



Annual Report

SKF Group 2015

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Administration Report

The Administration report has been subject to reasonable assurance by SKF's auditors, please refer to Auditor's report on page 166.

Sustainability disclosures in the Annual Report have been subject to limited assurance by SKF's auditors, please refer to Auditor's Limited Assurance Report on the Sustainability Report on page 167.

The Governance Report examined by the auditors can be found on page 168–174. The Auditor's report of the Corporate Governance Report can be found on page 175.



Financial information and reporting

Publishing dates for financial reports in 2016 are:

Year-end report 2015	2 February
Annual Report 2015	8 March
First-quarter report 2016	28 April
Half-year report 2016	21 July
Nine-month report 2016	26 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.

Reader's guide



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President's letter

Alrik Danielson comments on challenges and events during the year.



8–9

Strategic direction

SKF's five strategic priorities provide the basis for the focus areas across the business.



12–13

Shared value for stakeholders

SKF's activities serve its customers, employees, owners, other stakeholders and the communities where the Group has operations.



14–17

Creating value for customers

SKF focuses on helping customers become more competitive and helps them provide value through new solutions and innovations.



38–43

SKF serves customers with products, services and solutions in five main markets.

Bearings, polymer seals, lubrication systems, products and services for asset efficiency, and products for mechanical power transmission.



53–57

World-class manufacturing

SKF is developing the latest technology and ensuring world-class global manufacturing operations.



69

Tough targets – solid performance

The Group's current climate targets will be concluded in 2016. Based on SKF BeyondZero, the strategy considers the full value chain. Read about the progress made in 2015.



73–79

SKF is powered by people

Employee Care includes the Group's way of working to leverage the full commitment by its more than 46,000 employees.



92–177

Financial and sustainability details

Detailed performance data in the Financial statements (IFRS) and Sustainability statements (GRI G4).

The SKF Group

>> What and why

SKF works to reduce friction, make things run faster, longer, cleaner and more safely. Doing this in the most effective, productive and sustainable way has made the SKF Group 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.



>> To whom



Industrial distribution Sales through industrial distributors.

Industry, general Automation, machine tools, industrial drives, medical and health care.

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



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

Energy Renewable energy and traditional energy.

Railway Passenger, locomotives and freight cars.

Off-highway Construction, agriculture and forestry and fork lift trucks.



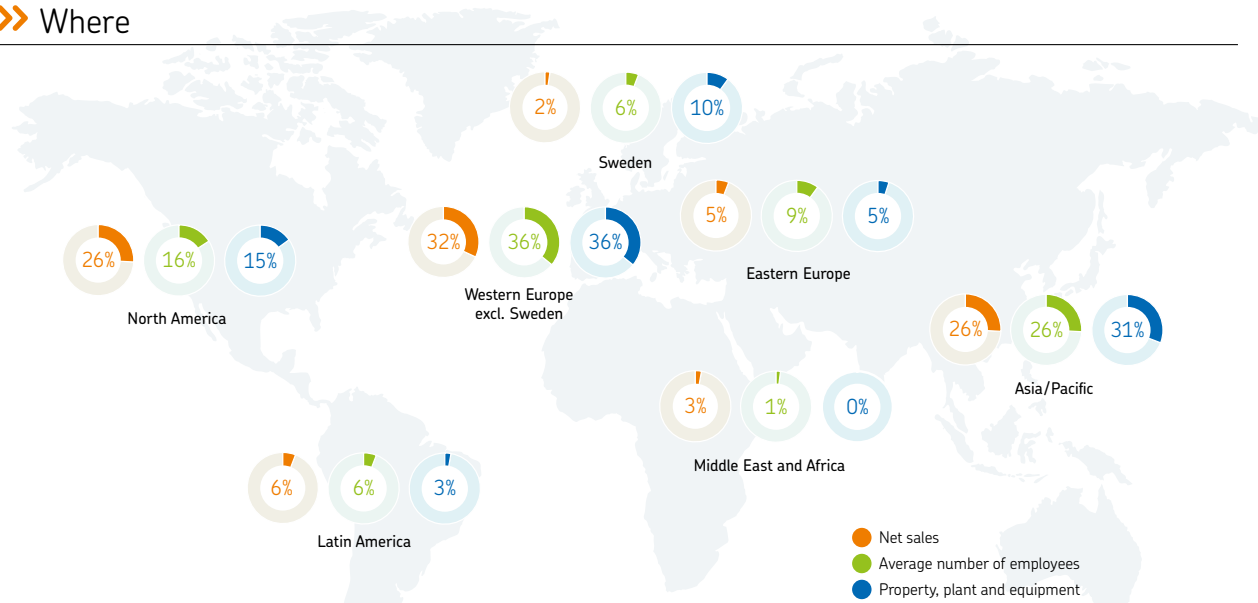
Cars and light trucks Cars and light truck manufacturers (OEMs) and their sub-suppliers.

Vehicle aftermarket 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.

>> Where



» How

Industrial Market

In 2015, Industrial Market served the global industrial market directly and indirectly through SKF's worldwide distributor network. Key segments were metals, mining, cement, pulp & paperer, automation, machine tools, industrial drives, railway, marine, energy and off-highway.

Automotive Market

In 2015, Automotive Market provided a range of products, solutions and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

Specialty Business

In 2015, Specialty Business consisted of five stand-alone businesses with different customer-specific application solutions. SKF Linear and Actuation Technology and SKF Aerospace were marketed under the SKF brand. Kaydon Corporation, PEER Bearing Company and General Bearing Corporation (GBC) were marketed under their own brands.

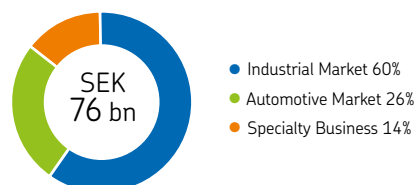
SKF Care

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

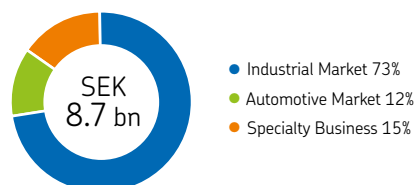
SKF BeyondZero

The BeyondZero strategy drives actions to reduce the environmental impact from SKF's activities while at the same time providing customers with solutions that reduce the impact of their products or operations.

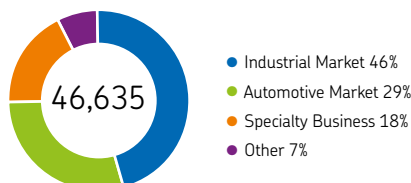
Net Sales



Operating profit*

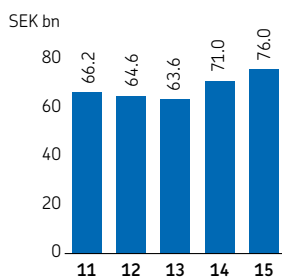


Employees

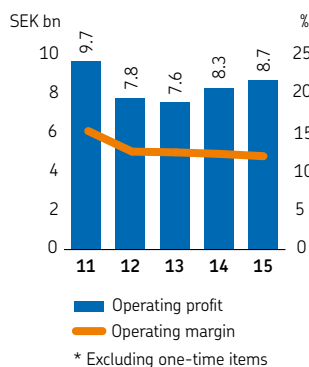


» Result

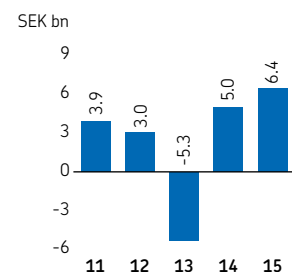
Net Sales



Operating profit*



Cash flow**



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

President's letter

Focusing on our customers and their application needs

During 2015 we experienced challenging market conditions, especially during the second half of the year. Falling levels of industrial activity and investor sentiment in China, which also spread to North America, had a negative impact, as end-users reduced their investments in industrial equipment. We saw pockets of encouraging activity in the Asian energy segment as well as the railway segment – predominantly in Europe. We also secured a number of strategically important contracts within the metals, aerospace and marine segments.

Demand for cars and light and heavy trucks developed positively in Europe and Asia. Aftermarket sales in Latin America and the Middle East were also strong, with the European aftermarket showing signs of growth, albeit at a lower rate.

Generating value for our customers and simplifying our way of working has been a key focus area for us during the year. We combined our two largest business areas into one Industrial Market, putting our customers and their application needs at the centre of everything we do.

At the same time, we reduced our corporate staff functions from seven to four and changed the focus of our R&D efforts, ensuring they are much more aligned with the application needs of our customers.

In short, our new organisation ensures the business and its leaders are empowered to take purposeful action in meeting the needs of our customers, which translates into value for SKF.

Developing our core business

A number of divestments were made in 2015. In total, over SEK 1,000 million has been generated. We will

continue to review our product portfolio, in order to strengthen our balance sheet and focus our resources on our core bearings business.

Positioning our automotive business for the future

In July 2015 we launched a profit improvement programme within the Automotive Market business area. The initiative is focused on short-term actions and cost cutting, with a clear ambition of achieving an operating margin of 8%. The team is also working actively on the longer-term repositioning of our business:

- Refocusing our product portfolio to fewer product lines, aligned with our core capabilities
- Addressing the customer's requirements with the right performance solution
- Developing the aftermarket business model, to fit changing customer requirements and new sales channels

Strategic priorities: the customer is number one

With customers as our primary focus, we have identified five strategic priorities that will act as the drivers for the future development of SKF. Throughout this Annual Report, you can read more about these priorities and the activities and behavioural changes they are the foundation for:

1. Creating and capturing customer value
2. Application-driven innovation
3. World-class manufacturing
4. Cost competitiveness
5. Maximizing cash flow



New financial targets

In order to reflect the market conditions, competitive landscape and industrial activity levels we foresee and the consequential reshaping of the company, the Group's financial targets have been adjusted. The new targets are to achieve, over a business cycle, an organic sales growth of 5% in local currencies and a reported operating margin of 12%. On the capital side, we have increased our ambition to manage our working capital in an efficient manner and the new target is to reach a net working capital of 25% of sales. The target for return on capital employed (ROCE) has been adjusted to 16%, as a consequence of the operating margin target. Our target of achieving a net debt/equity ratio of 80% remains unchanged. Although we have more hard work ahead of us, I believe these targets can be achieved.

