>	2013						
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	463	805	538	–	259	946	3,011
Present value of funded defined benefit obligation	6,759	–	6,582	2,253	1,052	1,145	17,791
Less: Fair value of plan assets	-5,122	–	-2,382	-1,849	-549	-1,085	-10,987
Total	2,100	805	4,738	404	762	1,006	9,815
<i>Reflected as</i>							
Other long-term assets	–	–	–	-9	–	-78	-87
Provisions for post-employment benefits	2,100	805	4,738	413	762	1,084	9,902
Total	2,100	805	4,738	404	762	1,006	9,815

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 approximately 95% of the total US obligation. Benefits are based on length of service and average final salary or a years of service multiplier. The majority of these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. 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 2014, this reimbursement right totalled SEK 27 m (20).

Germany

The major German pension plans represent approximately 89% 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 approximately 89% of the total UK obligation. Benefits under these plans are based on length of service and a career average revalued earnings (CARE) basis as from April 2012, and are indexed when paid. This plan is 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 require a recovery plan to achieve full funding in ten years.

Sweden

The major plan in Sweden is the ITP plan and it represents approximately 83% 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. 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.

18 Provisions for post-employment benefits (cont.)

SEKm	2014			2013		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Opening balance 1 January	20,802	-10,987	9,815	18,936	-9,107	9,829
Interest expense/(income)	863	-495	368	686	-365	321
Current service cost	506	–	506	495	–	495
Past service cost and gains on settlements ¹⁾	-312	249	-63	21	–	21
Other	1	–	1	-11	–	-11
Subtotal expenses	1,058	-246	812	1,191	-365	826
Difference between actual return and interest income	–	-614	-614	–	-545	-545
Actuarial (gains)/loss - demographic assumptions	233	–	233	310	–	310
Actuarial (gains)/loss - financial assumptions	3,623	–	3,623	-730	–	-730
Experience adjustments	-31	–	-31	112	–	112
Other	–	-3	-3	–	9	9
Subtotal remeasurments in OCI	3,825	-617	3,208	-308	-536	-844
Employer contribution	–	-428	-428	–	-232	-232
Employee contribution	29	-9	20	28	-8	20
Benefit payments	-1,093	589	-504	-956	543	-413
Subtotal cash flow²⁾	-1,064	152	-912	-928	303	-625
Acquired businesses	–	–	–	1,369	-971	398
Other	-99	7	-92	188	-186	2
Translation differences	2,649	-1,538	1,111	354	-125	229
Closing balance 31 December	27,171	-13,229	13,942	20,802	-10,987	9,815

Components of total post-employment benefit expenses (SEKm)

	2014	2013
Post-employment defined benefit expense	812	826
Post-employment defined contribution expense	353	339
Total post-employment benefit expenses	1,165	1,165

Whereof amounts charged to:

Cost of goods sold	528	502
Selling expenses	211	250
Administrative expenses	56	99
Financial expenses	370	314
	1,165	1,165

¹⁾ In 2014 a total of 1,119 vested participants in the USA, corresponding to approximately 58% of those offered, accepted an offer for a lump-sum payment, which totalled SEK 250 m in lieu of accrued pension rights and thereby left the plan. This has reduced the defined benefit obligation by SEK 317 m. The difference between the agreed payment and the obligation led to an accounting gain of SEK 67 m.

²⁾ Cash outflows for 2015 are expected to be some SEK 900 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

<i>Plan asset composition (SEKm)</i>	2014			2013		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Government bonds	2,450	–	2,450	1,982	–	1,982
Corporate bonds	4,167	–	4,167	3,145	–	3,145
Equity instruments	5,114	11	5,125	4,857	–	4,857
Real estate	152	719	871	61	582	643
Other, primarily cash and other financial receivables	52	564	616	99	261	360
Total	11,935	1,294	13,229	10,144	843	10,987

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 together with SKF Treasury Centre.

The fair value of real estate in the specification of plan assets above includes SEK 128 m (95) related to buildings in the USA and Switzerland where the Group is the lessee under operating lease arrangements. Lease expense for the Group under these leases was SEK 8 m (20).

<i>Significant weighted-average assumptions at end of year</i>	2014					
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	4.0	3.8	2.2	3.4	2.6	2.2
Pension increase rate ¹⁾	n/a	n/a	1.0	3.1	1.5	n/a
Salary growth rate	3.5	n/a	3.0	3.3	3.5	3.1
Longevity male/female ²⁾	21.6/23.8	21.6/23.8	18.9/23.0	21.6/23.7	19.6/22.8	20.3/22.9
Weighted average duration of the plan (in years) ³⁾	13.3	9.4	17.2	21.1	21.0	13.4

<i>Significant weighted-average assumptions at end of year</i>	2013					
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	4.9	4.5	3.5	4.4	3.9	3.2
Pension increase rate ¹⁾	n/a	n/a	1.0	3.4	2.0	n/a
Salary growth rate	3.5	n/a	3.4	3.7	3.5	3.3
Longevity male/female ²⁾	20.7/22.9	20.5/22.8	18.8/22.8	21.6/23.7	19.6/22.8	20.8/23.8
Weighted average duration of the plan (in years) ³⁾	12.8	9.4	16.3	20.0	18.4	14.9

¹⁾ Pension increase rate refers to indexation primarily tied to inflation.

²⁾ Longevity is expressed as the life expectancy of a current 65 year old in number of years.

³⁾ Represents the average number of years remaining until the obligation is settled.

n/a = assumptions not applicable or not significant for the plan.

18 Provisions for post-employment benefits (cont.)

<i>Sensitivity analysis of significant assumptions</i>	Change in actuarial assumption	Impact on DBO Defined benefit obligations
Discount rate	+1%	-3,425
	-1%	4,450
Pension increase rate	+0.5%	575
	-0.5%	-525
Salary growth rate	+0.5%	775
	-0.5%	-725
Longevity	+1 year	900
	-1 year	-875

The above 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 between the years.

19 Other provisions

SEKm	2014 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2014 Opening balance
Claims	516	145	-2,935	-183	-72	21	3,540
Other long-term employee benefits	632	111	-100	-4	95	30	500
Restructuring	446	264	-312	-19	4	25	484
Environmental	77	10	-28	-2	3	7	87
Other	412	125	-132	-16	10	25	400
	2,083	655	-3,507	-224	40	108	5,011

The provision for claims cover both provisions for warranties and litigations. Utilized amounts include the payment of the European Commission provision.

Other long-term employee benefits primarily include jubilee bonuses in Italy and part-time retirement programmes in Germany and are expected to be settled before employment ends.

Restructuring expenses relate to SKF's programme, launched in 2012, to improve efficiency, reduce cost and strengthen profitable growth. The expenses mainly refers to Italy, France, and Sweden.

Other provisions primarily include insurance and workers' compensation.

20 Financial liabilities

		2014		2013	
SEKm	Maturity	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term financial liabilities					
EUR 100 m	2015	–	–	917	935
EUR 100 m	2016	952	953	896	896
SEK 1,000 m	2017	1,000	1,001	1,000	1,001
EUR 500 m	2018	5,010	5,335	4,809	4,967
EUR 500 m	2019	4,736	4,991	4,454	4,457
EUR 750 m	2020	7,557	7,637	6,640	6,698
EUR 100 m	2020	950	991	895	936
EUR 200 m	2021	1,905	1,907	–	–
Other long-term loans	2016-2019	65	64	63	63
Derivatives held for hedge accounting	2016-2021	3	3	24	24
Derivatives held for trading	2016	22	22	–	–
Subtotal long term financial liabilities		22,200	22,904	19,698	19,977
Short-term financial liabilities					
EUR 130 m (outstanding EUR 100 m)	2014	–	–	896	902
EUR 100 m	2015	952	978	–	–
Medium-term loans	2015	37	37	56	56
Trade payables	2015	5,938	5,938	4,740	4,740
Short-term loans	< 3 months	223	223	248	248
Derivatives held for trading	2015	788	788	133	133
Derivatives held for hedge accounting	2015	1,905	1,905	313	313
Subtotal short term financial liabilities		9,843	9,869	6,386	6,392
		32,043	32,773	26,084	26,369

Derivatives are classified in the category “Fair value through profit or loss” and fall into Level 2 of the fair value hierarchy for both 2014 and 2013. See Note 1 for a description of the fair value hierarchy. The remaining financial liabilities are classified in the category “Other financial liabilities”.

The EUR 100 m loan with maturity 2016 can be repaid at any time. For the rest of bonds and loans, the maturities stated in the table above are based on the earliest date on which they can be required to be repaid.

Two of the loans are the subject of fair value hedging. The fixed EUR interest rate of the EUR 100 m loan due 2015 has been swapped into floating EUR interest rate. The fixed EUR interest on the EUR 750 m loan has been swapped into floating USD interest rate.

Two EUR 100 m loans due 2016 and 2020 and the two EUR 500 m loans have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to SEK 11,502 m (11,256) as of the balance sheet date.

More information regarding financial risk management and hedge accounting can be found in Note 28. Methods used for establishing fair value are described in Note 1. 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 23 m.

21 Leasing

	2014		2013	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
<i>Future minimum lease payments at 31 December (SEKm)</i>				
Within one year	9	705	8	553
Later than one year but within five years	28	1,459	26	1,179
Later than five years	13	646	19	482
Total	50	2,810	53	2,214
Less: Interest	-4		-5	
Present value of minimum lease payments under finance leases	46		48	
Less: Current portion	-7		-8	
Non-current portion	39		40	

Net rental expense related to operating leases was SEK 898 m (579). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily

in Germany, USA, China, Sweden, and Singapore. Contingent rentals and sub-lease revenues were not significant in any of the years presented.

22 Other short-term liabilities

SEKm	2014	2013
Employee related accruals	2,948	2,587
Accrual for rebates	668	402
Deferred income	339	310
Customer advances	269	224
Value added taxes payable, net	256	232
Other current liabilities	776	814
Other accrued expenses	1,688	1,568
	6,944	6,137

23 Contingent liabilities

<i>Contingent liabilities at nominal values (SEKm)</i>	2014	2013
Guarantees	73	37
Other contingent liabilities	27	32
	100	69

24 Related parties

<i>The SKF Group's transactions with related parties (SEKm)</i>	2014	2013
Associated companies:		
Sales of goods and services	57	48
Purchases of goods and services	223	197
Receivables as of 31 December	12	6
Liabilities as of 31 December	31	31

In 2007 Knut och Alice Wallenbergs Stiftelse transferred its shares in the Parent company to Foundation Asset Management Sweden AB ("FAM").

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 Stiftelsen Marcus och Amalia Wallenbergs Minnesfond (the "Foundations"). 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 2014 FAM is the major shareholder of the Parent company, holding 29.0 % (29.5 %) of the voting rights and 12.9% (12.9) of the share capital.

Other related party transactions include remuneration to key management as specified in Note 25. For a list of significant subsidiaries, see Note 8 to the financial statements of the Parent company.

25 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 2014, 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 in the country in which the business is conducted. 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.

25 Remuneration to Key Management (cont.)

Performance Shares

The Annual General Meeting 2014 decided on the introduction of SKF's Performance Share Programme 2014. The terms and conditions of SKF's Performance Share Programme 2014 are in essence the same as the terms and conditions of the SKF Group's previous performance share programmes, covered by the principles of remuneration for Group Management decided at the Annual General Meetings 2008 – 2013 and summarized in the Consolidated Financial Statements Note 25 of the Annual Report 2013.

The programme covers a maximum of 310 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 must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2014, and the TVA development for the financial year 2016 compared to the financial year 2014. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

Based on the TVA for the financial year 2014, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

- CEO and President – 10,000 shares
- Business area Presidents and Executive Vice President – 5,000 shares
- Other members of Group Management – 3,500 shares
- Managers of large business units and other senior managers – 1,250 – 1,800 shares

Following the expiry of the financial year 2016 a comparison is made between TVA for the financial year 2014 and TVA for the financial year 2016. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

- CEO and President – 20,000 shares
- Business area Presidents and Executive Vice President – 10,000 shares
- Other members of Group Management – 7,000 shares
- Managers of large business units and other senior managers – 2,500 – 3,600 shares

The participants shall not provide any consideration for their rights under the programme.

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.

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 2014 it was decided that the Board be entitled to a firm allotment of SEK 5,895,000 to be distributed with SEK 1,440,000 to the Chairman of the Board and with SEK 495,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that the Board be entitled to a variable allotment, calculated as below. The Chairman is entitled to a variable allotment corresponding to the value of the number of SKF shares of series B, the value of which after the Annual General Meeting 2014 shall amount to SEK 400,000. Each other Board member not employed by the company is entitled to a variable allotment corresponding to the value of the number of SKF shares of series B, the value of which after the Annual General Meeting 2014 shall amount to SEK 137,500. When deciding upon the variable allotment, (i) the number of shares shall be determined by dividing the amount of SEK 400,000 and SEK 137,500, respectively, with the average latest payment rate of an SKF share of series B, according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days immediately following the day on which the share is traded without any right to receive dividend for 2014 and (ii) the value of an SKF share of series B, is to be determined at the average latest payment rate according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days after publication of the company's press release for the financial year 2014. After the Annual General Meeting 2014 the number of shares according to (i) above was determined to 2,377.84 shares for the Chairman, and to 817.38 shares for each other Board member. After the press release according to (ii) above the value of an SKF share of series B, was determined at SEK 194.80. The variable allotment for the Chairman amounts to SEK 463,203, and for each other Board member to SEK 159,226, and will be paid out in March 2015.

Finally, it was decided that an allotment of SEK 918,000 for committee work shall be divided with SEK 210,000 to the Chairman of the Audit Committee, with SEK 150,000 to each of the other members of the Audit Committee, with SEK 120,000 to the Chairman of the Remuneration Committee and with SEK 96,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Tom Johnstone, President and Chief Executive Officer of AB SKF until 31 December 2014, received from the company in year 2014 as salary and other remunerations a total of SEK 11,631,032 which includes SEK 854,143 related to SKF's Performance Share Programme 2011. Tom Johnstone did not receive any short-term variable salary related to 2013 performance.

The variable salary in 2014 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 112.

Tom Johnstone was in the beginning of 2014 allotted 4,670 SKF shares of series B under SKF Performance Share Programme 2011. SKF's Performance Share Programmes are further described on pages 153-154 and 156.

In the event of termination at the request of AB SKF, Tom Johnstone would have received severance payments amounting to a maximum of two year's salary.

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 40% of SEK 3,905,253 corresponding to SEK 1,562,101 per year. The amount SEK 3,905,253 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the Act (1998:674) on income-based retirement pension) but not more than 5% for each year. The defined benefit pension is gradually

earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment. In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension.

Tom Johnstone'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.

From 1 January 2015, Alrik Danielson is new President and Chief Executive Officer of AB SKF. Alrik Danielson's fixed annual salary 2015 will amount to SEK 9,000,000. 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. In the event of termination at the request of AB SKF, Alrik Danielson will receive severance payments amounting to a maximum of one year's salary.

Group Management

The SKF's Group Management, consisting of 10 people at the end of the year, received in 2014 (exclusive of the President) salary and other remunerations amounting to a total of SEK 53,191,219, of which SEK 48,833,710 was fixed annual salary and SEK 955,706 was short-term variable salary related to 2013 performance and SEK 3,401,803 was related to SKF's Performance Share Programme 2011. 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 112.

Group Management (exclusive of the President) was in the beginning of 2014 allotted 20,123 SKF shares of series B under SKF Performance Share Programme 2011. SKF's Performance Share Programmes are further described on pages 153-154 and 156.

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 of the Swedish companies within the SKF Group the Board has decided on a defined contribution supplementary pension plan. The president is not covered by this pension plan. The plan entitles senior managers covered to receive an additional pension over and above the pension covered by the ITP-plan. The contributions paid for senior managers covered by the defined contribution plan are based on each individual's pensionable salary (i.e. normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. Members of Group Management employed before 2005 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.

25 Remuneration to Key Management (cont.)

	Fixed salary and other benefits ¹⁾ / fixed Board remuneration		Short-term variable salary / variable Board remuneration		Performance Share Programmes		Remuner- ation for commit- tee work	Gross pension costs ²⁾		
	Amounts paid in 2014 ³⁾	Amounts expensed in 2014 ^{3), 7)}	Amounts paid in 2014 related to 2013 ³⁾	Amounts expensed in 2014 ³⁾	Amounts paid in 2014 related to prior years ^{3), 6)}	Amounts expensed in 2014 ³⁾	Amounts paid and expensed in 2014 ³⁾	Amounts expensed in 2014 ^{3), 7)}	Total expensed in 2014	Total expensed in 2013
Amounts in SEK										
Board of directors of AB SKF										
Leif Östling	1,320,000	1,440,000	437,173	402,676	–	–	270,000	–	2,112,676	1,903,227
Ulla Litzén	453,750	495,000	150,278	138,419	–	–	150,000	–	783,419	701,891
Marie Bredberg	247,500	495,000	–	134,786	–	–	–	–	629,786	–
Lena Treschow Torell	453,750	495,000	150,278	138,419	–	–	–	–	633,419	576,891
Peter Grafoner	453,750	495,000	150,278	138,419	–	–	96,000	–	729,419	656,891
Lars Wedenborn	453,750	495,000	150,278	138,419	–	–	306,000	–	939,419	831,891
Joe Loughrey	453,750	495,000	150,278	138,419	–	–	–	–	633,419	576,891
Jouko Karvinen	453,750	495,000	150,278	138,419	–	–	96,000	–	729,419	656,891
Baba Kalyani	453,750	495,000	150,278	138,419	–	–	–	–	633,419	576,891
Hock Goh	247,500	495,000	–	134,786	–	–	–	–	629,786	–
Other members of board previous year	–	–	–	–	–	–	–	–	–	17,746
CEO ^{4), 8)}	10,776,889	18,522,341	–	3,927,000	854,143	97,712	–	11,589,641	34,136,694	16,144,828
Group Management ^{4), 5)}	48,833,710	67,853,430	955,706	9,349,831	3,401,803	392,335	–	40,107,250	117,702,845	78,900,393
whereof AB SKF	38,710,475	57,709,564	955,706	7,086,859	2,933,033	290,003	–	36,539,974	101,626,400	68,265,535
Total 2014	64,601,849	92,270,771	2,444,825	14,918,014	4,255,946	490,047	918,000	51,696,891	160,293,723	–
whereof AB SKF	54,478,614	82,126,905	2,444,825	12,655,042	3,787,176	387,715	918,000	48,129,615	144,217,277	–
Total 2013	66,039,269	65,629,676	9,911,219	4,637,586	6,657,118	-148,044	765,000	30,660,213	–	101,544,431
whereof AB SKF	57,484,149	56,957,520	8,658,187	4,488,385	5,819,999	-102,852	765,000	28,801,520	–	90,909,573

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

²⁾ Represents premiums paid under defined contribution plans as well as gross expenses 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 related to Group Management (including CEO) and former CEO were SEK 90 m.

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

⁶⁾ Amounts refer to taxable benefit value.

⁷⁾ Amounts expensed in 2014 include salary expected to be paid in 2015 as well as additional pension contributions for the members of Group Management (including CEO) leaving the Group during 2015. Additionally, amounts expensed include severance costs of some SEK 10,8 m for Group Management members who left Group Management in 2014.

⁸⁾ The total expense 2014 for Tom Johnstone includes salary as well as pension contributions for both 2014 and 2015. The expense for Tom Johnstone's fixed salary and other benefits was recorded in the amount of SEK 18,522,341 of which SEK 8,102,759 refers to 2014. The expense for Tom Johnstone's total pension benefits was recorded in the amount of SEK 11,589,641 of which SEK 6,179,051 refers to 2014.

SKF's Performance Share Programme

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 2011: Allotment of shares was made in the beginning of 2014. In total 171,094 SKF shares of series B were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2011 to 2013.
- SKF's Performance Share Programme 2012: No allotment of shares will be made due to non-fulfillment of the TVA target for the financial year 2012.
- SKF's Performance Share Programme 2013: No allotment of shares will be made due to non-fulfillment of the TVA target for the financial year 2013.
- SKF's Performance Share Programme 2014: Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2017, if all the conditions of the programme are met.

For further details of SKF's Performance Share Programmes, see page 153-154.

Costs for SKF's Performance Share Programmes

The expenses are based both on the fair value of the SKF shares of series B at grant date and the number of shares expected to vest on 31 December of each year. The fair value of the SKF shares of series B at grant date was determined, as described in Note 1, as SEK 151.0 for SKF's Performance Share Programme 2014.

Amounts expensed 2014 for all programmes were SEK 5 m (-1) excluding social charges. The total provision for all programmes was SEK 5 m (33) and the total provision for social charges for all programmes was SEK 1 m (7).

Cost for Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted by the Annual General Meeting 2014 a variable allotment, calculated as described on page 154. The variable allotment amounts in total to SEK 1,896,237 (1,489,119) and will be paid out in March 2015.

Men and women in Board of Directors and Group Management

	2014		2013	
	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	13	77%	11	82%
Group Management incl. CEO	10	90%	13	77%
Parent Company				
Board of Directors of the Parent company incl. CEO	13	77%	11	82%
Group Management incl. CEO	7	86%	11	73%

26 Fees to the auditors

<i>Fees to the SKF Group statutory auditors were split as follows (SEKm)</i>	2014	2013
Audit fees	38	33
Audit related fees	3	1
Tax fees	6	10
Other fees to auditors	1	2
	48	46
<i>The Parent Company's share (SEKm)</i>		
Audit fees	7	4
Audit related fees	2	1
Tax fees	3	2
Other fees to auditors	1	0
	13	7

Audit fees relate to examination of the annual report, 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

Group's sustainability report. Tax fees and other fees to auditors relate to all other consultancy assignments.

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

27 Average number of employees

	2014		2013	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	680	66%	613	65%
Subsidiaries in Sweden	2,211	80%	2,248	83%
Subsidiaries abroad	43,618	78%	42,359	78%
	46,509	78%	45,220	78%

	2014		2013	
<i>Geographic specification of average number of employees in subsidiaries abroad</i>	Number of employees	Whereof men	Number of employees	Whereof men
France	2,867	81%	2,796	81%
Italy	3,202	78%	3,301	78%
Germany	6,534	87%	6,242	87%
Other Western Europe excluding Sweden	3,770	83%	3,679	84%
Central and Eastern Europe	4,043	63%	3,821	64%
USA	6,237	74%	5,438	75%
Canada	236	81%	220	80%
Mexico	1,566	74%	1,410	70%
Latin America	2,417	80%	2,602	89%
China	6,323	68%	6,211	63%
India	2,959	95%	3,054	95%
Other Asian countries/Pacific	3,134	81%	3,255	82%
Middle East and Africa	330	79%	330	72%
	43,618	78%	42,359	78%

28 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. As of January 2014, one of the Group's long term financial targets is to achieve a return on capital employed of 20%.

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 of around 80%

<i>Key figures¹⁾</i>	2014	2013
Total equity, SEKm	24,404	21,152
Gearing, %	60.5	59.2
Equity/assets ratio, %	29.9	29.8
Net debt/equity, %	126.6	117.3
Return on capital employed, %	13.9	7.5

¹⁾ Definition of these key figures is available on page 201.

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, limited 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 56,769 m (51,485) to SEK 4,743 m (3,330). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from 1 to 6 months on average. Hedge accounting of hedges of transaction exposure has been limited to USD only.

<i>Net currency flows (SEKm)</i>	2014	2013
USD	6,561	5,386
USD related ¹⁾	2,049	2,435
EUR	-6,203	-5,976
Other ²⁾	2,336	1,485
SEK	-4,743	-3,330

¹⁾ AUD, CAD, NZD, SGD, THB and ZAR

²⁾ Other is comprised of 10 different currencies

For the commercial foreign exchange exposure, the SKF Group is primarily exposed to USD and USD related currencies against EUR and SEK, as shown in the table above. Based on the assumption that the net currency flows in USD and USD related currencies will be the same for 2014 as in 2013, a sensitivity analysis shows that a 5% stronger SEK against the USD would have a negative effect on operating profit of approximately SEK 300 m (300). A 5% stronger SEK against the EUR would have a positive effect on operating profit of approximately SEK 300 m (300). The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

28 Financial risk management (cont.)

The sensitivity analysis based on the outstanding positions at 31 December shows that profit before taxes for the year would have been unchanged (unchanged) if SEK had strengthened and weakened, respectively, by 5% against all other currencies. The corresponding effect on the hedge reserve in equity from revaluation of cash flow hedges would have been an increase/decrease of SEK 0 m (26).

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. A weakening/strengthening of the SEK against all other currencies has a positive/negative effect on the translation of operating profits to SEK of around SEK 400 m. To reduce the translation exposure of net assets, the Group has hedged some of its net investment in foreign subsidiaries, for details see page 161.

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 37,366 m (30,776) and total interest bearing financial assets amounted to SEK 7,216 m (6,659). 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 EUR, SEK and USD interest rates.

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 240 m (140). 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 506 m (415), 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 25 m (20) higher/lower.

Liquidity risk

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet commitments.

Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the

balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks that will expire in 2019, and two committed credit facilities of SEK 3,000 m that will expire in 2016 and EUR 150 m that will expire 2017.

A good rating is important in the management of liquidity risks. The long-term rating of the Group by Standard & Poor's and Moody's Investor Service is BBB+ and Baa1 respectively.

The table below shows the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment outflows. All instruments held at 31 December 2014 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 2014. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

SEKm	2014 Cash flows			2020 and thereafter
	2015	2016	2017-2019	
Loans	-2,468	-1,354	-11,583	-4,301
Trade payables	-5,938	–	–	–
Derivatives				
Outflows	-35,531	-43	-85	–
Inflows	35,011	66	129	–
Total	-8,926	-1,331	-11,539	-4,301

SEKm	2013 Cash flows			2019 and thereafter
	2014	2015	2016-2018	
Loans	-1,722	-1,392	-7,718	-12,546
Trade payables	-4,740	–	–	–
Derivatives				
Outflows	-34,825	-98	-277	–
Inflows	34,971	184	449	–
Total	-6,316	-1,306	-7,546	-12,546

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 21,196 m (18,024) 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.

<i>Credit risk (SEKm)</i>	2014	2013
Trade receivables	12,595	11,189
Other receivables	1,204	1,151
Derivatives	1,477	315
Cash and cash equivalent	5,920	5,369
Total	21,196	18,024

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 of 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 1,400 m (250) and derivative liabilities of around SEK 2,600 m (450) subject to enforceable master netting arrangements.

Hedge accounting

Fair value hedges

The SKF Group hedges the fair value risk of financial liabilities at December 2014, by using cross-currency interest rate swaps (receive variable EUR interest, pay SEK variable interest) for an amount of EUR 100 m (100) and interest rate swaps (receive fixed EUR interest, pay EUR variable interest) for an amount of EUR 100 m (100). Additionally, the EUR 750 m (750) 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. The dollar-offset method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the used derivatives expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period adjusted for accrued interest. 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 -389 m (-23) as fair value hedges as of 31 December 2014.

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

SEKm	Financial expense 2014	Financial expense 2013
Financial liabilities (hedged items)	-473	11
Cross-currency interest-rate swaps (hedging instruments)	474	-24
Difference (inefficiency)	1	-13

Cash flow hedges

During 2014, forward exchange contracts were the derivative financial instruments used by the Group to hedge its foreign currency rate exposure. Cash flow hedge accounting was applied to hedges of highly probable forecasted USD sales and the associated foreign currency risks arising from changes in USD rates. In 2014, losses totalling SEK 83 m (loss of 19) resulting from the change in the fair value of currency forwards designated as cash flow hedges were taken to other comprehensive income. During the year losses of SEK 25 m (gains of 16) were transferred via other comprehensive income to net sales. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

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 2014 financial year, losses totalling SEK 1 m (loss of 9) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year losses of SEK 7 m (loss of 5) was 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.

The following table shows the contractual maturities of the outstanding cash flow hedge instruments. The gain/loss of these hedge instruments will be recognized in profit or loss in the same period during which the forecasted hedged items affect profit or loss.

Nominal value	2015				2016-2017	Total
	Q1	Q2	Q3	Q4		
Currency forwards, USDm	-	-	-	-	-	-
Electricity forwards, SEKm	7	5	5	7	42	66

Hedges of net investments

As of the balance sheet date net investments in foreign operations for a nominal amount of EUR 1,474 m (1,474) and USD 1,026 m (1,026) were hedged by the Group against changes in the EUR/SEK and USD/SEK exchange rates. EUR loans for an amount of EUR 1,200 m (1,200) and derivatives for an amount of EUR 274 m (274) and USD 1,026 m (1,026) were designated as hedge instruments. The result of the hedges totalled SEK -2,114 m (-426) before tax in 2014 and was recognized as a translation difference in other comprehensive income. No amount has been recycled from other comprehensive income to the income statement in 2014 or in 2013.

28 Financial risk management (cont.)

Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 14 and liabilities in Note 20. A distinction is made depending on whether these are part of an effective hedging relationship 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).

<i>Derivative assets and liabilities, net (SEKm)</i>	Category	2014	2013
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	-389	-23
Net investment hedges	Hedge accounting	-318	-127
Economic hedges	Trading	-	-55
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	-23	2
Net investment hedges	Hedge accounting	3	10
Economic hedges	Trading	-515	46
Electricity forwards			
Cash flow hedges	Hedge accounting	-7	-11
Embedded derivatives	Trading	3	3
		-1,246	-155

Parent Company income statements

SEKm	Note	Years ended 31 December	
		2014	2013
Revenue	2	5,621	4,892
Cost of revenue	2	-5,389	-5,035
General management and administrative expenses	2	-1,248	-1,000
Other operating income		49	6
Other operating expenses	2	133	-3,008
Operating loss		-834	-4,145
Income from participations in Group companies	3	3,149	8,227
Financial income	3	527	485
Financial expenses	3	-1,139	-847
Profit after financial items		1,703	3,720
Appropriations	4	2,063	909
Profit before tax		3,766	4,629
Income taxes	5	-189	113
Net profit		3,577	4,742

Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2014	2013
Net profit		3,577	4,742
Items that may be reclassified to the income statement			
Change in fair value of available-for-sale assets	9	83	12
Other comprehensive income		83	12
Total comprehensive income		3,660	4,754

Parent Company balance sheets

SEKm	Note	As of 31 December	
		2014	2013
ASSETS			
Non-current assets			
Intangible assets	6	1,850	1,206
Property, plant and equipment	7	63	66
Investments in subsidiaries	8	37,010	32,964
Long-term receivables from subsidiaries		21,386	19,276
Investments in associated companies		1	1
Investments in equity securities	9	506	415
Deferred tax assets	5	64	158
		60,880	54,086
Current assets			
Short-term receivables from subsidiaries		2,906	2,886
Income tax receivables		–	79
Other short-term receivables		56	47
Prepaid expenses		54	21
Cash and cash equivalents		–	6
		3,016	3,039
Total assets		63,896	57,125
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
		2,056	2,056
Unrestricted equity			
Fair value reserve		278	195
Retained earnings		9,786	7,576
Net profit		3,577	4,742
		13,641	12,513
		15,697	14,569
Untaxed reserves	4	280	280
Provisions			
Provisions for post-employment benefits	10	253	259
Other provisions	2	145	3,036
		398	3,295
Non-current liabilities			
Long-term loans	11	21,382	19,274
Long-term liabilities to subsidiaries		1,742	134
		23,124	19,408
Current liabilities			
Short-term loans	11	952	896
Trade payables		272	94
Short-term liabilities to subsidiaries		22,706	18,066
Other short-term liabilities		20	20
Accrued expenses and deferred income		447	497
		24,397	19,573
Total shareholders' equity, provisions and liabilities		63,896	57,125
Assets pledged		–	–
Contingent liabilities		17	22