Investing in customer technologies and manufacturing

In Schweinfurt, Germany, an investment of SEK 360 million is being made in constructing the world's largest test centre for large-size bearings. Designed specifically for bearings used in wind turbine main shafts and in the marine, mining and construction industries, customers will benefit from reduced testing times and the ability to simulate real-life conditions. The test centre is expected to be completed during the first half of 2017.

In Gothenburg, Sweden, an investment totalling SEK 190 million is being made in upgrading our spherical roller bearing (SRB) production. The latest in machine technology and intelligent grinding solutions will be combined with our own condition monitoring and connectivity solutions to reduce set-up times and improve production efficiency. The new SRB production lines are expected to be up and running by the end of 2016.

Our position as a trusted corporate citizen

SKF has an important role to play in society, to develop industry and to enable the transition towards sustainable development. We do this through the products and solutions we offer, as well as our efforts to support the UN Global Compact and the principles it sets out for sustainable development. This work is driven, for example, by heightening our Code of Conduct programme and the principles defined by SKF Care.

Almost everywhere I've travelled during the past year, I've been asked the same question: "Why did you come back to SKF?". The answer is simple. Because it is a fantastic company. But, more importantly, we also have the foundation, the technologies, the people, the drive and the ambition needed to make SKF even better. The changes we are implementing in the business are difficult at times, but necessary, and will serve us in good stead in the future.

I thank you for your continued support and hope you share my excitement for the future of SKF.

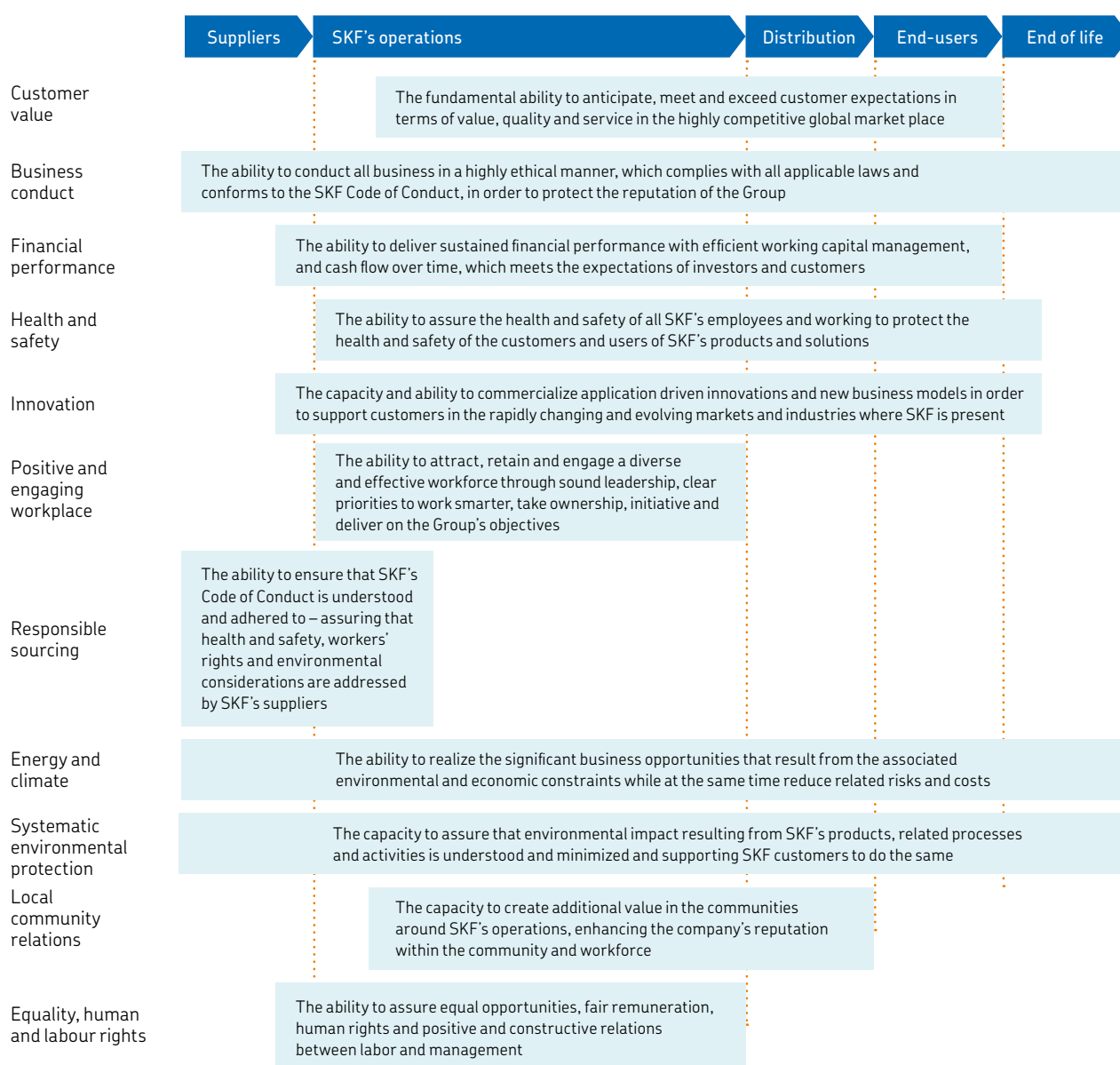
Alrik Danielson
President and Chief Executive Officer

Stakeholders and challenges in focus

Main challenges for SKF, and content for this report are established through dialogue with key stakeholder groups and input from senior decision makers in SKF's business areas and staff functions, which is then verified by SKF Group Management. The issues and how they relate to the value chain are presented below.

Throughout its 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 society in general. This allows SKF to better understand various

perspectives and concerns, and address them quickly. Please refer to page 163–164 in the Sustainability statements for a more detailed description of SKF stakeholder engagement and dialogues along with a translation of SKF's challenges to the GRI G4 aspects.



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, detailed analysis of these drivers and SKF's approach is only possible at industry level. More information on SKF's customer industries is found on page 36–37 and further details can be found on skf.com. The table below gives a high level overview of the main external drivers and trends relevant to the Group as a whole.

Driver	Impact	SKF's approach
Population growth and increased wealth per capita	<p>The global population is expanding and the middle class is growing in fast developing economies.</p> <p>Fulfilling the increasing expectations and demands puts pressure on constrained or finite resources like materials, minerals, food, land, energy and water, and constitutes a major driver for efficiency and productivity in all aspects.</p>	<p>SKF is set up to capitalize on this driver by enabling efficiency and productivity gains for its customers along the full value chain; from optimizing machine design to assuring asset efficiency and productivity for end-users.</p> <p>Application driven innovation is applied so that the technologies and solutions developed by SKF are based on a solid understanding of customers' specific needs to become more efficient, productive and – ultimately – more competitive.</p>
Globalization	<p>Economic power continues to move, particularly towards the East. This brings a rebalancing of industrial activity, increasing competition in all aspects and higher levels of economic volatility.</p>	<p>SKF continues to adapt the footprint and organization of its sales and manufacturing activities in order to best serve the rebalancing global industrial context. The focus is on being physically and intellectually close to the customers with sales, support, R&D and production.</p> <p>SKF's focus on capturing customer value and application driven innovation capitalizes on the demands placed on customers working in an increasingly competitive and volatile business environment.</p> <p>SKF's world-class manufacturing strategy is being deployed in order to make sure its manufacturing operations are competitive and able to thrive in the shifting global economy.</p>
Urbanization	<p>An increasing percentage of the global population will live in cities. This creates demand for related infrastructure such as energy, water and transportation.</p>	<p>SKF is focusing on helping customers meet the related demands through products, solutions and innovation aimed at the energy, utilities and mass transportation sectors.</p>
Environmental constraints	<p>Increasing global concern on the impacts of climate change and other forms of environmental degradation leading to legal and other stakeholder demands for action to reduce or avoid these impacts.</p>	<p>SKF's BeyondZero strategy puts a strong focus on enabling customers to reduce their environmental impacts with products and solutions included in the SKF BeyondZero portfolio. At the same time the Group focuses on energy and resource efficiency in its own operations and those of its suppliers.</p>
Digitalization	<p>The rise of big data and smart systems creates huge potential to better address many of the challenges described above.</p>	<p>SKF is focused on making use of this trend to create competitive advantage both in the products and services offered and the way they are produced.</p> <p>Smart solutions are being integrated into SKF product offers such as SKF Insight. SKF is investing in further automation and the use of intelligent systems within its manufacturing operations through the Technology step-up programme.</p>

SKF's value proposition and strategic priorities

SKF has a strong foundation to meet new market challenges with its trusted brand name, presence in most markets and areas, a broad, relevant product range and good service offers, as well as a good technological base and knowledgeable people. By combining its technical knowledge with its extensive experience from many specialized customer industries, and understanding local customer demands, SKF can help customers overcome their specific challenges.

Nevertheless, the globalization and shift in economic activities between regions, and growing competition from China, has changed the setting in the market place in many ways. Today, there is a greater demand for customer-specific value propositions based on functionality and uptime, where the customer needs to maximize the performance of its equipment. There is also greater competition from product offerings focused on cost and performance.

Strategic shift

Bearings are SKF's main business and all products that support and help to differentiate SKF's bearing business are core for the company. Going forward, SKF will focus on delivering a full offer around the rotating shaft, where the bearing is the core component, and additional functionality includes sealing, lubrication and condition monitoring.

SKF's mission is to become the undisputed leader in the bearing business.

Based on SKF's challenges and mission, the company focuses on five strategic priorities that provide the basis for the focus areas across the business:



Creating and capturing customer value

SKF will focus on helping customers with their own business and becoming more competitive. SKF will identify and help customers provide value through new solutions and innovations.

SKF offers two strategically different value propositions. The first focuses on helping customers to maximize the performance of their rotating equipment. This means that SKF combines its relevant technologies to achieve the equipment's best performance. The second proposition is providing products that fulfil customer requirements for a specific application, based on real operating conditions, for example speed, load, expected life and environment where they are applied.

Rotating equipment performance

Meeting the needs of end-users who operate critical machinery. Meeting their needs by maximizing the performance of their rotating equipment. Functionality and machine availability is more important than component price, with customers often prepared to agree to performance-based pricing models. This proposition includes offerings such as maintenance contracts, condition monitoring and predictive maintenance, new business models, and payment schemes based on reducing the total cost of ownership for end users, remanufacturing of a wide range of bearings and units, and other services. SKF sees significant potential for expanding the size of this market.