Parent Company statements of cash flow

SEKm	Years ended 31 December	
	2014	2013
Operating activities		
Operating loss	-834	-4,145
<i>Adjustments for</i>		
Depreciation and amortization	114	116
Other non-cash items	24	3,047
Income taxes received/paid	3	10
Payments under post-employment defined benefit plans	-27	-23
Exercise of Performance Share Programmes	-33	-43
<i>Changes in working capital</i>		
Trade payables	178	18
Other operating assets and liabilities, net	4,459	1,076
Interest received	523	436
Interest paid	-1,037	-758
Other financial items	-99	-39
Net cash flow from operating activities	3,271	-305
Investment activities		
Additions to property, plant and equipment	-	-18
Additions to intangible assets	-755	-474
Dividends received from subsidiaries	3,193	8,227
Investments in equity securities	-8	-
Capital repayments and sales of shares in subsidiaries	7	898
Investments in subsidiaries	-4,095	-10,798
Net cash flow used in investing activities	-1,658	-2,165
Net cash flow after investments before financing	1,613	-2,470
Financing activities		
Proceeds from medium- and long-term loans	1,771	7,341
Repayment of medium- and long-term loans	-886	-2,362
Cash dividends to AB SKF's shareholders	-2,504	-2,504
Net cash flow used in financing activities	-1,619	2,475
Increase(+)/decrease(-) in cash and cash equivalents	-6	5
Cash and cash equivalents at 1 January	6	1
Cash and cash equivalents at 31 December	-	6

Parent Company statements of changes in equity

SEKm	Restricted equity		Unrestricted equity		Total
	Share capital ¹⁾	Statutory reserve	Fair value reserve	Retained earnings	
Opening balance 1/1/2013	1,138	918	183	10,124	12,363
Net profit	–	–	–	4,742	4,742
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	12	–	12
Transactions with shareholders					
Cost under Performance Share Programmes ²⁾	–	–	–	-1	-1
Exercise of Performance Share Programmes ²⁾	–	–	–	-43	-43
Dividends	–	–	–	-2,504	-2,504
Closing balance 31/12/2013	1,138	918	195	12,318	14,569
Net profit	–	–	–	3,577	3,577
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	83	–	83
Transactions with shareholders					
Cost under Performance Share Programmes ²⁾	–	–	–	5	5
Exercise of Performance Share Programmes ²⁾	–	–	–	-33	-33
Dividends	–	–	–	-2,504	-2,504
Closing balance 31/12/2014	1,138	918	278	13,363	15,697

¹⁾ The distribution of share capital between share types is shown in Note 16 to the Consolidated financial statements.

²⁾ See Note 25 to Consolidated financial statements for information about Performance Share Programmes.

Restricted equity includes share capital and statutory 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

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2013.

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

With regard to pensions, the Group applies IAS 19, "Employee Benefits".

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.

2 Revenues and operating expenses

AB SKF is the entrepreneur within the Group and as such is 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 1,816 m (1,574).

Of the total operating expenses, SEK 3,313 m (2,693) was invoiced from subsidiaries.

Other operating expenses include amounts related to the European Commission provision, being the SEK 3,000 m in 2013 and the reversal of SEK 150 m in 2014. See note 19 to the consolidated financial statement.

3 Financial income and financial expenses

SEKm	2014	2013
Income from participations in Group companies		
Dividends from subsidiaries	3,193	8,227
Other financial income from investments in subsidiaries	-1	-
Impairment of investments in subsidiaries	-43	-
	3,149	8,227
Financial income		
Interest income from subsidiaries	523	471
Interest income from external parties	-	10
Other financial income	4	4
	527	485
Financial expenses		
Interest expenses to subsidiaries	-518	-322
Interest expenses to external parties	-519	-472
Other financial expense	-102	-53
	-1,139	-847

4 Appropriations

<i>Appropriations (SEKm)</i>	2014	2013
Paid/received group contribution	2,063	149
Untaxed reserves		
Change in tax allocation reserves	–	849
Change in accelerated depreciation reserve	–	–89
	2,063	909
<i>Untaxed reserves in the balanced sheet (SEKm)</i>		
Accelerated depreciation reserve	280	280

5 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2014	2013
Current taxes	-96	-10
Deferred taxes	-93	123
	-189	113
<i>Net deferred asset per type (SEKm)</i>		
Provisions for post-employment benefits	47	30
Tax loss carry-forwards	14	125
Other	3	3
Deferred tax assets	64	158
<i>Reconciliation of the statutory tax in Sweden and the current tax (SEKm)</i>		
Tax calculated using the statutory tax rate in Sweden	-780	-1,018
Non-taxable dividends and other financial income	703	1,810
Other non-deductible and non taxable profit items, net	-112	-679
Actual tax	-189	113

The corporate statutory income tax rate in Sweden is 22%. The majority of other non-deductible items 2013 relates to the European Commission provision.

6 Intangible assets

SEKm	2014 Closing balance	Additions	2014 Opening balance
<i>Acquisition cost</i>			
Technology and similar items	886	–	886
Internally developed software	1,297	755	542
	2,183	755	1,428
SEKm	2014 Closing balance	Depreciation	2014 Opening balance
<i>Accumulated depreciation</i>			
Technology and similar items	333	111	222
	333	111	222
Net book value	1,850		1,206

See Note 10 of the Consolidated financial statements for information on the internally developed software. Technology and similar items are amortized over eight years.

7 Property plant and equipment

SEKm	2014 Closing balance	Additions	2014 Opening balance
<i>Acquisition cost</i>			
Buildings	4	–	4
Machine toolings and factory fittings	53	8	45
Construction in process including advances	31	–8	39
	88	–	88
SEKm	2014 Closing balance	Depreciation	2013/4 Opening balance
<i>Accumulated depreciation</i>			
Buildings	1	–	1
Machine toolings and factory fittings	24	3	21
	25	3	22
Net book value	63		66

8 Investments in subsidiaries

Investments in subsidiaries held by the Parent company on December 31 (SEKm)	2014	Additions	Impairment	Disposals and capital repayments	2013	Additions	Impairment	Disposals and capital repayments	2012
Investments in subsidiaries	37,010	4,096	-43	-7	32,964	10,798	-	-898	23,064

The Group is composed of some 250 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 more significant of the remaining subsidiaries of the Group. Taken together these subsidiaries account for more than 90% of the Group's sales and for more than 90% of the Group's manufacturing facilities.

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value		Main activities*
					2014	2013	
SKF Argentina S.A.	Argentina	-	14,677,299	29.2% ¹⁾	75	75	M,S
SKF Australia Pty. Ltd.	Australia	-	96,500	100.0%	0	0	S
SKF Österreich AG	Austria	-	200	100.0%	176	176	M,S
SKF Belgium NV/SA	Belgium	-	1,778,642	99.9% ¹⁾	8,904	8,904	S
SKF Logistics Services Belgium NV/SA	Belgium	-	29,907,952	99.9% ¹⁾	28	28	O
SKF do Brasil Ltda.	Brazil	-	252,582,248	99.9% ¹⁾	540	540	M,S
SKF Bearings Bulgaria EAD	Bulgaria	-	24,664,309	100.0%	183	183	M
SKF Canada Ltd.	Canada	-	130,000	100.0%	58	0	M,S
SKF Chilena S.A.I.C.	Chile	-	88,191	99.9% ¹⁾	0	0	S
SKF (China) Co. Ltd.	China	-	133,400	100.0%	1,135	1,135	O
SKF CZ, a.s.	Czech Republic	-	430	100.0%	10	10	S
SKF Danmark A/S	Denmark	-	5	100.0%	7	7	S
Oy SKF Ab	Finland	-	48,400	100.0%	12	12	M,S
SKF Maintenance service GmbH	Germany	-	1	100.0%	6	0	S
SKF Hellas S.A.	Greece	-	2,000	100.0%	0	0	S
SKF Svéd Golyóscsapagy Zrt	Hungary	-	20	100.0%	0	0	S
SKF Technologies (India) Private Ltd.	India	-	2,426,500,101	93.3% ¹⁾	560	492	M,S
SKF India Ltd.	India	-	24,639,048	46.7% ²⁾	94	94	M,S
PT. SKF Indonesia	Indonesia	-	76,380	85.8%	35	35	M,S
PT. Skefindo Primatama	Indonesia	-	5	5.0% ¹⁾	1	1	S
SKF Industrie S.p.A	Italy	-	465,000	100.0%	912	912	M,S
SKF Japan Ltd.	Japan	-	32,400	100.0%	225	0	S
SKF Holding Mexicana, S.A. de C.V.	Mexico	-	22,687,633	98.0% ¹⁾	239	239	O
SKF de México, S.A. de C.V.	Mexico	-	373,354,766	62.2% ¹⁾	65	65	M,S
Peer Rodamientos de Mexico, S.A. de CV	Mexico	-	3,202,619	99.9% ¹⁾	2	2	S
SKF New Zealand Ltd.	New Zealand	-	375,000	100.0%	11	11	S
SKF Norge AS	Norway	-	50,000	100.0%	0	0	S
SKF Pakistan Private Ltd.	Pakistan	-	0	0% ¹⁾	0	2	S
SKF del Peru S.A.	Peru	-	2,564,903	99.9% ¹⁾	0	0	S
SKF Polska S.A.	Poland	-	3,701,466	100.0%	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	-	61,601	95.0% ¹⁾	4	4	S
SKF Korea Ltd.	Republic of Korea	-	128,667	100.0%	74	74	M,S
SKF Sealing Solutions Korea Co., Ltd.	Republic of Korea	-	153,320	51.0%	15	15	M,S
SKF Treasury Centre Asia & Pacific Pte. Ltd.	Singapore	-	61,500,000	100.0%	467	467	O
SKF Asia Pacific Pte. Ltd.	Singapore	-	1,000,000	100.0%	0	0	S
SKF South Africa (PTY) Ltd.	South Africa	-	1,422,480	100.0%	43	43	S
SKF Española S.A.	Spain	-	3,650,000	100.0%	383	383	M,S
SKF Förvaltning AB	Sweden	556350-4140	124,500	99.6% ¹⁾	3,395	40	O
SKF International AB	Sweden	556036-8671		100.0%	1,320	1,320	O
SKF Coupling Systems AB	Sweden	556019-4150	7,500	100.0%	259	259	M,S
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100.0%	125	125	O
Bagaregården 16:7 KB	Sweden	916622-8529	0	99.9% ¹⁾	57	56	M,O
Gloi AB	Sweden	556782-9717	1	100.0%	37	0	M,S
SKF Eurotrade AB	Sweden	556206-7610	83,500	100.0%	12	12	S,O

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

¹⁾ Parent company together with subsidiaries own 100%

²⁾ Parent company together with subsidiaries own 53.6%

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value		Main activities*
					2014	2013	
Carried Forward					19,625	15,877	
SKF Condition Monitoring Center (Luleå) AB	Sweden	556236-9263	5,000	100.0%	10	10	M,S
SKF Lubrication Competence Center Nordic Region AB	Sweden	556124-6082	1,000	100.0%	8	8	S
Monitoring Control Center MCC AB	Sweden	556644-8295	5,000	100.0%	2	2	S
SKF Multitec AB	Sweden	–	0	0% ²⁾	0	5	M,S
SKF Lager AB	Sweden	–	2,000	100.0%	0	0	0
AB Svenska Kullagerfabriken	Sweden	–	1,000	100.0%	0	0	0
SKF Verwaltungs AG	Switzerland	–	500	100.0%	502	502	0
SKF Actuation System (Liestal) AG	Switzerland	–	1	100.0%	165	–	M,S
SKF Taiwan Co. Ltd.	Taiwan	–	169,475,000	100.0%	171	0	S
SKF (Thailand) Ltd.	Thailand	–	1,847,000	92.4% ²⁾	37	37	S
SKF Holding Maatschappij Holland B.V	The Netherlands	–	60,002	100.0%	5,042	5,042	0
Wynwards (U.K.) Ltd.	UK	–	102,600,001	100.0%	6,794	6,792	0
Trelanoak Ltd.	UK	–	6,965,000	100.0%	120	120	0
JSC SKF Ukraine	Ukraine	–	1,266,122,556	99.9%	205	205	M
SKF Logistics Uruguay S.A.	Uruguay	–	566,886,506	100.0%	174	174	S,0
SKF USA Inc.	USA	–	1,000	100.0%	4,155	4,155	M,S,0
SKF Venezolana S.A.	Venezuela	–	20,014,892	100.0%	0	35	S
					37,010	32,964	

Name of indirectly owned subsidiaries	Country	% ownership	Owned by subsidiary in	Main activities*
SKF Sealing Solutions Austria GmbH	Austria	100	Austria	M
SKF (China) Sales Co. Ltd.	China	100	China	S
SKF (Dalian) Bearings and Precision Technologies Co. Ltd.	China	100	China	M
SKF Distribution (Shanghai) Co. Ltd.	China	100	China	S,0
SKF (Shanghai) Automotive Technologies Co. Ltd.	China	100	China	M
Zhe Jiang Xingchang Peer bearing Co Ltd.	China	100	China	M
Ningbo General Bearing Ltd.	China	100	USA	M
Shanghai General Bearing Ltd.	China	60	USA	M
SKF (Shanghai) Bearings Co. Ltd.	China	100	China	M
SKF (Jinan) Bearing and Precision Technology Co. Ltd.	China	100	China	M
Beijing Nankou SKF Railway Bearings Co. Ltd.	China	51	China	M
SKF Latin Trade S.A.	Chile	100	Spain	S
Lincoln CZ s.r.o	Czech Republic	100	Germany	M,S
Fly by Wire Systems France S.A.S	France	100	France	M,S
SKF France S.A.	France	100	France	M,S
Transrol S.A.S	France	100	France	M
SKF Aerospace France S.A.S	France	100	France	M,S
SKF Aeroengine France S.A.S	France	100	France	M,S
S2M France S.A	France	100	France	M,S
Ace Stosssdaempfer GmbH	Germany	100	Germany	M,S
SKF GmbH	Germany	100	Netherlands	M,S,0
SKF Sealing Solutions GmbH	Germany	100	Germany	M,S
SKF Lubrication Systems Germany GmbH	Germany	100	Germany	M,S
SKF Blohm + Voss Industries GmbH	Germany	100	Germany	M,S
SKF B.V.	Netherlands	100	Netherlands	S
RFT S.p.A.	Italy	100	Italy	M,S
SKF Bearing Industries Malaysia Sdn Bhd	Malaysia	100	Netherlands	M
SKF Malaysia Sdn Bhd	Malaysia	100	China	S
SKF Tver Ltd.	Russia	100	Sweden	M
SKF Zao	Russia	100	Sweden	S
SKF Sverige AB	Sweden	100	Sweden	M,S
SKF Mekan AB	Sweden	100	Sweden	M
SKF Schweiz AG	Switzerland	100	Switzerland	S
SKF Turk Sanayi ve Ticaret Limited Sirketi	Turkey	100	Belgium	S
SKF (U.K.) Ltd.	UK	100	UK	M,S
Kaydon Corporation	USA	100	USA	M,S,0
Kaydon Ring & Seals Inc.	USA	100	USA	M,S,0
Lincoln Industrial Co.	USA	100	USA	M,S,0
General Bearing Co.	USA	100	USA	M,S
Reelcraft Industries Inc	USA	100	USA	M,S
Alemite LLC	USA	100	USA	M,S

9 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	2014 Book value, SEKm	2013 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	385	323
NN, Inc., USA	4.5	700,000	USD	113	92
Other			SEK	8	–
				506	415

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.

<i>Amount recognized in the balance sheet (SEKm)</i>	2014	2013
Present value of funded pension obligations	293	270
Less: Fair value of plan assets	-235	-217
Net obligation	58	53
Present value of unfunded pension obligations	195	206
Net provisions	253	259

<i>Change in net provision for the year (SEKm)</i>	2014	2013
Opening balance 1 January	259	234
Defined benefit expense	21	48
Other	–	–
Pension payments	-27	-23
Closing balance 31 December	253	259

<i>Components of expense (SEKm)</i>	2014	2013
Pension cost	34	62
Interest expense	5	4
Return on plan assets	-18	-18
Defined benefit expense	21	48
Defined contribution expense	86	81
Total post-employment benefit expense	107	129

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 is 3.84% (3.84%) and for the other defined benefit plan it is 2.6% (3.9%). Expected cash outflows for 2015 are SEK 27 m.

11 Loans

SEKm	Maturity	Interest rate	2014		2013	
			Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
EUR 100 m	2015	2.95	952	978	896	935
SEK 1,000 m	2017	0.93	1,000	1,001	1,000	1,001
EUR 500 m	2018	3.88	4,747	5,335	4,465	4,967
EUR 500 m	2019	1.88	4,736	4,991	4,454	4,457
EUR 750 m	2020	2.38	7,091	7,637	6,668	6,698
EUR 200 m	2021	0.76	1,905	1,907		
Long-term loans						
EUR 130 m (Outstanding EUR 100 m)	2014	2.99	–	–	896	902
EUR 100 m	2016	0.63	952	953	896	896
EUR 100 m	2020	1.02	951	991	895	936
			22,334	23,793	20,170	20,792

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

SEKm	2014	2013
Salaries, wages and other remuneration	639	518
Social charges (whereof post-employment benefit expense)	348 (107)	270 (129)

See Note 25 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 27 to the

Consolidated financial statements for the average number of employees and to Note 26 to the Consolidated financial statements for fees to the auditors.

Proposed distribution of surplus

Fair value reserve	SEK	278,386,149
Retained earnings	SEK	9,785,838,401
Net profit for the year	SEK	3,576,697,488
Total surplus	SEK	13,640,922,038
The Board of Directors and the President recommend to the shareholders, a dividend of SEK 5,50 per share ¹⁾ to be carried forward:		
Fair value reserve	SEK	278,386,149
Retained earnings	SEK	10,858,105,015
	SEK	13,640,922,038

¹⁾ Suggested record day for right to dividend, 30 March, 2015.

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 2014 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, 3 March, 2015

Leif Östling, *Chairman*
 Ulla Litzén, *Board member*
 Tom Johnstone, *Board member*
 Lena Treschow Torell, *Board member*
 Peter Grafoner, *Board member*
 Lars Wedenborn, *Board member*
 Joe Loughrey, *Board member*

Jouko Karvinen, *Board member*
 Baba Kalyani, *Board member*
 Hock Goh, *Board member*
 Marie Bredberg, *Board member*
 Niklas Thoresson, *Board member*
 Kennet Carlsson, *Board member*
 Alrik Danielson, *President and CEO*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 3 March, 2015.

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized public accountant
Auditor in charge

Bo Karlsson
Authorized public accountant

Environmental statements

Environmental data

Quantitative information and data about SKF's environmental performance are provided in this section. For qualitative data and examples on how SKF works to improve environmental performance, please refer to Environmental Care on pages 83–89. For site by site data, please refer to the Environmental data spreadsheet available at skf.com.

Scope and data collection: All environmental data reported in the SKF Annual Report 2014 (except scope 3 – Logistics data, see note 3) was compiled either quarterly or annually using the Group's main reporting and consolidation tool. All environment health and safety data (note 1-9) includes all the Group's sites that are included in the Group environment, health and safety management system, at year end 2014 these covered 79% of the employees, and 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/business area, and Group level. Data verification is performed at each level before it is reviewed by external auditors. 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 Resource Institute. Local emission factors are used as input.

1 Net sales

SEKm	2014	2013	2012	2011	2010	2006
Net sales	70,975	63,597	64,575	66,216	61,029	53,101

2 Energy use and associated CO₂ emissions from SKF's own facilities and fleet (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	2014	2013	2012	2011	2010	2006
Energy use scope 1 (GWh)	295	323	315	326	343	407
Energy use scope 2 (GWh)	1,343	1,376	1,359	1,430	1,427	1,546
Total energy use (GWh)	1,638	1,699	1,674	1,756	1,770	1,953
Indexed energy efficiency*** (GWh/output)	90	100	101			
Capacity of installed on-site energy generation at SKF's sites (GWh)	21.9	20.6	–	–	–	–

CO ₂ (tonnes)	2014	2013	2012	2011	2010	2006
From direct combustion (scope 1*)						
LPG	4,025	4,775	4,708	4,369	3,667	4,234
Fuel oil	3,216	3,069	3,750	5,868	6,900	11,891
Natural gas	53,128	58,207	56,178	57,116	60,407	69,165
Company cars**	10,338	9899				
Total scope 1 excl. company cars	60,369	66,051	64,636	67,353	70,974	85,290
Total scope 1 incl. company cars	70,707	75,950				
From supplied energy (scope 2*)						
Electricity	406,087	403,779	392,568	430,739	405,227	448,794
Heating energy	30,188	36,473	35,684	33,562	41,819	45,912
Total scope 2	436,275	440,252	428,252	464,301	447,046	494,706
Total CO ₂ (scope 1 and 2) excl. company cars	496,644	506,303	492,888	531,654	518,020	579,996
Total CO ₂ (scope 1 and 2) incl. company cars	506,982	516,202				
Indexed CO ₂ efficiency*** (CO ₂ /output)	91	100	100			

* 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, heating energy) and scope 3 (all other indirect emissions from logistics, suppliers etc., refer to note 3). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2014 are adjusted according to the GHG-protocol for acquisitions and divestments.

** Emissions from company cars were reported for the first time 2013. The data covers the 12 largest SKF countries making up 80% of the Group's employees.

*** Energy efficiency and CO₂ 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.

3 Transport data and related CO₂ emissions (Scope 3)

a) Logistics data and related CO₂ emissions

Target: 30% reduction of CO₂ / tonne-kilometre for goods transport by 2016 compared to 2011.

SKF Logistics Services downstream (from SKF to customer) transportation of goods. The scope includes emissions of the air, ocean and express shipments on a global level. For road transportation, the Group is mainly reporting emissions from its network within Europe. All data reflecting 2011 and 2012 in the

table below has been restated from the previous years' report to reflect the time period 1 January – 31 December the respective year. Prior to 2013, the data was reported Q4 year X to Q3 year Y due to complexity in obtaining proper data.

<i>Emission data excl. express delivery</i>	2014	2013	2012	2011	2010
Shipped weight (tonnes)	441,378	454,540	458,985	500,633	
Total CO ₂ emissions (Tonnes) scope 3	38,675	38,606	51,192	51,803	
Transport works (million tonne-kilometres)	1,877	1,974	2,086	2,131	
CO ₂ emission factor (gram per tonne-kilometre)	20.6	19.6	24.5	24.3	
Change from 2011 (%)	-15%	-19%	+1%	–	
Fill rate for trucks** (% of available truck space utilized)	79%	80%	79%	81%	77%
<i>Shipped weight per transport mode (%)</i>					
Road	69,5%	69%	66%	67%	67%
Sea	29%	30%	32%	31%	31%
Express	0.5%	<0.5%	<0.5%	<0.5%	<0.5%
Air	1%	1%	1.7%	1.5%	2%
<i>CO₂ emissions per transport mode</i>					
Road	24%	24%	18%	19%	18%
Sea	28%	30%	24%	24%	23%
Express	4%	5%	4%	4%	2%
Air	44%	41%	54%	53%	57%

** The fill rate indicator covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

b) Business travel

SKF monitors CO₂ emissions from its air travel in Europe 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	2014	2013	2012	2011	2010
CO ₂ emissions from air travel	24,236***	16,334	18,302	19,870	18,680

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

4 Total revenue of SKF BeyondZero portfolio solutions and avoided global greenhouse gas emissions enabled by these solutions

Target: to reach total revenues of the SKF BeyondZero portfolio solutions of SEK 10 billion in 2016.

a) Total SKF BeyondZero portfolio revenues, SEKm

SEKm	2014	2013	2012	2011
Total SKF BeyondZero portfolio revenues	5,493	3,324	2,972	2,500*

The annual SKF BeyondZero portfolio revenues consist of the total sales from individually selected products and solutions as well as that from SKF's business with the renewable energy (wind, solar, ocean and hydro power) and electric vehicle industry. The 2014 increase includes impact from organic growth, acquisition and inclusion of additional existing and new solutions.

* The result for 2011 is estimated. From 2012 the SKF BeyondZero portfolio is reviewed by external auditors.

b) Avoided greenhouse gas emissions enabled by specific SKF solutions*

Tonnes CO _{2e}	2014	2013	2012
Avoided greenhouse gas emissions, specific SKF solutions*	440,000	83,000	52,000

* The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific SKF BeyondZero portfolio 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 done during the course of 2015.

c) Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries**

Tonnes CO _{2e}	2014	2013	2012
Avoided greenhouse gas emissions**	1,760,000	1,220,000	1,620,000

** 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 no standard method for companies to calculate environmental benefits, such as reductions in 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, including documentation about reduced environmental impacts, visit: www.beyondzero.com.

5 Material use

Tonnes	2014	2013	2012	2011	2010	2009	2008
Metal as raw material from external suppliers	446,978	405,235*	368,401	413,945	412,068	297,950	431,781
Rubber as raw material from external suppliers	4,553	4,226	4,247	4,354	3,915	2,961	3,757

*Restated due to error in reporting.

6 Chemical use

	2014	2013	2012	2011	2010	2009	2008
Alcohols (tonnes)	1,865	1,636	1,500	1,542	1,514	1,293	1,569
Solvents (tonnes)	882	929	966	847	1,144	1,075	1,435
Hydraulic Oil (tonnes)	2,214	2,386	2,435	2,515	2,501	1,932	3,039
Grease (tonnes)	1,718	1,717	1,615	1,515	1,416	1,175	1,639
PCB (Sites with)	0	0	0	1	1	1	1
Other oils (tonnes)	2,642	2,862	3,246	3,843	3,114	3,160	4,130
Lubrication Oils (tonnes)	825	703	793	986	880	649	887
Cutting Oils (tonnes)	2,102	2,492	2,271	2,456	2,656	1,971	9,478
ODS-Class I Manufacturing (kilogram)	0	0	0	0	0	0	0
ODS-Class II Manufacturing (kilogram)	0	0	0	0	15	1	88
ODS-Class III Manufacturing (kilogram)	323	311	300	138	119	24	–
ODS-Class I Non-Manufacturing (kilogram)	0	0	0	0	30	30	–
ODS-Class II Non-Manufacturing (kilogram)	0	0	2	124	107	253	–
ODS-Class III Non-Manufacturing (kilogram)	257	1,511	745	294	477	281	–

ODS: Ozone-depleting substances

7 Water use

	2014	2013	2012	2011	2010	2009	2008
Water use (1,000 N Cubic Meters)	5,200	5,451	5,662	5,584	5,652	6,898	7,622

8 Residual products and recycling

	2014	2013	2012	2011	2010	2009	2008
Turning Chips (tonnes)	46,972	49,328	49,207	54,536	64,782	51,085	83,444
Turning Chips Recycled (%)	100	100	100	100	100	100	100
Other metal scrap (tonnes)	6,011	6,098	5,625	6,318	7,487	7,670	18,413
Other metal scrap recycled (%)	100	100	100	100	100	100	100
Grinding swarf (tonnes)	20,706	20,466	20,297	23,221	20,899	15,740	24,324
Grinding swarf Recycled (%)	83	80	76	68	67	70	64
Used oils (tonnes)	3,954	4,369	3,861	3,899	4,275	3,880	5,742
Used oils recycled (%)	93	91	96	95	94	96	97
Paper and carton (tonnes)	4,544	4,615	4,276	4,193	4,084	3,390	4,194
Paper and carton recycled (%)	95	98	100	100	98	96	97
Waste sent to landfill (tonnes)	9,507	8,505	9,371	10,938	10,722	7,740	10,046

Social statements

Social data

In this section the quantitative data of SKF's Social performance is presented. Qualitative information and examples of SKF's social performance can be found in Administration report in the Employee Care and Community Care section, see pages 90–95. For more information, please also visit skf.com. Health and safety data was collected quarterly using the web-based reporting tool described previously. 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 note 9 includes sites that are in SKF environmental health and safety management system, which at year end 2014 covers 79% of SKF's employees. Recently acquired companies are given a timeframe for implementing the management system, working towards inclusion in the Group's certification scope according to OHSAS 18001.

9 Accident rate for the Group

	2014	2013	2012	2011	2010	2009	2008
Accident rate for the Group	1.13	0.99	1.06	1.05	1.18	1.29	1.54

In order to improve data quality and efficiency, starting in 2014, accident data and working hours data have been gathered using SKF's main reporting system – minor changes in the metrics have resulted from this and the 2014 data may therefore not be fully comparable to previous years.

Note 10–17, scope and data collection

The SKF Group employee data presented below (and in the Employee Care section) is collected annually. All figures in notes 10–17 about employee data reflects the current state on 31 December each year and the scope changes along with acquisitions and divestments. The scope includes all SKF subsidiaries.

► **IMPORTANT NOTE.** In order to provide a more complete survey and include a greater number of employees in the social data, from 2012 and onwards, the data is compiled from legal company level, whereas it has previously been compiled at operational site level. Due to this, the year over year data is not comparable between 2011 and onwards. In addition, several of the KPIs from 2012 and onwards are presented indicating “% of employees covered by agreement/policy”, whereas previously, until 2011, it has been presented as “% of operational units with agreement/policy”.

Figures are not adjusted for acquisitions and divestments. Data verification is performed at each level before it is reviewed by external auditors.

10 Attendance by region 2014, %

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
% of total time attending	96.9%	98.8%	98.8%	98.4%	99.1%	94.9%	95.3%

Attendance rate = 1 – (time off due to illness / total worked time). Total worked time has been estimated using the average of 1,920 hours per year per employee.

11 Employee retention rate by region

SKF measures voluntary retention rate by comparing employees remaining in SKF employment at year end compared to the start of the year. Thus, those laid off from restructuring or other reasons are excluded.

%	Women	Men	2014 Total	2013	2012	2011	2010	2009
Asia and Pacific	87.3	89.0	89	87	88	88	91	94
Middle East and Africa	87.1	91.0	90	95	93	90	94	95
North America	92.0	93.3	93	91	91	91	95	96
Latin America	96.9	88.9	92	88	86	94	93	96
Eastern and Central Europe	95.8	94.8	95	95	96	97	96	95
Western Europe	94.4	96.3	96	95	97	97	96	96
Group	92.4	93.6	93	92	93	94	95	95

► Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 178).
The data is therefore not comparable to previous years.

12 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 2014, %	8.1	12.6	9.9	9.4	16.7	5.4	4.6
New hires 2014							
Women (Number)	1,139	400	11	221	113	159	235
(% of total)	(25%)	(23%)	(37%)	(24%)	(19%)	(36%)	(27%)
Men (Number)	3,406	1,317	19	687	475	280	628

13 SKF employees covered by independent trade union agreement, by region

%	2014	2013	2012	2011	2010	2009
Asia and Pacific	77	70	70	54	52	65
Middle East and Africa	23	21	23	0	0	0
North America	83	88	91	30	28	30
Latin America	76	77	88	100	100	100
Eastern and Central Europe	81	86	85	63	100	100
Western Europe	91	92	94	88	88	90
Group	84	84	86	65	66	71

► Comment: Data from 2012 and onwards is aggregated from legal entities in SKF (see explanation on page 178).
The data is therefore not comparable to previous years.

14 SKF employees covered by formalized health and wellbeing policy/programme*, by region

Percent	2014	2013	2012	2011	2010	2009
Asia and Pacific	92	71	69	14	16	20
Middle East and Africa	100	100	82	100	100	100
North America	97	91	94	48	48	52
Latin America	84	98	98	33	33	33
Eastern and Central Europe	44	20	47	0	0	0
Western Europe	94	90	92	22	20	20
Group	90	81	83	26	26	28

* Examples of formalized health and wellbeing policies/programmes may include, but are not limited to, for example HIV/AIDS and other infectious diseases, health and fitness, stress, work-life balance or other issues relevant to the local needs. Until 2011, the data only represents units with HIV/AIDS policy or programmes.

► Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 178).
The data is therefore not comparable to previous years.