Products

Meeting product application needs of end-users, based on parameters such as speed, load or physical environment. The market is becoming evermore diversified and demands from customers depend on their specific conditions. This leads to a more segmented market and SKF sees a great opportunity to increase its market share by offering solutions and components that are fit-for-application. These products work according to the end-users' needs, meeting their specific requirements for quality and reliability, they provide value for the end-user and are competitive compared to the customer's other alternatives. SKF sees this market as one in which it can increase its market share.

» See pages 14–17, Creating value for customers and pages 25–27, 31 and 35 Customer cases

2

Application-driven innovation

To develop new technologies and solutions that are driven by customers' application needs and provide them with a direct competitive advantage. To as great an extent as possible, these should be easily adapted by the customers, without requiring design changes.

» Read more on pages 44–47, Technology research and development

3

World-class manufacturing

SKF is placing manufacturing at the top of its agenda, developing the latest manufacturing technologies and ensuring a global manufacturing footprint.

World-class manufacturing focuses mainly on four different areas:

- The SKF production system – standardizing working methods
- Integrated cost reduction – cross-functional efforts for minimizing input costs
- Technology step-up – leveraging technology and standardization for creating higher performing, more efficient, production systems
- Manufacturing footprint – optimizing geographical distribution and utilizing production capacity

» See pages 53–57, Manufacturing

4

Cost competitiveness

Through a new, leaner, organization and smarter ways of working, SKF is ensuring that it has the right cost base. A clear focus and priorities, simplicity and standardization are key enablers for a leaner organization. Also in manufacturing SKF needs to reduce product costs to ensure competitiveness. SKF will do that by becoming a world-class manufacturing company, having efficient purchasing and introducing fit-for-application products.

» See pages 50–52 Purchasing and 53–57 Manufacturing

5

Maximizing cash flow over time

Strengthening the balance sheet and improving the ability to generate consistent levels of cash flow over time is a key focus. This will allow SKF to continue to reinvest in the core business and future growth, as well as delivering returns to shareholders.

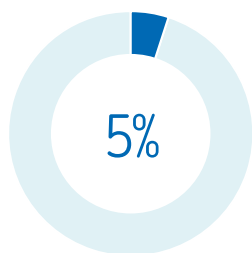
Group targets

New financial targets

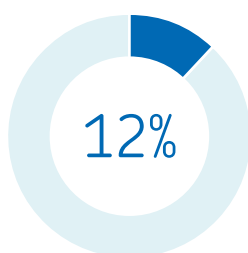
The new financial targets from 2016 are to achieve, over a business cycle, an organic growth of 5% in local currencies, a reported operating margin of 12%, a return on capital employed of 16%, a net working capital of 25% and a net debt/equity ratio of 80%.

Changed targets for

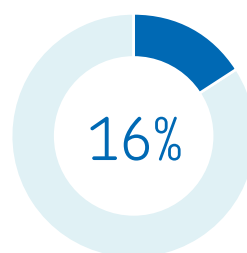
- » Sales growth
- » Operating margin
- » Return on capital employed (ROCE)
- » Net working capital



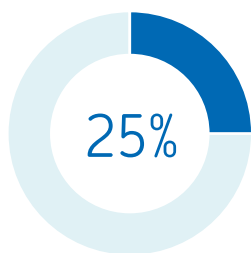
Annual **organic sales growth** in local currencies



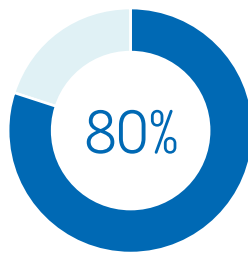
Reported **operating margin**



Return on **capital employed**



Net working capital as % of sales



Net debt/equity

Environmental and safe workplace targets

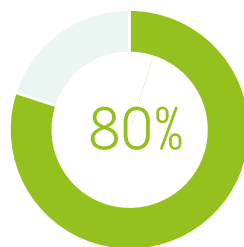
SKF's current environmental targets will be concluded at year end 2016 and new ones will be established during the year for 2020 and beyond. Targets address impact over the value chain, some are presented on this page. Read more on the progress on pages 64–69 and 72.

- » Growth of the SKF BeyondZero portfolio
- » Energy in SKF's operations
- » Reduce solvents in production
- » Increase recycling rate
- » Work towards Zero Accidents



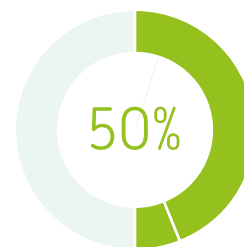
Target SEK 10 bn Achieved SEK 5.9 bn

Increase **revenues of the SKF BeyondZero portfolio**.
See page 68.



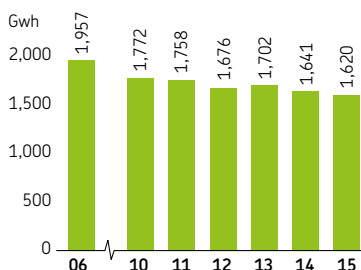
Target 80% Achieved 80%

Increase **recycling rate of grinding swarf** to 80% by 2016.
See page 66.



Target 50% Achieved 44%

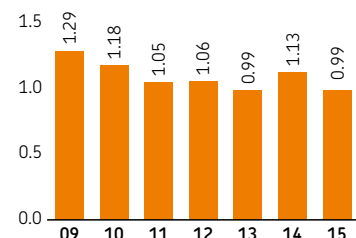
Reduce **use of solvents** SKF operations by 50% by 2016.
See page 65.



Reduce **energy use** in operations 5% under 2006 year's level, regardless of business growth 17% reduction has been achieved.
See page 69.



Safe workplace target
The Zero Accidents programme aims to eliminate work-related accidents and illnesses.
See page 72.



Accident rate for the SKF Group

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 value creation model

Everything SKF does revolves around its customers. All value generated comes from the customer interactions, the innovations applied by customers and the knowledge SKF is able and trusted to equip its customers with.

While creating value for the diverse industries SKF serves, the Group also delivers value to a wider range of stakeholders – such as employees, investors and wider society.

The illustration below provides examples of the shared value SKF delivers and page references to more information.

Input

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Vision
A world of reliable rotation



Mission
The undisputed leader in the bearing business

Drivers

- Grow with profit
- Quality
- Innovation
- Simplicity & Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

Value for stakeholders

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Creating value for customers

SKF groups its offering into five technology areas: bearings and units, seals, lubrication systems, mechatronics and services. By utilizing capabilities from all or some of the technologies, SKF develops tailor-made offers for customers in different industries, helping them 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.

Servicing customers' needs

SKF serves customers in many different industries and considers the trends and needs of each industry 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.



Michael Wika and Christian Alberts, Vibration consultants at SKF's Remote Diagnostics Centre in Hamburg, Germany. From here, SKF monitors over 1,000 wind turbines and other industrial applications in Europe, Japan and India.



One of the most trusted industrial brands

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

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.



The SKF brand also operates with acquired brands of strategic importance on a product level. The LINCOLN brand is an example that represents the same brand promise as the SKF brand.



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.



Protecting the SKF brand

Following efforts in recent years by SKF to raise market awareness about counterfeit products, combined with close cooperation with law enforcement globally, SKF continues to see a decline in the availability of counterfeits in mature markets. Nevertheless, all markets and industries are still affected, albeit to a varying degree. In 2015, police and customs authorities seized counterfeit SKF products in the Czech Republic, Egypt, France, Italy, Portugal, Vietnam, and the USA to name a few examples. SKF works closely with customs in key markets, and over the year 95 shipments of counterfeit SKF goods were seized.

As SKF sees an increase in cases for markets in Asia and the Americas, the company has added resources to strengthen brand protection in these regions. During 2015 SKF continued to replicate successful customer awareness activities focused on alerting users to the existence of counterfeits, and how to best avoid them. One example was an event organized in cooperation with the Swedish Embassy in Cairo, Egypt, where more than 100 customers were invited to learn how to protect their operations from counterfeit supply. Similar events were held in Kenya, Tanzania, Uganda and Ethiopia, the UK, Germany and South Korea. The events gave customers a chance to interact directly with SKF's brand protection staff, and generated new business to SKF as the absolute majority of the customers were previously unknowingly supplied counterfeit products.

Through the World Bearing Association (WBA), SKF and other bearing manufacturers are working to raise awareness about the trade in counterfeit bearings and the methods used by many small-scale counterfeit workshops, mainly based in Asia. Harsh working conditions and child labour is not uncommon at these workshops, where low-cost products are illegally marked with trademarks of premium brands. This was also documented during one of the raids carried out by the Chinese police, with video footage showing young children working in a branding workshop. The video is available on SKF's YouTube channel and social media accounts.

To provide better support to end-users who suspect they have been supplied with potential counterfeits, SKF has developed the user-friendly SKF Authenticate mobile app. In a few simple steps it allows customers to send photos and information about suspect products directly to SKF. Verification experts review the information provided and customers are informed if the goods are counterfeit. The SKF Authenticate app is available in both iOS and Android versions and has been very well received by users. In 2015 SKF took several steps to further improve awareness amongst SKF's authorized distributors about anti-counterfeiting best practice. This included holding seminars on counterfeit mitigation, good sourcing practice and also involved audits by SKF's experts at randomly selected authorized distributor branches globally.

SKF's value propositions

SKF provides two main value propositions:

Rotating equipment performance

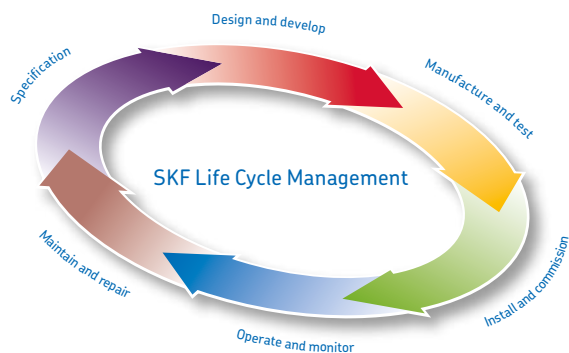
Meeting the needs of end-users who operate critical machinery. Meeting their needs by maximizing the performance of their rotating equipment. Functionality and machine availability is more important than component price, with customers often prepared to agree to performance-based pricing models. This proposition includes offerings such as maintenance contracts, condition monitoring and predictive maintenance, new business models, and payment schemes based on reducing the total cost of ownership for end-users, remanufacturing of a wide range of bearings and units, and other services.