15 SKF employees covered by joint health and safety committees with management and worker representatives, by region

Percent	2014	2013	2012	2011*	2010*	2009*
Asia and Pacific	77	71	59	–	–	–
Middle East and Africa	100	100	59	–	–	–
North America	98	99	88	–	–	–
Latin America	86	99	88	–	–	–
Eastern and Central Europe	94	97	45	–	–	–
Western Europe	97	97	89	–	–	–
Group	91	91	77	–	–	–

* Data from before 2012 cannot be disclosed.

16 Local management* with at least one woman, by region

%	2014	2013	2012	2011	2010	2009
Asia and Pacific	95	86	73	54	56	50
Middle East and Africa	67	67	50	100	100	100
North America	82	77	85	85	70	70
Latin America	67	67	64	67	67	67
Eastern and Central Europe	63	86	60	88	100	100
Western Europe	90	68	69	82	78	86
Group	83	76	70	76	72	76

* Local management refers to management groups of SKF subsidiaries (legal entities) around the world. A management group consists of at least two individuals.

► Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 178).
The data is therefore not comparable to previous years.

17 Total percentage rate of women in local management, by region

%	2014	2013	2012	2011	2010	2009
Asia and Pacific	17	20	16	9	8	8
Middle East and Africa	17	15	16	33	50	20
North America	19	18	16	18	16	16
Latin America	23	19	18	17	13	11
Eastern and Central Europe	27	30	29	38	46	46
Western Europe	19	16	16	18	17	19
Group*	18	18	17	17	16	18

* The proportion of women of the Group's total number of employees was 23% on 31 December 2014.

► Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 178).
The data is therefore not comparable to previous years.

18 Supplier audits and findings

a) Supplier code of conducts audits

SKF performs supplier audits continuously and findings and deviations are resolved and closed in a prioritized order. The most common deviations found on supplier code of conduct audits are related to occupational health and safety, compensation, overtime and other employment practices and environmental protection. Please refer to pages 78–81 in the purchasing section for a detailed explanation on SKF's supply chain management.

	Potential suppliers	Existing supplier first audit	Follow up audit	Total
Europe		13	0	13
Americas		9	1	10
China	9	17	28	54
India	3	12	35	50
Total	12	51	64	127

b) Findings – significant deviations

Some of the findings require long-term remediation plans and several follow-up audits. The closed and open cases from 2012–2014 are presented here.

	Resolved and closed 2012–2014	Open from 2012	Open from 2013	Open from 2014
Europe	1	3	2	3
Americas	7	1	13	0
China	55	7	36	11
India	123	32	8	22
Total	186	43	59	36

19 Stakeholder dialogue – top material issues per stakeholder group

Please refer to pages 12–13 of the administration report for an explanation of SKF's material issues and how these have been established through stakeholder dialogue.

Stakeholder group	Customers and peers	Investors and analysts	Employees and union organizations	Local community representatives	Suppliers*
Material aspects	Overall customer satisfaction	Overall customer satisfaction	Overall customer satisfaction	Local communities relationship	Occupational health and safety
	Ethical business conduct	Economic performance	Ethical business conduct	Ethical business conduct	Compensation
	Human rights	Ethical business conduct	Training and education	Overall environmental management	Employment practices
	Occupational health and safety	Research and development	Research and development	Occupational health and safety	Environmental protection
	Environmental compliance of products and services	Product environmental benefit	Occupational health and safety	Responsible sourcing	
	Non-Discrimination	Employment practices	Environmental compliance of products	Indirect economic impact	
	Responsible sourcing	Occupational health and safety	Energy and climate	Employment practices	
	Research and development	Training and education	Employment practices	Energy and climate	
	Overall environmental management	Energy and environment overall	Economic performance	Water	
	Employment practices	Non-discrimination	Water	Emissions to air	

*Input from suppliers was collected from on-site audits and trainings.

The result of the stakeholder dialogue together input from SKF's internal priorities resulted in 11 material issues or areas for the Group, which define the content of this annual report.

A summary of these material issues and how they relate to the value chain can be found on page 13.

A translation of SKF's material issues with reference to the GRI G4 reporting guidelines aspects can be found on skf.com/investors, Topics Related to Annual Report – SKF's GRI G4 table.

- Customer satisfaction
- Business conduct
- Financial performance
- Health and safety
- Innovation
- Positive and engaging workplace

- Responsible sourcing
- Energy and climate
- Systematic environmental protection
- Local community relations
- Equality, human and labour rights

Auditors' Reports

To the Annual General Meeting of the shareholders of AB SKF (publ) Corporate identity number 556007-3495

We have been engaged by the annual general meeting of AB SKF (publ) to conduct audit regarding the financial year 2014. Further we have been engaged by the board of AB SKF (publ) to provide assurance on all environmental and social (sustainability) performance disclosures in the SKF Annual Report 2014 – Financial, environmental and social performance. We have conducted the financial audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We have conducted the assurance on sustainability disclosures in accordance with ISAE3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", published by IFAC. Both engagements are reported to the annual general meeting of AB SKF (publ) through this report.

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2014. Our audit and statement of the environmental and social performance in SKF Annual Report 2014 – Financial, environmental and social performance is reported under the heading "Report on sustainability performance disclosures". The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 8–174.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2014.

Report on sustainability performance disclosures

We have audited or reviewed the sustainability performance disclosures in the SKF Annual Report 2014 – Financial, environmental and social performance. Our engagement includes an audit of all sustainability performance disclosures in the Administration report on pages 9–117 and a review of the Environmental and Social statements on pages 175–181 in the SKF Annual Report 2014, as well as documents on SKF's website in "Topics related to Annual Report 2014" marked with *.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

The Board of Directors and Group Management are responsible for the preparation of the sustainability performance disclosures in accordance with applicable criteria, as explained on page 10 of the SKF Annual Report 2014. This responsibility includes the internal control relevant to the preparation of sustainability performance disclosures that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated

Our responsibility is to express an opinion on the sustainability performance disclosures based on our audit and review procedures.

The objective of an audit is to obtain reasonable assurance that the sustainability performance disclosures are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the quantitative and qualitative sustainability performance disclosures.

A review is mainly limited to making inquiries of personnel responsible for sustainability issues, and applying analytical and other review procedures. Hence, the conclusion based on our review procedures does not comprise the same level of assurance as the conclusion of our audit. Since this assurance engagement is

Auditor's responsibility cont.

material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

combined, our conclusions regarding the audit and the review will be presented in separate sections.

The criteria on which our examination is based are the parts of the Sustainability Reporting Guidelines G4, published by the Global Reporting Initiative (GRI), which are applicable to the sustainability performance disclosures, as well as the accounting and calculation principles that the company has developed and disclosed. We consider these criteria suitable for the preparation of the disclosures.

We consider the evidence collected during our examination to be sufficient and appropriate in order to support our conclusions listed below.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2014 and of its financial performance and its cash flows 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 2014 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

We recommend to the annual 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.

Based on our review, nothing has come to our attention that causes us to believe that the sustainability performance disclosures in the Environmental and Social statements in the SKF Annual Report 2014 and the documents on SKF's website in "Topics related to Annual Report 2014" marked with * have not, in all material respects, been prepared in accordance with the above stated criteria.

In our opinion, the sustainability performance disclosures in the Administration report of the SKF Annual Report 2014 which have been subject to our audit procedures have, in all material respects, been prepared in accordance with the above stated criteria.

Göteborg, 3 March 2015
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in Charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant



See pages 208–209, SKF's global campaign 2014.

Corporate Governance Report

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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 OMX Stockholm AB (Stockholm Stock Exchange).

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–5, are found at the following pages of the Administration Report for the Group in the Annual Report 2014:

- Annual Accounts Act Chapter 6, § 6, section 3 »see page 109
- Annual Accounts Act Chapter 6, § 6, section 4 »see page 111
- Annual Accounts Act Chapter 6, § 6, section 5 »see page 115

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 twice 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 2014 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

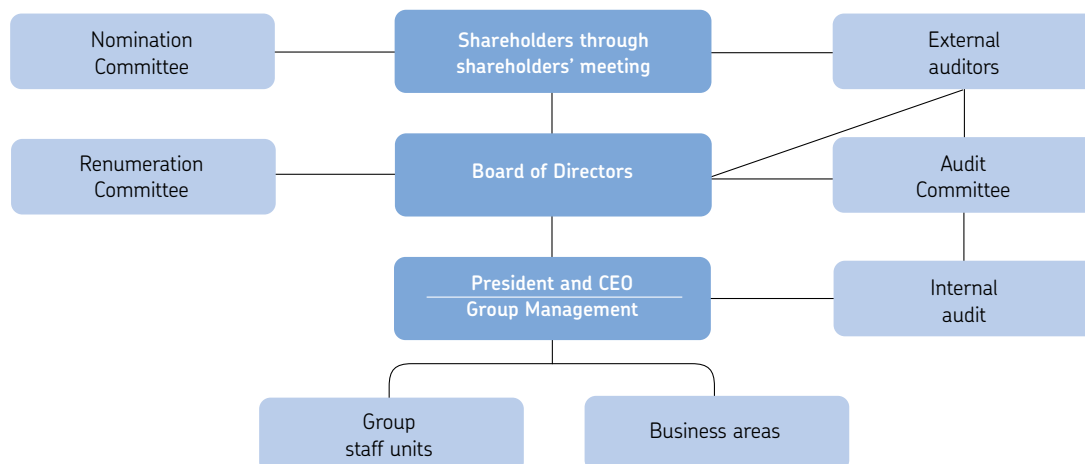
At the Annual General Meeting of AB SKF held in the spring 2014, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2014 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 2015. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 11 September 2014, 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 2015:

- Claes Dahlbäck, FAM AB
- Ramsay Brufer, Alecta
- Caroline af Ugglas, Skandia
- Anders Algotsson, AFA Försäkring

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2015:

Governance structure



- 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 a Nomination Committee ahead of the Annual General Meeting of 2016

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2015.

In relation to the Annual General Meeting held in the spring of 2014, information regarding one new candidate was missing at the time when the notice was published. This is a deviation from rule 2.6 in the Code, which states inter alia: "The Nomination Committee's proposals are to be presented in the notice of a shareholders meeting where the election of Board members or auditors is to be held and on the company's website." The Nomination Committee's proposal in the notice was later supplemented with details of the new candidate in a separate press release.

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 primarily operates with three business areas: SKF Industrial Market, Strategic Industries; SKF Industrial Market, Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and

services to OEMs and end-users. A fourth business area named Speciality Business with complementary business was formed on 1 January 2014. Each business area is further, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

Further, there are as from 18 November 2014 four Group staff units: Group Finance and Business Transformation, Group Technology Development, Group Legal and Sustainability and Group People, Business Excellence and Communication. See pages 196–197 in the Annual Report 2014. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area.

Each business area has operational responsibility for its business. 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.

Eleven Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2014. 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 2014 can be found in the Annual Report 2014, Consolidated Financial Statements, Note 25. It should be noted that the Annual General Meeting decided, in accordance with the proposal of the Nomination Committee, that a part of the remuneration to the Board members is to be received as a variable allotment corresponding to the value of a certain number of SKF B shares after the publication of the press release for the financial year 2014. The variable allotments will be paid out in April 2015. This is a deviation from Rule 9.8 in the Code, which states, inter alia: "The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years". By Instruction 1–2010 the Rule's scope of application has been extended to include also synthetic options and other types of incentive programmes that do not involve the acquisition of shares. The Nomination Committee has informed the company that it is of the opinion that the proposal presented for decision by the Annual General Meeting is appropriate particularly considering that the Nomination Committee has told the Board of Directors that it is an appropriate principle that each Board member elected by the Annual General Meeting during a period of three years should invest an amount equal to the annual board allotment after tax in shares in SKF, and keep these shares as long as the relevant person is a Board member of SKF.

Members of the Board of Directors as of 31 December 2014



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 and 2012, member of the Board of Management of Volkswagen AG, responsible for Commercial Vehicles, since 2012.
Other assignments: Vice Chairman of Scania AB, Board member of EQT Holding AB and MAN SE.
Shareholding (own and/or held by related parties): 20,000 SKF B



Tom Johnstone

Board member since 2003
Born 1955
President and Chief Executive Officer of AB SKF.
For more details, see page 191.



Ulla Litzén

Board member since 1998
Born 1956
Education and job experience: Master of Science in Economics (Stockholm School of Economics), MBA (Massachusetts Institute of Technology), Managing Director and member of the Management Group of Investor AB 1996–2001, and President of W Capital Management AB (wholly owned by the Wallenberg Foundations) 2001–2005.
Other assignments: Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB.
Shareholding (own and/or held by related parties): 34,000 SKF B



Lena Treschow Torell

Board member since 2007
Born 1946
Education and job experience: Ph.D. (University of Gothenburg). Professor at University of Uppsala and then at Chalmers University of Technology, Gothenburg. Vice President at Chalmers University of Technology, Gothenburg, 1995–1998, and Research Director of the Joint Research Centre, European Commission in Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of the Academy 2009–2011. Chairman of the European Council of Academies of Applied Sciences, Technologies and Engineering 2008–2012. Vice Chairman of AB ÅF 2006–2014.
Other assignments: Board member of SAAB AB and Investor AB. Chairman of Chalmers University of Technology and of MISTRA, the Foundation for Strategic Environmental Research.
Shareholding (own and/or held by related parties): 3,100 SKF B



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: Board member of Symrise AG, Chairman of SAG Group GmbH, President of the Board of Scania Schweiz AG and vice Chairman of Coperion GmbH.
Shareholding (own and/or held by related parties): 1,000 SKF B



Lars Wedenborn

Board member since 2008
Born 1958
Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991–2000, Executive Vice President and CFO of Investor AB 2000–2007, and presently CEO of FAM AB, wholly owned by the Wallenberg Foundations.
Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group Inc., Höganäs AB, Alecta, The Grand Group AB, ELK Entertainment AB and FAM AB. Member of the council of the Stockholm Chamber of Commerce.
Shareholding (own and/or held by related parties): 10,000 SKF A, 1,500 SKF B



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. and of Oxfam America. Member of the board of the Vanguard Group, Hyster-Yale Materials Handling Inc., The V Foundation for Cancer Research and the Lumina Foundation for Education. Co-chairman of the Chicago Council on Global Affairs Independent Task Force on Immigration Reform. Member (previous chairman 2009–2012) of the Advisory Council of the College of Arts and Letters and 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



Jouko Karvinen

Board member since 2010
Born 1957
Education and job experience: Master of Science (Tampere University of Technology). Employed by ABB Group Limited from 1987 and served in several international positions; head of the Automation Technology Products Division, and member of the ABB Executive Committee from 2000–2002. President and CEO of Philips Medical Systems, USA, 2002–2006, and appointed to the Board of Management of Royal Philips Electronics in the Netherlands in 2006. CEO of Stora Enso Oyj 2007–2014. Board member of the Finnish Forest Industries Federation and of Confederation of European Paper Industries (CEPI) 2007–2014. Member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU Russia Industrialist Round Table (IRT) 2007–2014.
Other assignments: Vice Chairman of Nokia Oyj.
Shareholding (own and/or held by related parties): 0

**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 number of other 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

**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 Advent Energy Limited since 2007 and MEC Resources since 2005. Member of the Board of Stora Enso Oyj since 2012, Santos Australia since 2012 and BPH Energy since 2007.

Shareholding (own and/or held by related parties): 0

**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. Experience from several board assignments within the SAAB-Group.

Other assignments: CEO of Combitech AB since 2006.

Shareholding (own and/or held by related parties): 0

Employee representatives
**Niklas Thoreson**

Board member since 2012

Born 1974

Education and job experience: Employed in the SKF Group since 1995.

Other assignments: Chairman Unionen, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0

**Kennet Carlsson**

Board member since 2008 and deputy board member 2001–2008
Born 1962

Education and job experience: Employed in the SKF Group since 1979.

Other assignments: Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Committee. Shareholding (own and/or held by related parties): 100 SKF A

**Martin Björkman**

Deputy board member since 2011
Born 1970

Education and job experience: Employed in the SKF Group since 1989.

Other assignments: Board member Metalworkers' Union, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0

**Virpi Ring**

Deputy board member since 2012
Born 1967

Education and job experience: Employed in the SKF Group since 1987.

Other assignments: 2nd vice Chairman Unionen, SKF, Gothenburg, and board member Higab.

Shareholding (own and/or held by related parties): 0

Auditors
Peter Clemetson

Authorized Public Accountant
Auditor in charge
PricewaterhouseCoopers AB

Bo Karlsson

Authorized Public Accountant
PricewaterhouseCoopers AB

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	•	•
Ulla Litzén	•	•
Tom Johnstone	•	•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	•
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•

Activities of the Board of Directors

The Board held ten meetings in 2014. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	10/10
Ulla Litzén	10/10
Tom Johnstone	10/10
Lena Treschow Torell	10/10
Peter Grafoner	10/10
Lars Wedenborn	10/10
Joe Loughrey	10/10
Jouko Karvinen	10/10
Baba Kalyani	7/10
Hock Goh	8/10
Marie Bredberg	8/10
Kennet Carlsson	10/10
Niklas Thoresson	8/10
Martin Björkman	10/10
Virpi Ring	7/10

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 2014 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, Lars Wedenborn and Jouko Karvinen. 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 two 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 five meetings in 2014. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	5/5
Peter Grafoner	5/5
Lars Wedenborn	5/5
Jouko Karvinen	5/5

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 Ulla Litzén.

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 2014. 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
Ulla Litzén	6/6
Lars Wedenborn	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

Tom Johnstone

Board member of AB SKF's Board since 2003

Born 1955

Education and job experience: Master of Arts degree (the University of Glasgow), Honorary Doctor's degree in Business Administration (the University of South Carolina, USA), and Honorary Doctor's degree in Science (Cranfield University, UK). Several management posts within the SKF Group, the latest as Executive Vice President of AB SKF and President of Automotive Division.

Other assignments: Board member of Investor AB and Husqvarna AB.

Shareholdings (own and/or held by related parties) in the company: 142,192 SKF B

Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 1,000 ABB Ltd, 3,500 Volvo B, 600 Electrolux B, 4,800 Husqvarna B and 990 Husqvarna A.

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 Clemetson is the auditor in charge and Bo Karlsson is co-signing auditor. Peter Clemetson is the auditor in charge at a number of other listed companies, such as AB Volvo, Ratons AB and unlisted companies such as Stena AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as AB Fagerhult och ASSA ABLOY 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, according to rules adopted 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 2014 been involved in matters besides the auditing for 2014. These matters have primarily concerned tax and audit related services. The total fees for PwC's services besides auditing in 2014 amount to SEK 7 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.

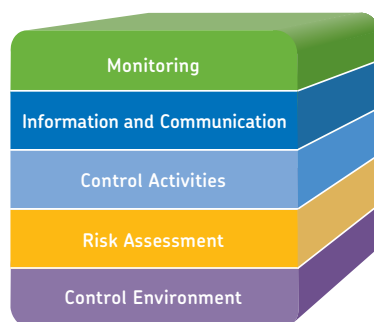
The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2014 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 six 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 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. SKF is currently in the process of reviewing the current internal control framework to ensure that it is in line with the 17 fundamental principles of COSO 2013. This is expected to be completed during 2015. The description below refers to SKF's internal control framework based on the COSO 1992 release. SKF applies a subset of the CobiT standard for IT security focused on control over financial reporting. 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 in detail, 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 high 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, 3 March 2015
The Board of Directors

Auditor's report of the Corporate Governance Report

To the annual meeting of the shareholders in AB SKF, corporate identity number 556007-3495

It is the board of directors which is responsible for the Corporate Governance Report for the year 2014 on pages 185–192 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions.

This means that our statutory examination of the Corporate

Governance Report 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.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 3 March 2015
PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant
Auditor in charge

Bo Karlsson
Authorized Public Accountant

Group Management 2014



Tom Johnstone *
President and Chief Executive Officer
 Born 1955
 Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA and Honorary Doctor's degree in Science, the Cranfield University, UK
 Employed since 1977
 Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions
 Board member: Investor AB and Husqvarna AB
 Shareholding in SKF: 142,192 SKF B



Rakesh Makhija *
President, SKF Industrial Market, Strategic Industries
 Born 1951
 Bachelor of Technology in Chemical Engineering, Indian Institute of Technology, New Delhi, India
 Employed since 2002
 Previous positions within SKF: President Asia and Managing Director, SKF India Ltd.
 Shareholding in SKF: 2,163 SKF B



Alan Begg
Senior Vice President, Group Technology Development
 Born 1954
 Masters degree and PhD, University of Cambridge and Honorary Doctor, Luleå University of Technology
 Employed since 2007
 Fellow of Royal Academy of Engineering, UK
 Board member: NV Bekaert SA
 Shareholding in SKF: 2,868 SKF B



Henrik Lange *
Executive Vice President and Chief Financial Officer
 Born 1961
 Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg
 Employed since 2003 and 1988–2000
 Previous positions within SKF: President, SKF Industrial Market, Strategic Industries and several other positions
 Board member: Association of Swedish Engineering Industries and Partnertech AB
 Shareholding in SKF: 7,599 SKF B



Vartan Vartanian *
President, SKF Industrial Market, Regional Sales and Service
 Born 1953
 Bachelor of Applied Sciences-Mechanical Engineering, University of Toronto
 Employed since 1990
 Previous positions within SKF: President Service Division, Area Director, Europe and several other positions
 Board member: SAMA
 Shareholding in SKF: 14,315 SKF B



Carina Bergfelt
General Counsel and Senior Vice President, Group 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



Tryggve Sthen *
President, SKF Automotive
 Born 1952
 Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Institute of Technology at Linköping University
 Employed since 2003
 Board member: Green Cargo, Boston Power International and Chairman of TitanX
 Shareholding in SKF: 4,099 SKF B

*Member of Group Executive Committee



Kent Viitanen
Senior Vice President, Group People, Business Excellence and Communication
 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
 Shareholding in SKF: 140 SKF A and 2,975 SKF B



Manfred Neubert
President, SKF GmbH
 Born 1953
 Master of Economics, Business Administration
 Employed since 2004
 Advisory Board member: WEHACO Hannover
 Council member: VDA, VDMA, VBM/BAYME (Employers association German Metal Industry)
 Shareholding in SKF: 5,286 SKF B



Lars Wilsby
Senior Vice President, Group Business Transformation
 Born 1962
 Master of Science Industrial Engineering and Management, Chalmers University of Technology, Gothenburg; MBA, INSEAD, Fontainebleau, France
 Employed since 2005
 Previous positions within SKF: Director, Vehicle Service Market and Director, Business Development Automotive Division
 Shareholding in SKF: 2,476 SKF B



Poul Jeppesen
President and Chief Executive Officer, SKF USA Inc. and Kaydon Corporation
 Born 1953
 Engineering, Aalborg Technical College and Business Administration, Silkeborg Business School
 Employed since 1982
 Board member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA, (American Bearing Manufacturers Association),
 Previous positions within SKF: President, SKF Actuation System and several other positions
 Shareholding in SKF: 1,989 SKF B



Bo-Inge Stensson
Senior Vice President, Group Purchasing
 Born 1961
 Master of Science Industrial and Mechanical Engineering, Institute of Technology at Linköping University
 Employed since 2006
 Previous positions within SKF: Senior Vice President, Group Demand Chain
 Shareholding in SKF: 3,468 SKF B



Ingalill Östman
Senior Vice President, Group Communications and Government Relations
 Born 1956
 Master of Science in Mechanical Engineering, Luleå University of Technology
 Employed since 2008
 Board member: International Council of Swedish Industry (NIR), Länsförsäkringar Göteborg och Bohuslän, Stiftelsen Ostindiefararen Göteborg and Chairman of Alfons Åbergs Kulturhus AB.
 Shareholding in SKF: 4,868 SKF B

On 18 November 2014 the following changes were made to Group Management:
 Henrik Lange, in addition to his earlier responsibilities, became responsible for Demand Chain, IT, the UNITE project, Purchasing and Investor Relations.
 Kent Viitanen, in addition to his earlier responsibilities, became responsible for Communication.
 Bo-Inge Stensson, Senior Vice President, Group Purchasing, left Group Management and started reporting to Henrik Lange.
 Ingalill Östman, Senior Vice President, Group Communications and Government Relations, left Group Management.
 Lars Wilsby, Senior Vice President, Group Business Transformation, left Group Management.

Group Management 2015



Alrik Danielson

President and Chief Executive Officer and President, Industrial Market

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.

Shareholding in SKF, February 2015: 5,000 SKF B



Henrik Lange

Executive Vice President and Chief Financial Officer

Born 1961

Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg

Employed since 2003 and 1988–2000

Previous positions within SKF: President, SKF Industrial Market, Strategic Industries and several other positions

Board member: Association of Swedish Engineering Industries and Partnertech AB

Shareholding in SKF, February 2015 : 7,599 SKF B

In mid 2015, Henrik Lange will leave the Group to become CEO of Gunnebo AB.



Stephane Le-Mounier

President, Automotive Market

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, February 2015; 1,932 SKF B



Patrick Tong

President, Specialty Business

Born 1962

Executive Master Degree of Business Administration, Hong Kong University of Science and Technology

Employed since 1989

Previous positions within SKF: President SKF Second Brand Bearing Platform and several other positions

Shareholding in SKF, February 2015: 2,361 SKF B



Bernd Stephan

Senior Vice President, Group Technology Development

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, February 2015: 1,746 SKF B



Carina Bergfelt

General Counsel and Senior Vice President,

Group 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, February 2015: 3,868 SKF B



Kent Viitanen

*Senior Vice President, Group People, Business Excellence
and Communication*

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

Shareholding in SKF, February 2015: 140 SKF A and 2,975 SKF B

Glossary

Accident rate

The accident rate for the Group is calculated using the formula:
 $\text{Accident rate} = R \times 200,000/h$, where
 R = number of recordable accidents
 h = total hours worked
 This formula is provided by the US Occupational Safety and Health Administration (OSHA).



Ball bearings versus roller bearings

The main difference in the performance of these two bearing types is that ball bearings have lower friction than roller bearings, while roller bearings have a higher load-carrying capacity.

By-wire technology

In by-wire systems, the direct mechanical control is replaced by electronic control.

Carbon dioxide

A common gas with the chemical formula CO_2 . This gas is generated in various processes in nature and in combustion of most fuels. CO_2 contributes to the global greenhouse effect.

Carbon intensity

The amount of CO_2 released during the conversion of the total energy used.

Condition monitoring

By regularly measuring vibration levels in bearings and machines, maintenance factors impacting on bearing service life and machine operation can be controlled. Condition monitoring instrumentation and software enable the early detection of bearing and machinery problems, making it possible for technicians to take the necessary steps in order to address a problem before it results in breakdowns.

Elastomer

Synthetic rubber.

Employee retention rate

$1 - (R) / (\text{registered number of employees as of 31 Dec} - \text{newly hired during the year} + R)$
 R = number of employees that left during the year.

Energy intensity

The total energy used in all forms in the manufacturing facilities divided by an accounting measure of manufacturing output.

Friction

A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh)

One million kilowatt hours (kWh).
 Measure of electrical energy quantity.

GHG protocol

The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (greenhouse gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.



Hub bearing unit

Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can

be equipped with a sensor suitable for anti-lock braking systems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS)

An IMS contract is an expanded trouble-free operation programme which consists of services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

ISO

The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations. The organization promulgates worldwide proprietary industrial and commercial standards.

Landfill

Designated area for disposal of waste.

Large size bearings

The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Leadership in Energy & Environmental Design (LEED)

An internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, CO_2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.


SKF Life cycle asset management

SKF Life cycle asset management is about optimizing SKF's customers' machine – assets – including specifications, design, manufacture, operating and monitor, maintenance and reparation, and re-manufacturing.

Life cycle analysis

Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Life cycle management (Environmental) refers to the environmental impact of SKF's products over its full life cycle; material extraction, transports, manufacturing, use phase and end of life.

Linear products

A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.


Lubricant

Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g. in a bearing.

OHSAS 18001

Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety risks as well as to improve performance in the area. It is compatible with ISO 14001 (Environmental Management System).

Original equipment manufacturer (OEM)

Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gear-boxes and so on.

REACH

The REACH Regulation came into force on 1 June 2007, intended for the Registration, Evaluation, Authorization and Restriction of Chemical substances. Information about the chemical substances used or imported shall be registered in a central database run by the European Chemical Agency (ECHA).

Remediation

Clean-up and restoration of a contaminated site.

Residual product

Other product than the main product from a production process. It may or may not have a net value. Residual products without a positive net value are wastes.

Self-aligning ball bearing

This bearing type, invented in 1907 by SKF's founder Sven Wingquist, solved one of the largest industrial problems of the time – the continual production stoppages caused by bearing failure. As the alignment of the shafts was not accurate enough for the rigid ball bearings that were normally used, the bearings failed due to misalignment. The double-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.



SKF Care

Sustainability is one of SKF's five business drivers, alongside Profitability, Quality, Innovation and Speed. SKF's approach to sustaining financial and operational excellence centres on the SKF Care concept, which consists of Business Care, Environmental Care, Employee Care and Community Care.

SKF Internal Control Standard (SICS)

A financial internal control framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), developed by SKF for ensuring that a basic, consistent system of financial internal control is maintained throughout the SKF Group.

SKF Solution Factory

The SKF Solution Factories combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers. This brings many SKF bearing services and integrated value-adding solutions close to the customers – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training.

Superfund site

Old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to a federal law. Remediation funding is provided by those who contributed to the contamination.



Super-precision bearings

SKF's comprehensive assortment of super-precision bearings is designed for machine tool spindles and other applications that require a high level of running accuracy at high to extremely high speeds. Each bearing type incorporates unique features to make it suitable for specific operating conditions.

Transaction effects

Companies involved in international trade risk that currency exchange rates may change and thereby effect the value of the transactional currency flows.

Translation effects

The risk that a company's equities, assets, liabilities or income will change as a result of the translation of foreign currency into SEK.

Tribology

Tribology is the science and technology of interacting surfaces in relative motion. It includes the study and application of the principles of friction, lubrication and wear.

Working Climate Analysis (WCA)

A survey distributed to all employees with the aim of obtaining their feedback on SKF's performance in relation to the company's values and key focus areas.

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.

Equity/assets ratio

Equity as a percentage of total assets at year-end.

Equity per share

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

Gearing

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

Key figures

The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. Most of the key figures presented in the Annual Report have been calculated using average values based on these reports. Consequently, the calculation of these key figures using the year-end values presented may give slightly different results.

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

Trade receivables plus inventory minus trade payables as a per cent of a 12-month rolling net sales.

Operating margin

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

P/E ratio

Share price at year end divided by basic earnings per share.

Portion of risk-bearing capital

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

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 twelve months rolling average of total assets less the average of non-interest bearing liabilities.

Return on equity

Profit/loss after taxes as a percentage of twelve months rolling average of equity.

Return on total assets

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

Turnover of total assets

Net sales in relation to twelve months rolling average of total assets.

Yield

Dividend as a percentage of share price at year end.

SKF Business Excellence

SKF Business Excellence is about delivering value to customers in the most effective and efficient way possible, through utilizing the knowledge of employees, partners and the company's technology. It was launched in 2010. Its foundation is the SKF quality system which was started in the early 1970's then it has evolved via processes such as Total Quality Management and Manufacturing Excellence. With Business Excellence SKF is expanding the experience from the manufacturing area into other processes and operations within the SKF Group.