Products

Meeting product application needs of end-users, based on parameters such as speed, load or physical environment. The market is becoming evermore diversified and demands from customers depend on their specific conditions. This leads to a more segmented market and SKF sees a great opportunity to increase its market share by offering solutions and components that are fit-for-application. These products work according to the end-users' needs, meeting their specific requirements for quality and reliability, they provide value for the end-user and are competitive compared to the customer's other alternatives.

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.

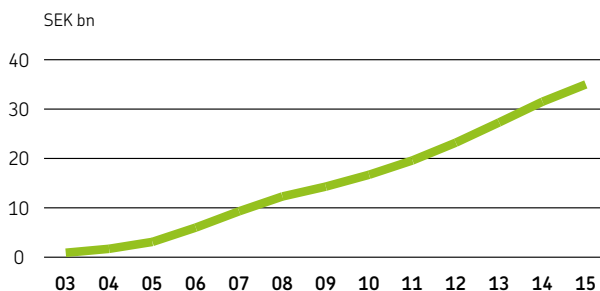


Measure and confirm

For SKF it is important to be able to show the financial benefits that the SKF solutions can bring and to predict and measure the actual total savings for the customer. To do so SKF uses an interactive software, SKF Documented Solutions Programme (DSP).

DSP helps customers find where they can take costs out. By working together with the customer and populating the tool with data, an SKF sales representative can generate a bottom-line figure predicting the total estimated savings that can be achieved by using SKF solutions. The customer provides his own plant's running information (e.g. materials, labour, downtime, etc.), and the forecasted savings are based on that information.

DSP is also a way to show that price is only the easy-to-see part of the total picture, there are more costs and benefits to be aware of. In Industrial applications, the bearings, seals, lubrication components usually represent a small part of the asset's TCO. There are other hidden cost of ownership like product performance and quality, maintenance, plant downtime, warehousing and much more.



As part of the DSP programme, SKF has collected 64,000 approved cases that show proven, quantifiable value in over 25 industries.

From 2003 to 2015, SKF provided SEK 35 billion in approved savings for customers. In 2015, the figure was more than SEK 3 billion.

Quantifying environmental benefits

SKF has 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 68.

Buying SKF's products

SKF is strongly committed to making it easy for customers to do business with SKF. The global customer service community is focused on reducing customer effort, by providing prompt answers and trustworthy, proactive support on business and supply related topics before, during and after a purchase of a product, solution or service.

Customers' requirements and purchasing patterns determine whether SKF delivers its products to customers directly or through its extensive global network of more than 17,000 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. Around 40% of SKF's business goes through distributors.

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

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.

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 areas. 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 analyze 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 technology area specialists, and service engineers.



Juhani Knuuti, Spindle service at SKF Solution Factory in Gothenburg. In this picture, the shaft of the spindle is checked to decide if any repairs are required.

Highlights 2015



To further support our customers to improve field performance of bearings, SKF launched the SKF EnCompass Field Performance Programme. It introduces new knowledge and improved tools to help customers to make a better informed bearing selection.



A concept of a more scientific way to calculate the life of a bearing called, "The Generalized Bearing Life Model" was introduced at the Hannover Fair. See page 44.



Construction of a large-size bearing test centre in Schweinfurt, Germany begun during the summer. The test centre will have two LSB test rigs; one for testing of bearings used in wind turbines and one for applications across a wider scope of industries.



SKF signed a significant agreement to supply the Volvo Car Corporation with wheel hub bearing units for future car lines.



SKF announced it will be investing SEK 190 million to modernize channels for the manufacturing of spherical roller bearings at its factory in Gothenburg.



SKF signed a long-term agreement with United Technologies Corporation (UTC) for the supply of a range of bearings and components to UTC's aerospace business.



SKF signed a three-year agreement with PT. Kereta Api Indonesia, Indonesia's state-owned railway operator, for the supply of tapered roller bearing units. See page 25.

SKF completed the divestments of:

- Erin Engineering and Research Inc. to Jensen Hughes, a US-based engineering consultancy.
- Purafil and Kaydon Custom Filtration, to Filtration Group Corporation, an affiliate of Madison Industries.
- Canfield Technologies, Inc. to Gen Cap America, a private equity firm headquartered in Nashville, Tennessee. See page 110.



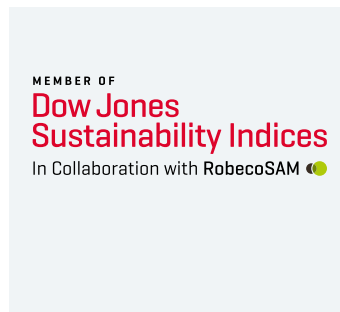
SKF's condition monitoring solutions will be used by the greece-based company Tsakos Columbia Shipmanagement S.A. (TCM). See page 27.



SKF signed a three-year agreement with MAN to supply truck-matched wheel-end units. The contract is worth SEK 60 million and follows the signing of an agreement for similar units with Scania in October 2014.



SKF will supply Geely Automobile with wheel hub bearing units and MacPherson suspension bearing units for their future car lines. See page 31.



SKF was listed as one of the world's most sustainable companies on the Dow Jones Sustainability World Index (DJSI) for the 16th year running.



SKF became one of the first organizations to achieve energy management ISO 50001 certification on a global scale.



SKF opened a new Kaydon bearings manufacturing facility in Cajamar, São Paulo, Brazil. The 6,600 m² plant produces slewing ring bearings for the Brazilian wind energy market.



SKF supplied magnetic bearings for use in the world's first subsea gas compression system at the Åsgard gas field off the Norwegian coast.

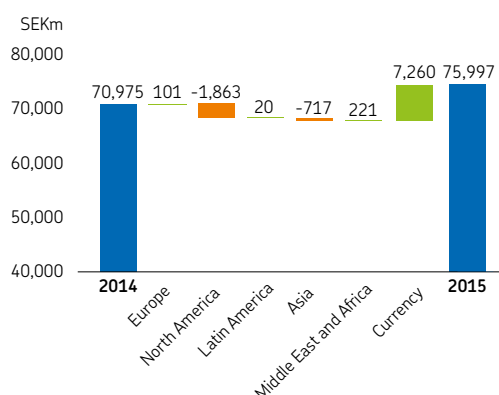
SKF supplied United States Steel with an integrated seals, lubrication and bearings solution for their hot strip mill table rolls in Granite City, Illinois.

Financial performance in 2015

Net sales

In 2015, sales amounted to SEK 75,997 million compared to SEK 70,975 million in 2014, corresponding to an increase of 7%. The weakening of the SEK towards currencies in major markets had a positive impact on sales in 2015. Sales in local currencies decreased by 3%. The main reason was lower sales volumes primarily in North America and in Asia where sales declined by 10% and 4% respectively. Sales in Europe and Latin America were on the same level as in 2014. In the Middle East and Africa sales volume increased by 13%.

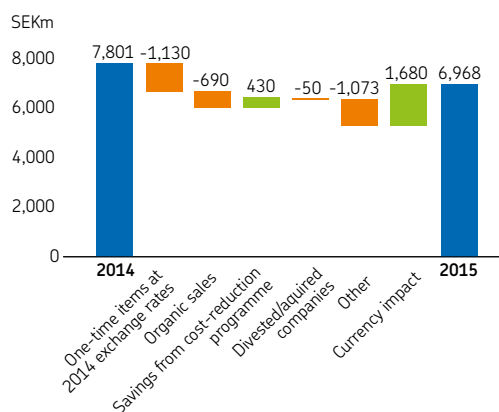
Net sales bridge/market + currency



Operating profit

Operating profit amounted to SEK 6,968 million in 2015 (7,801) resulting in an operating margin of 9.2% (11.0). On a year over year basis, the operating profit development was negatively affected by one-time items of SEK -1,130 million and by lower organic sales volumes by around SEK -690 million for 2015. Savings from the ongoing cost reduction programme improved operating profit by around SEK 430 million while other impacts including manufacturing, purchased material, the Unite IT project, R&D expenses and general inflation had a negative effect on the operating profit of SEK 1,073 million. Exchange rates for 2015 compared to last year's currency exchange rates were positive by SEK 1,680 million mainly due to the stronger USD.

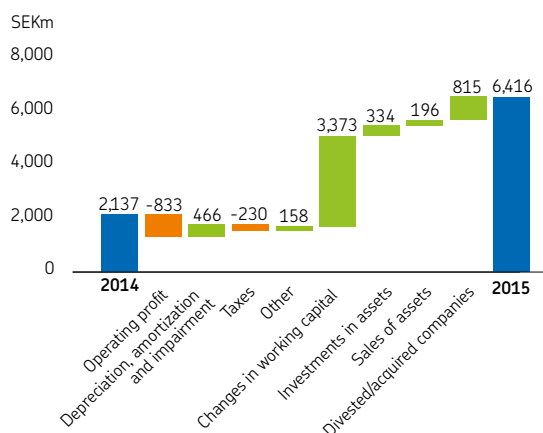
Main factors influencing the operating profit



Cash flow

Cash flow after investments before financing, which is the primary cash flow measurement used in the Group, amounted to SEK 6,416 million (2,137). Adjusted for acquisitions and divestments of businesses, and the EU payment in 2014, the cash flow amounted to SEK 5,670 million (5,031).

Cash flow



SKF's business areas 2015

SKF operates through three business areas:

Industrial Market

Industrial Market serves the global industrial market directly and indirectly through SKF's worldwide distributor network. Key segments are metals, mining, cement, pulp & paperer, automation, machine tools, industrial drives, railway, marine, energy and off-highway.

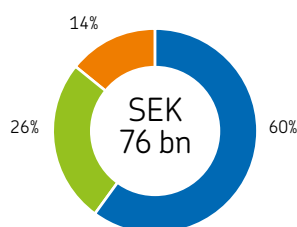
Automotive Market

Automotive Market provides a range of products, solutions and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

Specialty Business

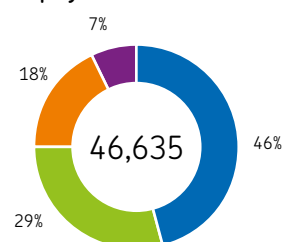
Specialty Business consists of five stand-alone businesses with different customer-specific application solutions. SKF Linear and Actuation Technology and SKF Aerospace are marketed under the SKF brand. Kaydon Corporation, PEER Bearing Company and General Bearing Corporation (GBC) are marketed under their own brands.