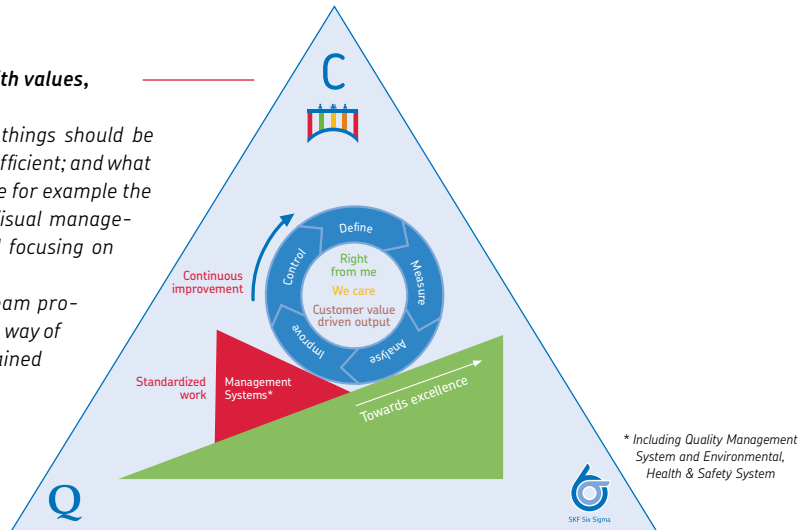
Business Excellence Culture includes working with values, drivers, mind sets, behaviour and principles

The Business Excellence culture describes how things should be done in order to become more effective and more efficient; and what is expected from leaders. The culture tools include for example the SKF Bridge of Excellence, Pulse meetings and Visual management. The core is involving the whole team and focusing on reducing waste.

The SKF Business Excellence Development team provides training to help an organization start with this way of working and then provides ongoing support via trained Business Excellence Champions.

Business Excellence is built up of Culture, Six Sigma and Quality

Business Excellence is built up of three equally strong variables, namely Business Excellence Culture, Six Sigma and Quality management system. Each of these variables has its own specific uniqueness, strengths and ways of working – but they all provide means for working with continuous improvements. The Business Excellence Triangle illustrates that the three provide one joint approach with a wide range of tools.



Quality includes business processes to sustain quality

SKF's Quality Management System (QMS) provides critical business processes and tools to assure that SKF is the quality leader in its field. QMS is continually being developed and a solid training programme is available for the organization. One important part of the quality system is the project management concept GPM2, which is chosen as the method for all of SKF's projects. GPM2 is based on the internationally recognized system called PRINCE2®. GPM2 is in accordance with ISO 21500, which provides guidance for project management.

SKF runs thousands of projects every year, both internally and externally, involving customers, suppliers and business partners. Almost every employee will at some point be involved in a project, either as a project manager, team member, sponsor or stakeholder. It is therefore important to have a common tool that everyone can seamlessly work with and use in the same way.

Six Sigma is a set of process methods and tools to improve quality

Traditional Six Sigma is run in the form of projects to ensure that variations are reduced. Reduced variation in turn improves quality and new, successful, outcomes of Six Sigma projects are therefore incorporated into SKF's quality system.

Other Six Sigma tools are Lean Six Sigma, which is used to optimize and streamline processes and Design for Six Sigma which provides a path for designing products and processes, making them less sensitive to variations and therefore robust and reliable.



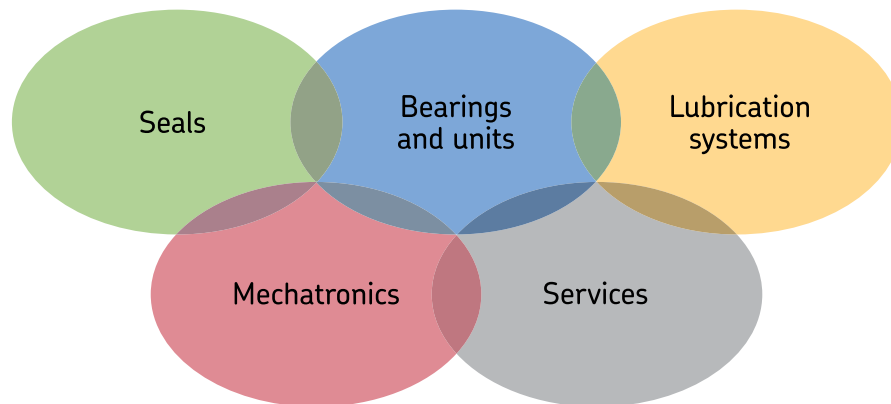
The **SKF Bridge of Excellence** illustrates SKF's processes as the link between our suppliers and customers. These processes are built upon five principles that are supported by SKF's values and drivers. The five principles are "standardized work", "right from me", "we care", "customer value driven output" and "continuous improvements". The bridge is a guide when making decisions and understanding decisions others have made. It is also a tool

to look for improvements or developing new methods. Pulse meetings are held within a team on a regular basis and are used to discuss deviations and thereby solve problems. When a deviation can't be solved within the team it is escalated to the next level, which also has regular pulse meetings.

Visual management is part of the principle standardized work and means that it should be easy to get an overview of the workplace to avoid wasting time searching for things.

SKF's technology platforms and industry approach

The platform and industry approach is SKF-specific and based on combining strong technological and industry focus. This enables specific products and solutions to be developed for each industry.



■ Bearings and units

The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customized solutions to critical and standard applications. Units are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.

■ Seals

SKF provides innovative solutions in elastomers or engineered plastics to meet the needs of various industries for static, rotating, reciprocating and bearing seals.

■ Services

The service platform delivers value by addressing the entire life cycle of a particular asset. The design phase is covered by different aspects of engineering consultancy and R&D services. The operation stage, which is the main part of the asset's life cycle, is covered by a variety of solutions including services and service-related products focusing on maintenance strategy, predictive maintenance, maintenance and logistic services.

The last part of the life cycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismantling and mounting, alignment, balancing and post-maintenance testing. A wide range of training is available for customers, on- and off-site, around the globe.

■ Lubrication systems

SKF offers products, solutions and vast support within areas such as industrial lubricants, lubrication consultancy, lubricator equipment, lubrication assessment, lubricant analysis, lubricant recommendations and automatic lubrication systems.

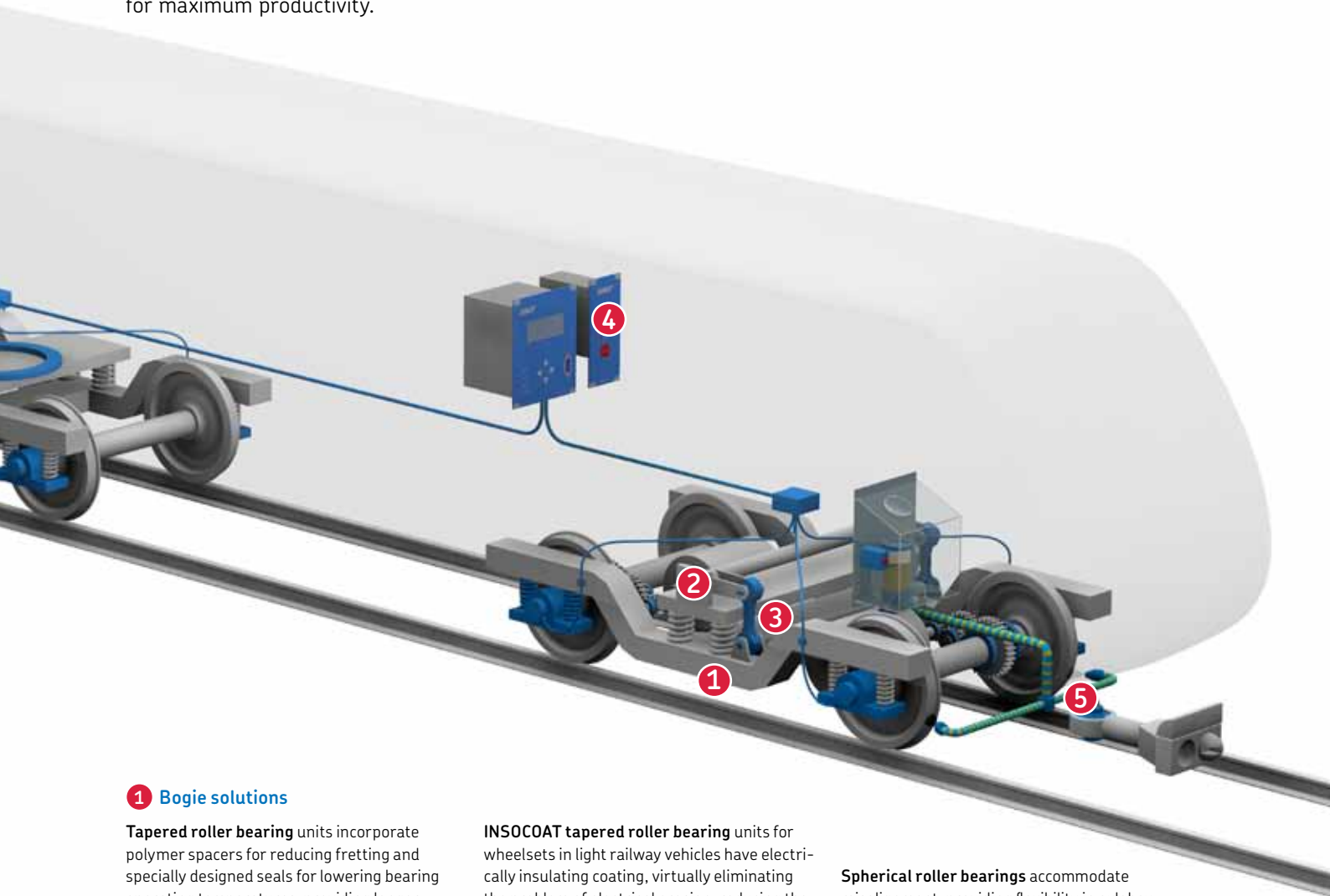
■ Mechatronics

The mechatronics platform enhances customer value by combining SKF's strong mechanical experience and electronic technology. The platform covers systems for precision multi-axis positioning, intelligent monitoring and by-wire applications, as well as components such as ball and roller screws, actuators, rail guides and sensor modules. A number of mechanical and electronic products are combined into modules and sub-systems addressing needs where SKF has industry-specific expertise.

The railway industry – an example of SKF's offer for a specific industry

The rail industry faces many significant operating and regulatory challenges such as harsh climates and ever-changing weather, demand for improved safety and reliability at any speed, targeting maintenance-free operations on more than one and a half million kilometres and demand for reduced environmental impact.

SKF is helping the industry overcome these challenges and many more with a wide range of technological and service solutions. SKF is at the forefront of developments in rail technology in producing faster, quieter, safer and more efficient trains, and provides tools for managing these assets throughout their life cycle for maximum productivity.



1 Bogie solutions

Tapered roller bearing units incorporate polymer spacers for reducing fretting and specially designed seals for lowering bearing operating temperatures, providing longer grease life and longer maintenance intervals.

Cylindrical roller bearings and units have “open” flanges and specially designed, surface-treated, roller ends for improving lubrication and reducing friction and operating temperatures. SKF cylindrical roller bearing units for high-speed applications are specifically designed to cope with extremely demanding operating conditions.

INSOCOAT tapered roller bearing units for wheelsets in light railway vehicles have electrically insulating coating, virtually eliminating the problem of electrical erosion, reducing the costs associated with this bearing failure mode.

Axlebox packages for railway vehicle manufacturers and operators are solutions prepared for a specific customer, typically composed of axleboxes, factory lubricated and sealed, ready-to-mount axlebox bearing units, sensors and monitoring systems. These package solutions reduce assembly times, minimizing the customer's supplier base, leading to increased efficiency in train assembly.

Spherical roller bearings accommodate misalignment, providing flexibility in axlebox design.

Slewing bearings are compact assemblies with lubrication and seals that prevent grease leakage and protect against water and dust. SKF also offers corrosion resistant slewing bearing designs.

2 Drive solutions

Drive system bearings from SKF are designed to cope with variations in speed, temperature, load, vibration, shock and electrical system properties. Additionally, traction motor bearing units are designed to handle in-application contamination and humidity. SKF solutions for drive systems include:

- Deep groove ball bearings
- Cylindrical roller bearings
- Hybrid bearings
- Locating and non-locating traction motor bearing units
- Tapered roller bearings
- INSOCOAT bearings with electrically insulating coating

3 Linkage

AMPEP self-lubricating spherical plain bearings are solutions used when bearing pressures are high, movement slow and maintenance is difficult or even impossible. They provide low coefficient of friction combined with low wear rates.

4 Condition monitoring

SKF bogie condition monitoring solutions use condition detection systems and sophisticated algorithms for data processing to help detect incipient damage, allowing sufficient time for repairs before significant mechanical failures occur. This predictive maintenance increases reliability and safety, helping reduce maintenance costs, life cycle costs and total cost of ownership.

The SKF Axletronic temperature monitoring system is a cost competitive on-board solution. It is used as a safety support system for bearing temperature control for new train installations as well as for retrofitting. The monitoring system is easy to install and located entirely on the train to transmit warning and alarm messages.

The SKF Microlog CMXA75 kit for railway is a complete kit that includes Microlog, software, vibration sensors and cables. Microlog can be used in railway workshops to check drives and wheelset bearings during the wheel reprofile process. In train operation service it can be used to troubleshoot various bogie subsystems including traction motors, gearboxes and wheelset bearings.

SKF Multilog Online System IMx-B bogie retrofitting solution is ideal for fleet retrofitting and OEMs. This condition monitoring solution is easily installed at bogie level to monitor its components. Vibration, temperature and speed are collected by the IMx-B from sensors on the bogie with calculated values sent wirelessly to an office-based server and on-board alert systems.

SKF Multilog Online System IMx-R helps increase safety, reliability and profitability. Developed exclusively for railway applications, the SKF Multilog Online System IMx-R works with SKF @ptitude Observer software as a complete mechanical condition monitoring and protection system.

SKF Axletronic sensors are flexible axlebox sensor solutions that are easily incorporated into both new vehicles and existing rolling stock.

5 Lubrication systems

SKF EasyRail wheel flange lubrication and top-of-rail conditioning systems are mounted on-board on the first leading vehicle axle. When activated, air and lubricant are fed from the grease tank to the spray nozzle. The lubricant is sprayed on the wheel flange in a thin layer and transferred to the gauge face of the rail by direct contact. These systems can be configured for single and dual-line lubrication system applications, for high and low pressures. SKF EasyRail Airless is available for vehicles without on-board air supplies.

All SKF EasyRail systems also are available as top-of-rail conditioning systems in which the nozzles apply the friction modifier directly to the top of the rail. They require low maintenance and operate reliably even under extreme climate conditions.

Services

Services available from SKF for the railway industry include a global network of production, service and remanufacturing centres, all supported by a highly trained network of sales, application and service engineers.

SKF BeyondZero portfolio solutions

SKF launched three SKF BeyondZero offers for the railway industry in 2014:

- The SKF Low Weight Railway End Cap reduces the overall weight of freight bearing end caps and uses less energy to produce than standard end caps.
- The SKF Low Friction Railway Bearing Seal reduces friction in freight railway bearings, helping reduce the energy used to drive freight trains.
- SKF railway wheelset bearing remanufacturing services extend the operating service life of railway bearings, reducing energy use associated with manufacturing new bearings.

Technical innovations for railway

SKF Insight for railway applications. Sensor technology integrated in the bearing make it easier for railway companies to monitor operating conditions. Better operational knowledge, improved maintenance planning, and optimized manpower and spare part management all help lower the cost of operations. SKF Insight is currently being piloted by three European railway customers.

1.7M km maintenance interval wheelset bearing unit. This new generation of tapered roller bearing unit for passenger trains launched in September 2014, offers extended bearing service life and reduces the risk of bearing fatigue failures. The world's first bearing unit to achieve a service interval up to 1.7 million km allows OEMs and end-users to increase safety and match bearing maintenance with wheelset maintenance intervals, contributing to reduced maintenance costs.

45 ton axle load heavy freight compact tapered bearing unit. The world's first heavy haul compact tapered bearing unit with an operation load capacity of 45 tons. This bearing unit, launched in September 2014 is capable of carrying increased weight in freight cars, enabling rail operators to increase profitability by hauling more products with the same train length.