Net sales

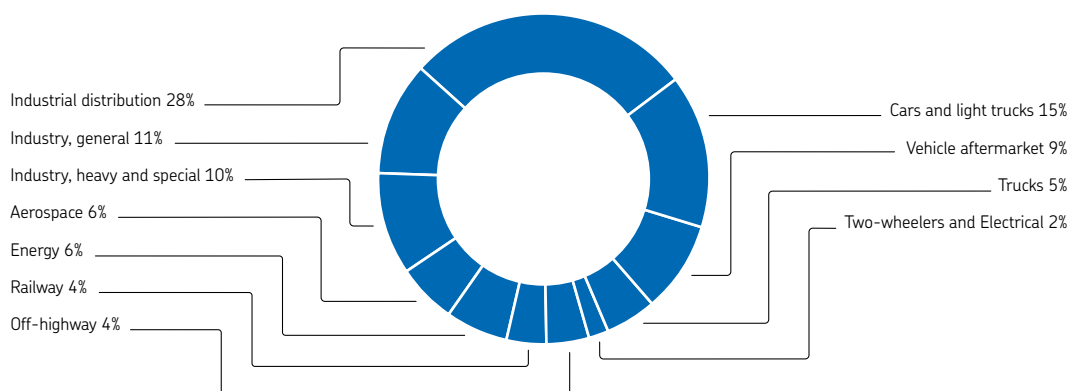


- Industrial Market
- Automotive Market
- Specialty Business
- Other

Employees



Net sales by customer industry



Industrial Market



“Generating value for our customers and simplifying our way of working has been a key focus area for us during the year.”

Alrik Danielson, President, Industrial Market

Industrial Market serves the global industrial market directly and indirectly through SKF's worldwide distributor network. Key customer industrial segments are heavy industry segments (such as metals, mining, cement, pulp and paper), general industry segments (such as automation, machine tools, industrial drives), railway, marine, energy (such as wind, oil and gas) and off-highway (construction, agriculture). These customer segments are served both directly to OEM's and end-users as well as indirectly through SKF's network of industrial distributors.

Industrial Market develops and manufactures a wide range of products including bearings, seals, lubrication systems, and condition monitoring. It also provides a wide range of services

and solutions around the rotating shaft in the areas of machine health (assessing, managing and monitoring machine health), reliability engineering and remanufacturing.

Net sales in 2015 amounted to SEK 45,279 million (42,768), an increase of 5.9%. The increase in net sales was attributable to organic growth of -3.9%, structure -0.3% and currency effects of 10.1%. The operating profit was SEK 5,401 million (6,010), with an operating margin of 11.9% (14.1). The operating profit was affected by one-time costs of SEK -864 million.

Highlights 2015

The Industrial Market was formed at the beginning of the year from the former business areas Strategic Industries and Regional Sales and Services. This reorganization was done to simplify and make the structure more customer-focused both in the sales and offer development processes, as well as to drive productivity.

Creating and capturing customer value

Industrial sales have been unified in each geographic market, bringing decisions closer to the customer interface in order to create speed and efficiency. This is supported by a global segment specialist organization, responsible for developing the relevant solutions around the rotating shaft offers as well as the product offers for each customer segment.

Application driven innovation

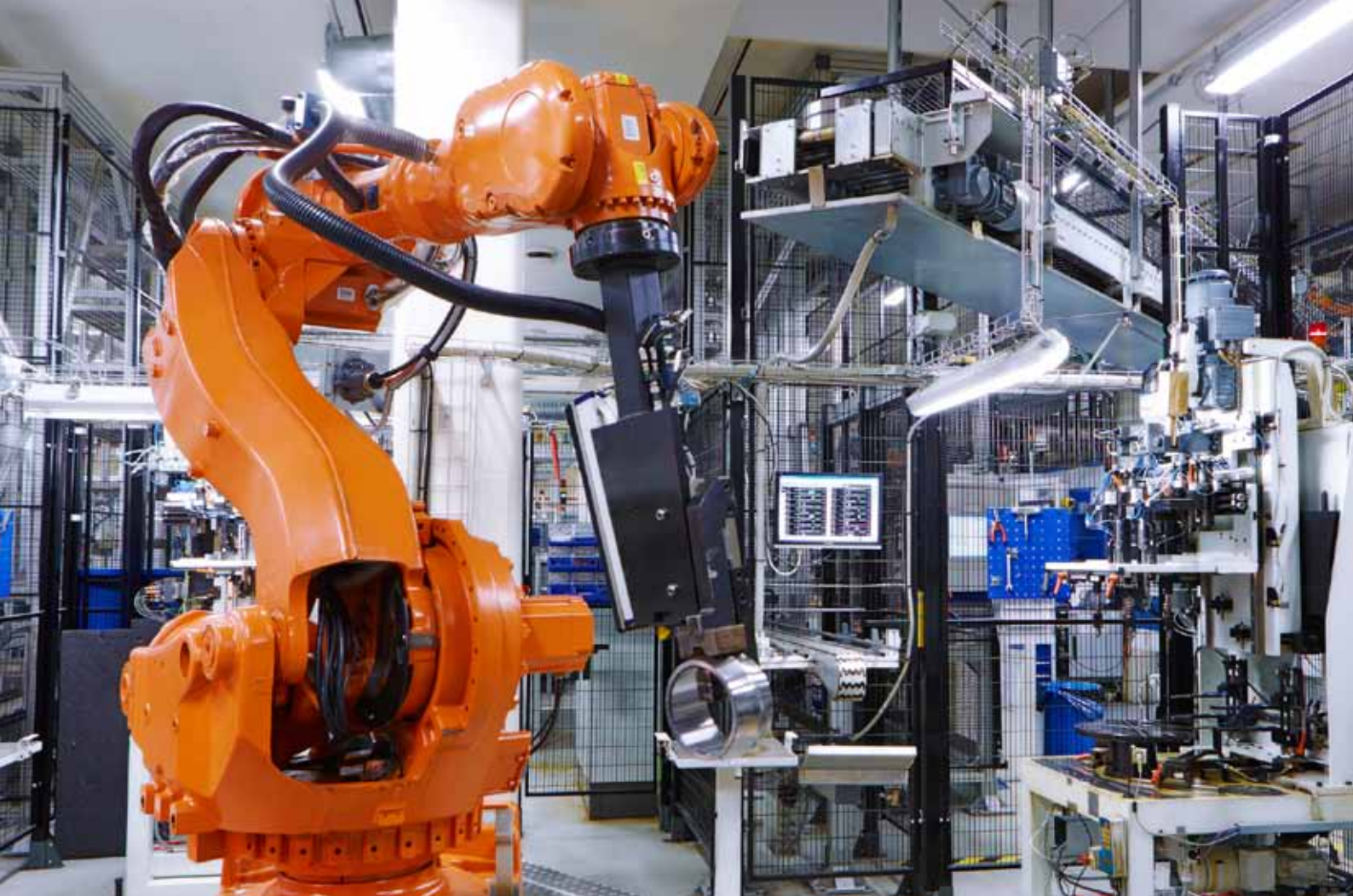
Customer requirements and ideas from sales and segments are turned into products and solutions by the Product Development offices and Product Engineering offices around the world. During the year, many new products, as well as service offers, were launched on the market. During spring the SKF Generalized Bearing Life Model was launched, being one of the corner-stones of the SKF EnCompass Field Performance Programme.

Construction started of a new large-size bearing test centre in Schweinfurt. The test centre will be the largest of its kind in the world and help SKF meet the specific application requirements of customers in industries like wind, marine, mining, construction and steel.

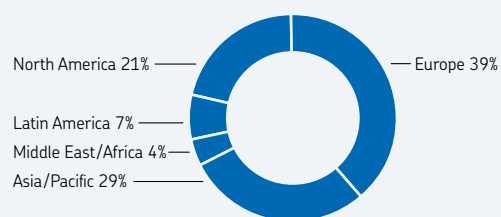
Manufacturing

Bearing manufacturing activities are organized together to speed up and consistently drive the implementation of SKF's world-class manufacturing. During the year the manufacturing footprint continued to develop with new production channels being installed in China and India.

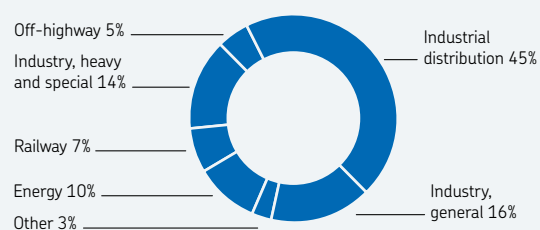
Existing production capacity also continued to be upgraded around the world with modern manufacturing processes, including intelligent grinding, which enables reduced set-up times and improved production efficiency. A major modernization of the spherical roller production channels is ongoing in Gothenburg, combining SKF's own condition monitoring and mobile connectivity solutions with modern manufacturing processes aimed at making production more flexible and efficient.



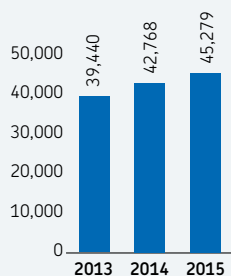
Net sales by geographic area



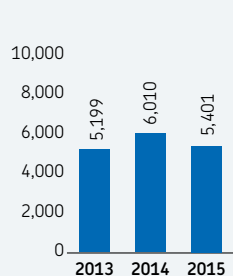
Net sales by customer industry



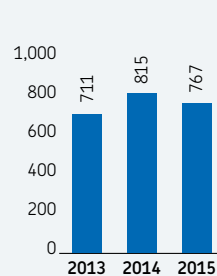
Net sales, SEKm*



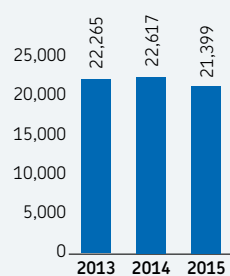
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2015.



“ Kereta Api Indonesia’s continual strive for excellence in all its operations is followed by a systematic and very strict process in choosing a bearing partner. ”

Mr. Solihin, Executive Vice President Logistics, PT. Kereta Api Indonesia



SKF secures agreement with Indonesian railway company

In 2015, SKF signed a three-year agreement with PT. Kereta Api Indonesia (Persero), a state-owned railway operator, for the supply of tapered roller bearing units, aftermarket sealing solutions and training.

SKF has worked with Kereta Api since 2011. The company carries around 300 million passengers and 30 million tonnes of cargo a year. It's estimated that this will double by 2019, as per planned infrastructure investments, including the recently announced construction of a double-track railway running from Soekarno-Hatta international airport to central Jakarta.

In 2014, Kereta Api decided to broaden its cooperation with its bearing supplier and was looking for a business partner not only offering quality products, but also know-how, competence enhancement and world-class maintenance processes. SKF's local and global railway engineers were invited to discuss bearing applications, energy use, maintenance, bearing life expectancy and life cycle management. Once the official tender process started, Kereta Api expanded their conditions to also include knowledge transfer and training of its service workshop personnel, as well as Association of American Railroads (AAR) certification.

"Kereta Api Indonesia's continual strive for excellence in all its operations is followed by a systematic and very strict process in choosing a bearing partner. We are pleased to partner with SKF. With a long history of bearing innovation, top-quality standards as well as engineering skills and leading products, SKF will provide the requisite service level to the Indonesian Railways," says Mr. Solihin, Executive Vice President Logistics, PT. Kereta Api Indonesia.

Keeping production in China gave SKF a logistics and costs edge. That, along with the AAR certification held by SKF's factory in Nankou, helped SKF win the business.

"This is a prestigious and significant contract for us to secure in a country with major on-going investments in railway infrastructure. Producing the units in China provides us with a competitive edge that meets the high standards and technical requirements of the railway industry," says Anders Fogelberg, Managing Director, SKF Indonesia.

Deliveries started from SKF's factory in Nankou in the third quarter of 2015.



SKF's tapered roller bearing units and sealing solutions contribute to more reliable train operations, greater passenger comfort and, ultimately, less environmental impact, through less friction.



“ Over a short period, we managed to improve our machinery availability and reliability and reduce maintenance costs significantly. ”

Dimitris Psaradakis,
TCM's Technical Manager



SKF equips Greek shipping fleet with condition monitoring solutions

Tsakos Columbia Shipmanagement (TCM) S.A. is a Greek company providing management, operation and crewing services for a fleet of around 70 tankers, containers and dry cargo ships.

TCM needed to reduce its fleet's maintenance costs. The aim was to prevent unexpected failure in critical machinery and provide early indications of possible problems in auxiliary machinery, thereby ensuring the reliability of its operations. To do so they wanted to adopt advanced condition-based maintenance practices and turned to SKF for help.

SKF's engineers visited TCM's facilities with the local SKF Authorized Distributor, J. & E. Papadopoulos S.A, to discuss their specific needs. Dimitris Psaradakis, TCM's Technical Manager explains: "Ensuring equipment reliability is amongst our standing objectives and, regarding this, condition monitoring is a very useful tool. At the same time, we need to maintain a consistently high standard of condition monitoring expertise on every ship with a workforce that rotates between ships. Therefore, it is important to have an easy-to-use instrument to monitor the condition of critical auxiliary machinery."

SKF came up with a customized version of the SKF Marine Condition Monitoring kit, a hand-held instrument, equipped with predefined machinery models and work instructions. The customized instrument provides specific data about which tasks need to be carried out and when.

Engineers collect vibration data from critical machinery and evaluate vibration levels in the accommodation area, this process has already been implemented in the planned maintenance system. The data is then downloaded and transmitted through the ship's communication system to TCM's headquarters, where a detailed report is produced about the current condition of each vessel's machinery. The results are entered in customized reports that help each vessel's engineers prioritize their work schedule and thereby increase efficiency.

Taking the step towards condition-based maintenance does not have to be a major investment. "With SKF's Marine Condition Monitoring kit, we can identify and rectify problems at an early stage. Over a short period, we managed to improve our machinery availability and reliability and reduce maintenance costs significantly. Overall, the investment cost proved to be very low, compared to the benefits we have gained from implementing this solution," concludes Dimitris.



SKF Marine Condition Monitoring kit

Automotive Market



“We are stretching our internal capabilities around our core to become more competitive as the undisputed leader in wheel-end bearings. We have what it takes now to turn around our business and achieve higher profitability.”

Stephane Le Mounier, President, Automotive Market

Automotive Market provides a range of products, solutions and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket

The business area develops and manufactures bearings, seals and related products and services. Core bearing product lines are hub bearing units, tapered roller bearings, small deep groove ball bearings and suspension bearing units. Sealing solutions include for example wheel-end, shaft seals, bonded piston seals and valve stem seals. In the area of connectivity, monitoring devices are provided.

The solutions are customized for wheel-end, driveline, engine, e-powertrain, suspension and steering applications. For the vehicle aftermarket spare parts are provided to cars, trucks and

two-wheelers, serving installers through a network of distributors and dealers. The assortment consists of components and kits – packed together in one box for an easy and complete repair.

Net sales in 2015 amounted to SEK 19,908 million (18,330), an increase of 8.6%. The increase in net sales was attributable to organic growth of 0.3% and currency effects of 8.3%. The operating profit was SEK 575 million (571), with an operating margin of 2.9% (3.1). The operating profit was affected by one-time costs of SEK -494 million.

Automotive Market 2015

Beginning of this year a new operating model was formed for Automotive Market. It was put in place to guide the business area towards a leaner more efficient way to capitalize on synergies from new working methods. A plan was developed to turn around the business. The Turn Around Plan outlines the priority areas for how Automotive Market will reach an operating margin of 8%. This year's improvements lead to an increase of the operating margin by almost 1%, from 4.5% to 5.4%, excluding one time items.

Creating and capturing customer value

Sales of hub bearing units grew successfully, increasing market shares and strengthened SKF's leadership for this product line. In addition to efficiency and fuel reduction, driving the customers agenda, safety and comfort factors are being prioritized for satisfactory driver experiences. This is driving the development for achieving more competitive value propositions.

The vehicle aftermarket increased its product range and added timing chain kits to the engine range of the most popular European and Asian car models. The challenging business climate, with strong competition and new channels to market also provides new opportunities. The vehicle aftermarket business model was re-worked to further adapt to, and meet the changing market place.

Application driven innovation

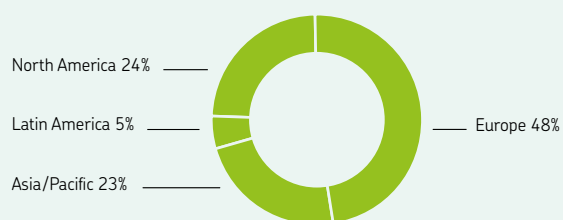
The adaptation of product performance for meeting smaller and affordable cars' requirements, with cost optimized value propositions, was in focus. The future roadmap incorporates further reduction in friction and weight, as well as a reduction in bearing size. Ongoing development projects for bearing units with different designs and materials are paving the way for innovative game changers in the near future. One example is a polymer hub bearing under development.

World-class manufacturing

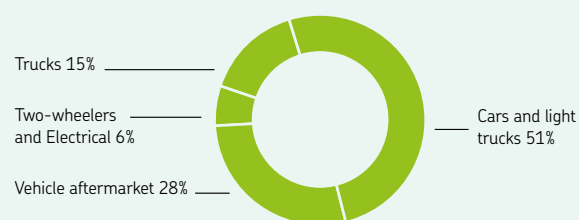
Some factories underwent restructuring and others closed over the year, enabling product efficiency and cost reduction for increased competitiveness. Volumes were moved to other factories with the capability of incorporating the production. In the US, a seals factory was closed with main parts of production moved to Mexico. A kit operation in Sweden closed and its production moved to a kit operation in France. A component factory in France was closed with production outsourced.



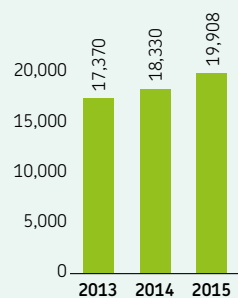
Net sales by geographic area



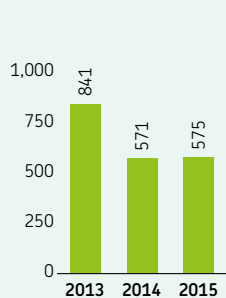
Net sales by customer industry



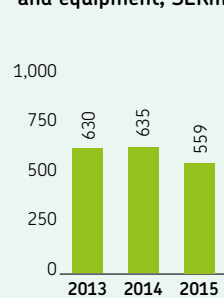
Net sales, SEKm*



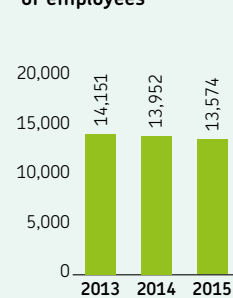
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2015.



“SKF is a well-known world class supplier with a brand value that can bring us the latest technology and top-quality products at a competitive price.”

Wang Ruiping, VP Geely Group and General manager for Geely Powertrain



Building brand value with Geely Automobile

Geely Automobile is one of the largest Chinese vehicle manufacturers, with nine manufacturing plants in China. SKF started working with Geely in 2007, supplying engine and transmission seals and transmission bearings. In 2015, a new contract was signed for wheel hub bearing units and MacPherson suspension bearings units for Geely's future car lines.

Wang Ruiping, VP Geely Group and General manager for Geely Powertrain explains why they choose to work with SKF: "SKF is a well-known world class supplier with a brand value that can bring us the latest technology and top-quality products at a competitive price. Another reason is their rapid response time due to their extensive local engineering and manufacturing capabilities."

SKF Automotive Market has four factories in China and covers 85% of its sales there through domestic manufacturing, and provides technical support through its engineering centre in Shanghai. This enables a rapid response time and the possibility of meeting local customer-specific challenges.

New contract to supply future car lines

In 2015, SKF and Geely signed a new contract for wheel hub bearing units and MacPherson suspension bearings units for Geely's future car lines.

"Working with Geely Automobile on this new architecture is evidence of our ability to translate global capabilities into effective ways of working at a local level. We deliver value by contributing to an optimized application design and speed in execution. I am truly happy to see the team's results coming alive in such a successful way," says Stephane Le Mounier, President, Automotive Market.

SKF's wheel hub bearing units with low friction grease and anti-corrosion coating have been specifically developed to meet Geely's demands about performance, weight reduction, stiffness and low fuel consumption. The MacPherson suspension bearing units are designed to provide smooth and silent handling of the car with a robust, high performance design. Overall, these solutions contribute to a more comfortable driving experience.

Deliveries are expected to begin in the first half of 2017.