SKF Group website

The SKF website – skf.com – provides comprehensive SKF knowledge in an easily accessible structure, and to better present cost-effective solutions to customers' daily challenges. In addition to a fast platform, the website offers:

The screenshot shows the SKF Group website interface. Annotations point to various features:

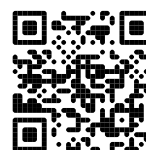
- Videos and animations to communicate what SKF solutions can do for users.** Points to the 'The Power of Knowledge Engineering' banner featuring a wind turbine.
- Search ability of products and services with a powerful search engine for faster and more accurate results.** Points to the search bar at the top right.
- Job-hunters and students can find opportunities and pertinent information.** Points to the 'CAREER' link in the top navigation bar.
- Easy access to SKF's contacts and distributors.** Points to the 'Find a distributor' section on the right.
- One online source for all SKF product catalogues.** Points to the 'Bearing, units and housings' category in the product navigation bar.
- Mobile access to news and updates.** Points to the 'RSS FEEDS' link at the bottom.
- Subscribe to RSS feeds for the latest information.** Points to the 'RSS FEEDS' link at the bottom.

SKF Apps

With apps, SKF is offering a new set of tools to customers, distributors, students and employees. The apps provide useful information and allow you to make calculations and much more.



App Store



Google Play

SKF's financial website

SKF's financial website – skf.com/investors – contains detailed and updated financial information, as well as information about SKF's objectives and strategies, corporate governance, Group-related news, etc. A selection of headlines and functions on the website is shown below.

About SKF

Targets and strategy
Sensitivity analysis
Acquisition and divestment
Production sites

Reports and presentations

Financial data

Tables and graphs
Excel documents

SKF's shares

Total return
Largest shareholders
Dividend

Corporate Governance

Annual General Meeting
Board of directors
Board committees
Group Management

Subscribe

Service for receiving reports by email.

The screenshot displays the SKF Investor Relations website. The top navigation bar includes links for PRODUCTS, SERVICES, INDUSTRY SOLUTIONS, KNOWLEDGE CENTRE, NEWS AND MEDIA, CAREER, OUR COMPANY, and INVESTORS. A search bar is located on the right. The left sidebar contains a menu with links to About SKF, Calendar, Reports and presentations, Financial data, The SKF shares, Debt information, Corporate Governance, Press releases, Subscribe, IR app and mobile version, Contacts, Fact sheet, IR policy, and Links. The main content area is titled 'Investor Relations' and includes sections for 'Quarterly reporting' (highlighted with a 'Q4' badge), 'Noteworthy' news, 'Annual Report 2013', 'Latest press release', and 'SKF Group financial targets'. The 'SKF Group financial targets' section lists three targets: 15% operating margin, 8% annual sales growth in local currencies, and 20% return on capital employed (ROCE). Below these targets are two bar charts showing the operating margin from 2010 to 2014, excluding and including one-off items. The right sidebar contains 'Contacts' (listing Marita Björk, Eva Österberg, and Helena Karlsson), a 'Calendar' (listing the 2015 Annual General Meeting and dividend date), 'Financial data' (with a link to 'Financial data as excel'), and 'The share' (showing NASDAQ OMX Stockholm data for SKF B).

Information regarding the current quarterly reporting.

Financial targets and performance.

SKF's global campaign

This campaign has been used globally to demonstrate the real Power of Knowledge Engineering, through SKF's engineers, as they show how they help create new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact.



The ocean has power

Starring Cengiz Shevket and team

The world's oceans offer an incredible amount of untapped, clean and renewable energy. SKF is on-board, helping to harness both wave and tidal power. The harsh underwater climate of Scotland's Orkney Islands provides the perfect location for ocean energy research.

Knowledge engineer Cengiz Shevket and team make the trip to see how SKF can further help the industry overcome today and tomorrow's ocean energy challenges. Come along for the ride.

Available at skf.com



Electrification has power

Starring Carole Girardin and team

Cities around the world today are struggling with traffic congestion, noise and pollution. Electric vehicles and car-sharing programs are stepping stones in creating sustainable future cities.

Paris has a successful car-sharing programme in high gear. Knowledge engineer Carole Girardin and team show us how SKF solutions are helping to drive it forward.

Available at skf.com



Technology has power

Starring Arun Shivaram and team

India is an emerging economy with its sights set on today and tomorrow's technology development.

Known as the Silicon Valley of India, Bangalore is the leading information technology exporter and home to countless educational and research institutes. One of those is SKF's Global Technical Center India.

It is here SKF puts its global competence to work to support local customers. Step inside the doors of GTCL.

Available at skf.com



Low friction has power

Starring Alex Teng and team

Reducing friction has always been at the heart of SKF, and always will be. As today's automotive industry struggles to meet tough emission regulations, certain products are helping steer carmakers in the right direction.

The SKF Low Friction Hub Bearing Unit reduces friction, fuel consumption and CO₂ emissions. Meet the engineering team responsible for making this wheel end solution roll.

Available at skf.com



Engineering has power

Starring Jim Henry and team

"We've got it covered from A to Z."

SKF is helping ensure the reliable and efficient transport of oil and gas for its customers around the globe.

In the US alone, SKF remotely monitors more than one million bearings per month – many of those within the oil and gas industry. Travel to Houston, Texas and see how SKF is preventing breakdowns and catching failures before they become catastrophic.

Available at skf.com



Service has power

Starring Axel Gorza and team

"I am a kind of problem solver."

Argentina's food and beverage sector is thriving – the dairy industry in particular. Annual milk production hit 11.7 billion litres in 2012.

All that milk must be processed efficiently and safely. SKF has engineers working on-site inside the nation's biggest dairy to help ensure that happens. An Integrated Maintenance Solutions contract utilizes a predictive maintenance plan and multi-platform solutions to boost plant performance. And it's all done hand-in-hand with the customer.

Discover how SKF serves its process industry customers.

Available at skf.com



Performance has power

Starring Camilla Svensson and team

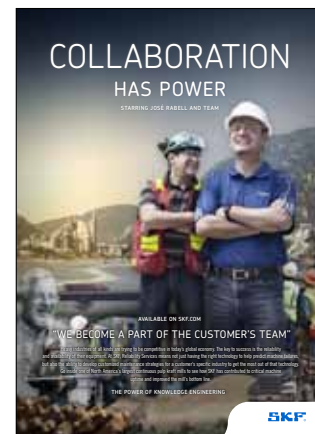
"You need to be one step ahead all the time."

North of the arctic circle in Swedish Lapland temperatures can drop below -40 degrees Celsius in the winter months. But that does not stop the Iron Ore railway from rolling. Millions of tonnes of iron ore are transported along the 500 km-long single-track railroad annually.

The harsh climate puts big demands on products used in the locomotives and wagons.

See how SKF solutions perform when put to the test along the world's most northerly railroad.

Available at skf.com



Collaboration has power

Starring José Rabell and team

"We become a part of the customer's team."

Heavy industries of all kinds are trying to be competitive in today's global economy. The key to success is the reliability and availability of their equipment. At SKF, Reliability Services means not just having the right technology to help predict machine failures, but also the ability to develop customized maintenance strategies for a customer's specific industry to get the most out of that technology.

Go inside one of North America's largest continuous pulp kraft mills to see how SKF has contributed to critical machine uptime and improved the mill's bottom line.

Available at skf.com

Seven-year review – SKF Group

<i>SEKm unless otherwise stated</i>	2014	2013	2012 ²⁾	2011	2010	2009	2008
Income statements							
Net sales	70,975	63,597	64,575	66,216	61,029	56,227	63,361
Operating expenses	-63,297	-56,793	-57,208	-56,624	-52,438	-52,939	-55,618
Other operating income and expenses incl. associated companies	123	-3,111	-53	20	-139	-85	-33
Operating profit	7,801	3,693	7,314	9,612	8,452	3,203	7,710
Financial income and expense, net	-1,133	-872	-906	-680	-903	-906	-842
Profit before taxes	6,668	2,821	6,408	8,932	7,549	2,297	6,868
Taxes	-1,918	-1,777	-1,592	-2,708	-2,253	-592	-2,127
Net profit	4,750	1,044	4,816	6,224	5,296	1,705	4,741
Attributable to:							
Shareholders of AB SKF	4,600	912	4,662	6,051	5,138	1,642	4,616
Non-controlling interests	150	132	154	173	158	63	125
Balance sheets							
Intangible assets	22,138	19,023	9,800	10,157	10,194	4,014	4,654
Deferred tax assets	3,350	2,015	1,835	1,299	1,151	1,665	1,342
Property, plant and equipment	15,482	14,095	13,086	13,076	12,922	13,933	14,556
Non-current financial and other assets	1,862	1,276	1,188	1,494	1,411	1,502	1,366
Inventories	15,066	13,700	12,856	14,191	12,879	11,771	15,204
Trade receivables	12,595	11,189	10,084	10,713	9,859	8,800	11,041
Other current assets	11,146	9,693	11,908	8,444	5,985	9,330	7,937
Total assets	81,639	70,991	60,757	59,374	54,401	51,015	56,100
Equity	24,404	21,152	22,468	22,455	19,894	18,280	19,689
Provisions for post employment benefits	13,978	9,902	9,881	8,634	7,093	7,020	6,356
Deferred tax provisions	1,717	2,207	481	938	1,309	754	1,210
Other provisions	2,083	5,011	1,676	1,836	2,162	2,849	2,339
Financial liabilities	26,105	21,344	15,675	13,613	12,175	11,005	13,708
Trade payables	5,938	4,740	4,189	4,698	4,476	3,989	4,841
Other liabilities	7,414	6,635	6,387	7,200	7,292	7,118	7,957
Total equity and liabilities	81,639	70,991	60,757	59,374	54,401	51,015	56,100
Key figures¹⁾ (in percentages unless otherwise stated)							
Return on total assets	10.6	5.8	12.3	17.2	16.9	6.5	16.1
Return on capital employed	13.9	7.5	16.2	23.6	24.0	9.1	24.0
Return on equity	21.4	4.6	21.6	29.7	28.4	9.0	26.3
Operating margin	11.0	5.8	11.3	14.5	13.8	5.7	12.2
Turnover of total assets, times	0.95	0.97	1.07	1.16	1.19	1.04	1.25
Portion of risk-bearing capital	32.0	32.9	37.8	39.4	39.0	37.3	37.3
Gearing	60.5	59.2	52.8	48.9	48.6	49.3	50.1
Equity/assets	29.9	29.8	37.0	37.8	36.6	35.8	35.1
Investments and employees							
Additions to property, plant and equipment	1,852	1,746	1,968	1,839	1,651	1,975	2,531
Acquisitions of businesses, net of cash and cash equivalents	69	8,723	848	6	6,799	241	1,284
Research and development expenses	2,078	1,840	1,607	1,481	1,184	1,217	1,175
Patents – number of first filings	488	468	421	325	251	218	179
Average number of employees	46,509	45,220	44,168	42,886	40,206	38,530	43,201
Number of employees registered at 31 December	48,593	48,401	46,775	46,039	44,742	41,172	44,799

¹⁾ See page 201 for definitions.

²⁾ 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Three-year review – SKF's business areas¹⁾

<i>SEKm unless otherwise stated</i>	2014	2013	2012
Strategic Industries			
Net sales	21,140	18,929	20,437
Sales incl. intra-Group sales	32,328	29,957	32,075
Operating profit	3,186	2,603	3,164
Operating margin ²⁾	9.9%	8.7%	9.9%
Assets and liabilities, net	22,505	20,991	21,372
Registered number of employees	17,316	17,628	19,009
Regional Sales and Services			
Net sales	25,446	24,217	25,185
Sales incl. intra-Group sales	25,981	24,699	25,647
Operating profit	2,930	2,980	3,286
Operating margin ²⁾	11.3%	12.1%	12.8%
Assets and liabilities, net	7,734	6,969	5,694
Registered number of employees	7,512	7,426	6,915
Automotive			
Net sales	18,331	17,370	17,034
Sales incl. intra-Group sales	21,561	20,568	20,297
Operating profit	505	715	395
Operating margin ²⁾	2.3%	3.5%	1.9%
Assets and liabilities, net	8,766	8,089	7,840
Registered number of employees	14,071	14,271	14,202
Specialty business			
Net sales	6,058	3,081	1,909
Sales incl. intra-Group sales	9,290	6,009	4,609
Operating profit	1,030	395	469
Operating margin ²⁾	11.1%	6.6%	10.2%
Assets and liabilities, net	13,068	11,443	1,987
Registered number of employees	6,490	6,498	4,138

¹⁾ Previously published amounts have been restated to conform to the current Group structure. The structural changes include business units being moved between the business areas and between other operations/Group activities and business areas. Additionally the business areas' operating profit has been restated to include previously reported reconciling items to the Group's operating profit.

²⁾ Operating margin is calculated on sales including intra-Group sales.

Per-share data¹⁾

<i>Swedish kronor/share unless otherwise stated</i>	2015	2014	2013	2012 ³⁾	2011	2010	2009	2008
Earnings per share		10.10	2.00	10.23	13.29	11.28	3.61	10.14
Dividend per A and B share		5.50 ²⁾	5.50	5.50	5.50	5.00	3.50	3.50
Total dividends, SEKm	2,504 ²⁾	2,504	2,504	2,504	2,277	1,594	1,594	2,277
Redemption per share		–	–	–	–	–	–	–
Total redemption, SEKm		–	–	–	–	–	–	2,277
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		164.90	168.70	163.20	145.60	191.60	123.60	77.25
Equity per share		51	44	47	47	42	38	41
Yield in percent (B)		3.3 ²⁾	3.3	3.4	3.8	2.6	2.8	4.5
Yield in percent (B), including share redemption								
P/E ratio, B (share price/earnings per share)		16.3	84.2	16.0	11.0	17.0	34.2	7.6
Cash flow from operations, per share		9.9	11.7	13.6	12.3	12.2	17.6	8.1
Cash flow after investments, before financing per share		4.10	-11.73	7.81	8.45	-6.23	12.63	0.14

¹⁾ See page 201 for definitions.

²⁾ According to the Board's proposal for the year 2014.

³⁾ 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Thursday, 26 March 2015. 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 Friday, 20 March 2015, and must notify the company at the latest by Friday, 20 March 2015 via the internet, www.skf.com, or by letter to:

AB SKF
c/o Computershare AB
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 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 Friday, 20 March 2015. 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 2014. 30 March 2015 is proposed as the record date for shareholders to be entitled to receive dividends for 2014. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 2 April 2015.

Financial information and reporting

AB SKF will publish the following financial reports in 2015:

Year-end report 2014	28 January
Annual Report 2014	5 March
First-quarter report 2015	17 April
Half-year report 2015	15 July
Nine-month report 2015	16 October

The reports are available in Swedish and English on SKF's website skf.com/Investors under Reports and Presentations.

A subscription service for press releases and interim reports is available on the website, choose Subscribe. The information is sent via e-mail or SMS.

Contact persons:

Marita Björk
Head of Investor Relations
email: marita.bjork@skf.com
www.skf.com/investors

Theo Kjellberg
Press and Media Relations Director
email: theo.kjellberg@skf.com

SKF Group Headquarters
SE-415 50 Gothenburg
Sweden
Telephone: +46 31 337 10 00
www.skf.com
Company reg.no 556007-3495

Rob Jenkinson
Director, Corporate Sustainability SKF
(UK) Limited
Sundon Park Road
Luton LU3 3BL
United Kingdom
Telephone: +44 1582 49 63 17
email: rob.jenkinson@skf.com

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.

Cover

Large image: Cecilia Lack (also on pages 2, 11, 20 and 24)

Smaller images from left: Momo Babie (also on page 74) and Tobias Nielsen.

Page 1 from left: Anders Lövgren SKF and Joakim Sjöberg, SCA

Pages 2–3 from left: Christian Alberts and Ruth Eickhoff (also on page 38), players at the Gothia Cup tournament 2014 (also on page 96) and Naqeeb Bin Yusof (also on page 73).

Page 99

Alex Augustine (also on pages 2, 11, 24)

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Aktiebolaget SKF
SE-415 50 Gothenburg, Sweden
Telephone +46 31 337 10 00
www.skf.com