Wheel hub bearing unit



MacPherson suspension bearing unit

Specialty Business



“Increased focus on our core businesses, improved capital efficiency, invested into foot print and new product offerings that will very well support profitable growth.”

Patrick Tong, President, Specialty Business

Specialty Business consists of five stand-alone businesses with different customer-specific application solutions. SKF Linear and Actuation Technology and SKF Aerospace are marketed under the SKF brand. Kaydon Corporation, PEER Bearing Company and General Bearing Corporation (GBC) are marketed under their own brands. Specialty Business represents around 14% of SKF's net sales.

SKF Aerospace provides the aerospace industry with highly engineered customized solutions for aircraft, helicopter, engine and system manufacturers. Solutions include bearings, seals, composite struts, fittings and precision elastomeric devices for airframes, aero-engines and gearboxes. The majority of customers are in Western Europe and North America.

Kaydon Corporation consists of two main business units: Kaydon Friction Control which focuses on the engineering and manufacturing of a wide range of bearing solutions, and Kaydon Velocity Control that offers control solutions for motion, shock, and safety applications. Products and services cover a wide range of industries including aerospace, construction, renewable energy, medical and health care, automation, material handling and machine tools. The majority of customers are in North America.

PEER Bearing Company serves key industries such as agriculture, material handling, heating, ventilation, air conditioning

and mechanical power transmission, and markets under the PEER brand. The company manufactures deep groove ball bearings, tapered roller bearings, agricultural bearings and mounted unit bearings. The majority of customers are in North America.

GBC serves OEM and aftermarket customers in the truck, trailer, automotive and industrial transportation markets under the "HYATT" brand. The company manufactures ball bearings, tapered roller bearings and precision rollers. The majority of the customers are in North America.

SKF Linear and Actuation Technology's prime areas of operation are medical health care, automation, and machine tools. The product range includes linear actuators, telescopic pillars, ball and roller screws, as well as linear guiding. The majority of customers are in Western Europe.

Net sales in 2015 amounted to SEK 10,415 million (9,426), an increase of 10.5%. The increase in net sales was attributable to organic growth of -2.1%, structure -2.2% and currency effects of 14.8%. The operating profit was SEK 992 million (1,070), with an operating margin of 9.5% (11.4). The operating profit was affected by one-time costs of SEK -329 million.

Highlights 2015

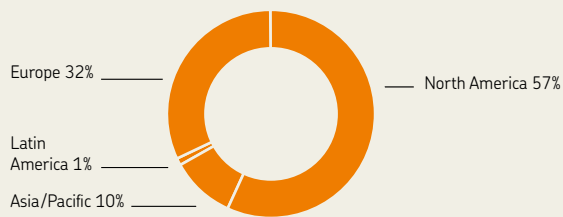
Several important events took place during the year. To strengthen and expand the wind business, a new Kaydon Bearings manufacturing facility was inaugurated in Cajamar, São Paulo, Brazil. The 71,000 sq. ft. plant produces slewing ring bearings for the Brazilian wind energy market. In order to focus the business, certain non-bearing operations were divested including the Canfield, Filtration and Purafil operations. New important contracts were signed, for example GE (General Electric) selected SKF & Venture Aero Bearings to supply all

the bearing requirements for GE's portion of the LEAP engine for the next 10 years. SKF also signed a long-term agreement with United Technologies Corporation (UTC) to supply a range of bearings and components for UTC's aerospace business.

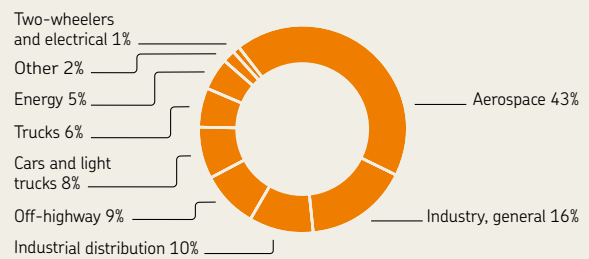
There were several product launches including the ACE Newton line, Fabreeka Quiet down, Cooper Quick-Change™ bearing pedestals. More than 400 new part numbers were added to the Reali-Slim thin section bearings range, including an expanded line of stainless steel products.



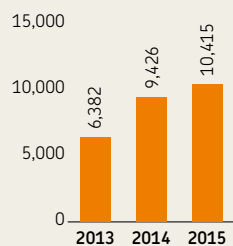
Net sales by geographic area



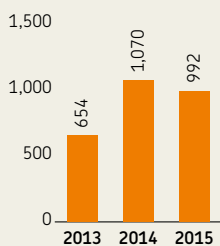
Net sales by customer industry



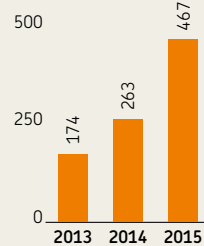
Net sales, SEKm*



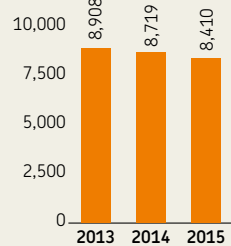
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2015.



“ Being involved in one of the industry’s most prestigious engine development programmes is an exciting opportunity for us. It is also an acknowledgment that our collaborative approach to technology development supports the industry’s focus on reducing emissions. ”

Patrick Tong,
President Specialty Business



Long-term relationship leads to joint technology development for new LEAP engine

For more than twenty years, SKF has had a close business relationship with CFM International, a 50/50 joint company between Snecma (Safran) and GE (General Electric), in the development of innovative solutions for their aircraft engines. This relationship will extend to the new LEAP® engine coming into service in 2016 where SKF will be the supplier of mainshaft and accessory gearbox bearings.

The Leading Edge Aviation Propulsion (LEAP) engine is a next-generation aircraft engine designed and developed with a focus on improving fuel consumption and reducing emissions and noise levels. CFM International has received orders for nearly 10,000 LEAP engines across all three models; the Airbus A320neo, Boeing 737 MAX and COMAC C919 aircrafts.

Throughout the development phase SKF has contributed knowledge in modelling and simulation, design, testing and validation. The bearings will be manufactured in SKF's manufacturing facilities in France and Italy and in the joint SKF and GE manufacturing site in the USA.

The ceramic hybrid mainshafts bearings developed for LEAP, utilizing advanced ceramic rolling elements will help contribute to a lighter and more fuel efficient aircraft engine, that emits up to 15% less CO₂ than its predecessor, the CFM56. Ceramics are used to produce lightweight components with extreme performance capabilities compared to steel. These capabilities include higher hardness, less plastic deformation, high temperature resistance and electric current resistance. The LEAP engine is designed to outperform the most popular CFM56 engines.

"Being involved in one of the industry's most prestigious engine development programmes is an exciting opportunity for us. It is also an acknowledgment that our collaborative approach to technology development supports the industry's focus on reducing emissions," says Patrick Tong, President, Specialty Business.



©Snecma/Safran

Gearbox bearings

Ceramic hybrid mainshaft bearings

SKF's customer industries overview

(% of net sales)

Industrial distribution



28%

Key drivers

Punctual and reliable service level, access to a wide range of complementary products and technical expertise, high brand positioning and marketing support.

What SKF delivers

All of SKF's product range and services, value selling "More with SKF", Web Customer Link, Distributor Availability Programme, Vendor Manage Inventory system, SKF Distributor College, Certified Partner Programme.

Industry, general



11%

Automation

Need for greater flexibility in production lines, reliability, precision, energy efficiency, downsizing of applications.

Support from design phase to use phase. Electromechanical cylinders, ball and roller screws, linear guides.

Machine tool

Global industrial production, speed, precision, operator safety, energy and environmental impact.

Super-precision bearings, lubrication systems, coolant pumps, customized sealing solutions, linear drive and guide systems, machine spindle services and remanufacturing.

Fluid machinery

Efficiency, total cost of ownership, energy use and maintenance costs.

Hybrid bearings, magnetic systems, corrosion resistance technology.

Industrial electrical motors and generators

Energy efficiency and reliability, minimizing noise and vibration.

Insulated bearings (INSOCOAT), hybrid bearings, energy efficient bearings.

Material handling

Reliability and efficiency driven by urbanization.

SKF Life Cycle Management approach – from OEM design to end-user maintenance. Various bearings and slewing rings.

Industrial transmissions and driveline services

Operational reliability, cost and energy efficiency, variable speed.

Bearings, seals, engineering and design support.

Medical and healthcare

Flexible and automated equipment following safety regulations.

Electromechanical actuation for lifting, rolling bearings and linear rails.

Industry, heavy and special



10%

Metals

Need for profitability, improving material quality and worker's health and safety, reducing environmental impact.

Wide range of solutions within bearings, seals, services and lubrication systems.

Mining and cement

Productivity and profitability, safety, reduce environmental impact.

Wide range of products and solutions that improves productivity, profitability, reliability and environmental performance.

Pulp and paper

Reduce operating and maintenance cost, improve environmental and safety conditions.

Bearings and associated products, lubrication systems and services, remote diagnostics services.

Marine

Cost, reliability, fuel efficiency, environmental and safety regulations.

Products and services for all stages of the ship life cycle. Integrated key solutions for propulsion systems, two stroke engines, thrusters and gear-boxes. Condition based maintenance services.

Food and beverage

Food safety regulations, increasing overall plant efficiency while reducing costs, meeting environmental targets on carbon emissions, water use, waste reduction and zero landfill.

Asset reliability services and solutions tailored to food industry specifics such as relubrication-free bearing technologies, automatic lubrication systems, range of food grade lubricants, sealing solutions in industry approved materials.

Aerospace



Key drivers

Safety, renewal of aging fleets, fuel efficiency, light weight.

What SKF delivers

Customized solutions for rotating parts. Main shaft and transmission bearings, airframe bearings, composite, seals and precision elastomer devices, maintenance and repairment services.

Energy



Energy output, cost efficiency, robust and reliable constructions.

Hybrid ceramic bearings to cope with electric erosion, cylindrical roller bearings, SKF Nautilus bearings, SKF WindCon for condition monitoring. Hybrid and magnetic bearings for sub-sea pumps and compressors.

Railways



Need to extend maintenance intervals and reduce life cycle cost, increase safety, speed and load carrying capacity in some freight applications.

Wheelset bearings, axleboxes, drive system bearings, lubrication systems, sealing solutions, condition monitoring, sensors and remanufacturing services.

Off-highway



Productivity, need to reduce operating cost and reduce emissions to soil, increase mechanization.

Solutions covering bearings, seals, lubrications systems and actuators.

Cars and light trucks



Fuel consumption reduction, CO₂ emission reduction, smart efficient vehicles, alternative fuels to combustion engine, standardization of platforms and modules for more flexibility and cost efficient car production.

Early development partner to key vehicle (OEM) and application (tier) manufacturers. Bearings and seals enhancing efficiency, reducing friction, weight and size of the solutions, including integration of sensors.

Vehicle aftermarket



Changing buying patterns, new channels, product performance and cost optimization.

Spare parts in kits for complete repairs, technical support, hands-on training, smart stock management programs, easy on-line access to parts information and fitting instructions.

Trucks



Fuel efficiency and emission regulations, total cost of ownership, maintenance reduction and optimization, connectivity and integrated systems.

Bearings and seals enhancing efficiency, reducing friction, weight and size of the solutions, monitoring systems, engineering services to reduce total cost of ownership.

Two-wheelers and electrical



Improved fuel efficiency, ride dynamics, longer life, cost efficient two-wheeler production.

Bearings and seals enhancing efficiency and performance, application specific technical and engineering support.

SKF's markets

In this chapter we describe SKF's main addressable markets from a product, solutions and services perspective covering bearings, polymer seals, lubrication systems, products and services for asset efficiency and products for mechanical power transmission.



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's size in 2015 grew by 0-1% year-on-year and reached a value of between SEK 330 and 340 billion.



*Self-aligning
ball bearing*



*Angular contact
ball bearing*



*Tapered roller
bearing*

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 after-market) maintained around 30% of world bearing demand, of which around 25% is related to the vehicle service market and around 75% 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 50% of regional demand.

Asia's share of the world bearing market grew the most year-on-year and accounted for more than 50% compared with less than 30% fifteen years ago. China's share of the total world bearing market grew heavily to about 30%. Japan's share of the world bearing market accounts

for slightly more than 10%. Other Asian markets with sizeable bearing sales account for about 10%, including India, Thailand, Indonesia, Taiwan and South 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 around 20% around the world, with more than 80% of their sales in Asia, less than 10% in Europe and less than 7% in the Americas. The remaining 20% includes many smaller regional and niche bearing competitors.

Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30% of 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 almost 20% of the world bearing market.

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 2015, the total polymer seals market experienced a fairly flat development, reaching an estimated SEK 75–80 billion.



Industrial seals



Aerospace seal



Automotive seals



Precision elastomeric devices

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 devel-

oping core technology in their mature markets in North America, Western Europe and Japan. In 2015, 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.

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, with some industries like mining reducing in size and some industries like renewable increasing in size. The overall market size in 2015 remained similar at around SEK 30 billion worldwide.



Multilube



KFGS with progressive feeder

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 estimates that only 20% of the lubrication points today have automatic 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 remain-

der 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).

Asset efficiency optimization market

The asset efficiency optimization (AEO) market addresses the growing market where customer requirements are focused on improving the productivity, efficiency and performance of their rotating equipment. It consists of products and services that enable customers to increase the availability and reliability of industrial assets, reduce environmental impact and improve health and safety practices.



This area involves a range of products, services and integrated solutions, across a wide portfolio of reliability engineering, high-tech condition monitoring and precision reconditioning and remanufacturing services. These offers help end-users and OEMs meet their business goals and maintain market competitiveness throughout the equipment life cycle.

Most industrial companies view maintenance as a core skill. However, the specialized skills needed to optimize maintenance processes, detect early failure and corresponding root causes, and remanufacturing critical equipment, are often provided by third party companies, as maintenance professionals recognize that the day-to-day demands of maintenance don't allow time to be up-to-date on industry best practices. As more companies decide to outsource parts of the maintenance function, it is increasingly important that their service providers have wide-ranging knowledge of failure causes, and global standards, to ensure the highest quality.

SKF can see high growth in the AEO market as companies continue to shift from reactive to proactive maintenance. As Industry 4.0 continues to gain momentum, there is interest at CEO level to

implement technologies to predict and manage industrial assets. Increasingly, companies want to know not only when their equipment will fail, but also what solutions can eliminate the underlying root cause, preventing future reoccurrence. SKF's ability to provide broad knowledge about the rotating equipment functions of applications involving bearings, seals, lubrication, and power transmissions, positions us well to take advantage of this need and growth trend.

Growth in this market remains strong in all regions, with double-digit growth in North and Latin America, Asia, and parts of Europe. 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.

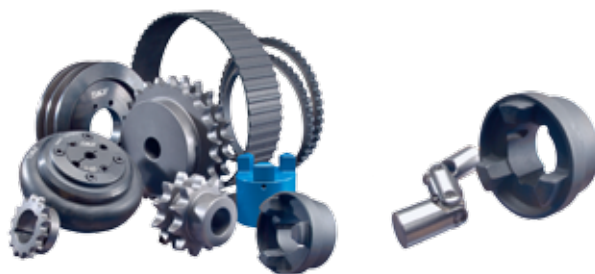
SKF is one of the global market leaders in this dynamic market and continues to hold the strongest portfolio of products and services within its area. The competitive landscape remains dominated by a few key players with many small local suppliers and niche, technology-driven companies. The largest competitors are General Electric and Emerson.

SKF Enlight is an innovative condition monitoring package that allows non-expert staff to gather expert data such as vibration and temperature information, using standard mobile devices. It combines a powerful new mobile app with a special Bluetooth-enabled sensor and remote expert analysis, reducing the cost of implementing condition monitoring programs and expanding the addressable market.

SKF PrM is an innovative reliability improvement package that allows companies to benefit from SKF's knowledge, and engineered services and products, to improve the overall efficiency of specific assets or overall industrial facilities. Through the combination of condition monitoring technologies and services, reliability improvement programs and services and optimized logistic services through our distribution network, we assure our customers in achieving the agreed business goals (financial and technical) for each tailor-made project.

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.



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), Regal Beloit (USA), Tsubaki (Japan), Renold (UK), Rexnord (USA), Donghua (China), Gates (USA), Carlisle (USA), Optibelt (Germany), and ContiTech (Germany).



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)

Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. In 2015, SKF recorded 520 (646) invention disclosures and successfully registered 461 (488) first filings of patent applications.

R&D expenditure in 2015, excluding developing IT solutions, was SEK 2,372 million (2,078), corresponding to 3.1% (2.9) of annual sales. SKF's R&D spending, in local currencies, rose by 7.6 (8)% in 2015 compared with 2014. 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.

Securing a customer centric innovation

SKF's strategic approach to technology has both a short-term and long-term strategic focus to fulfil current and future customer needs. Technology innovation brings new solutions to the market and responds to current customer requirements, and via technology exploration new core technologies are developed responding to future market trends. In 2015, a stronger focus on using application driven innovation has been introduced, to strengthen SKF's position in the market. With a more customer centric approach in R&D and innovation, technology needs are tailored to customer needs. A key factor for having a customer-centric innovation flow is establishing a corporate process evaluating new ideas directly from the customer, where demands are processed and cascaded throughout the value chain of innovation. In recent years, SKF has successfully implemented a central corporate programme for bringing innovative ideas to market. The most important projects in this programme, involving several business units and technologies, receive the utmost focus and attention by the company's senior management. Encouraging an innovative culture is vital to SKF, as is developing new knowledge and embedding new technologies into SKF's products to fulfil customer requirements. One example of recent research findings is in tribology science, the development of the SKF Generalized Bearing Life Model, a concept released during the spring of 2015 and which will be ready to use externally in 2017. The SKF Generalized Bearing Life Model is an innovative new bearing rating life model designed to help engineers calculate bearing rating life more realistically. The new model is a major step forward for the industry and will play an important role in enabling OEMs and end-users to better match bearings and applications, resulting in improved machine life and reduced operating costs. Apart from the SKF Generalized Bearing Life Model, other examples of application driven innovations is the development of polymer hub bearing for the automotive market, and the development of self-powered, intelligent wireless sensor technology, SKF Insight, for the wind and railway industry.

Taking a lead in Industry 4.0 through smartifying the industry

For the last couple of years, SKF has positively surprised the market with its effort in driving digital development under the topic smartifying industry – SKF's own developed term for Industry 4.0. The purpose of smartifying industry is to create a more flexible, efficient and sustainable SKF and thus increasing SKF's competitiveness on the market. It will help SKF to build a strong technical backbone to create new business but also to create flexibility and cost-effectiveness in manufacturing, application engineering, product development and cross-functional operations closely connected to those.

Through this effort, SKF has taken a lead in Industry 4.0, and for the very first time SKF created a centralized unit for digital business development in 2015. Digital business development entails a wide area of knowledge, such as software development, cloud computing solutions, big data management, app development and sensing technologies.

With the right focus, people and knowledge SKF will develop new standards and carry out rapid research and development within digital happening.

People

SKF Technology Development's challenges can only be met by people who are skilled, passionate and able to work in multi-cultural 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, made up of more than 20 nationalities, work together daily with their colleagues around the globe.

Expertise is key to the success for 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. Job rotation is individually tailored to prepare the trainees for the specific role they will have at the end of the programme.

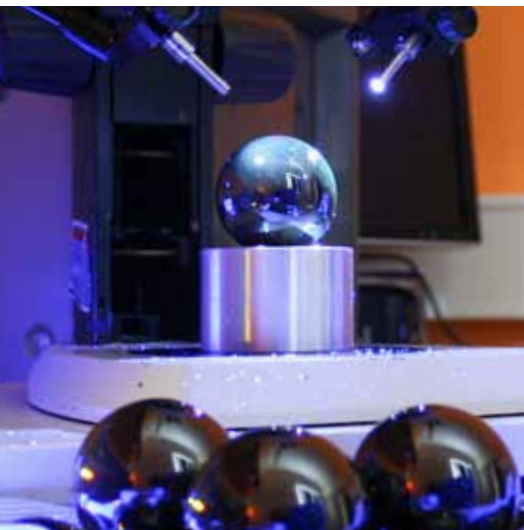
Global Technical Centres

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 requirements. These Global Technical Centres allow SKF to exploit economies of scale, bringing together expertise with critical mass from different technical areas and product platforms.



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FIRST FILINGS
OF PATENT
APPLICATIONS



Relationship with the academic community

SKF collaborates with the academic community and with renowned universities in establishing SKF University Technology Centres (UTCs). These complement SKF's in-house research, establishing long-term relationships 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's technological developments, so that the results of the work carried out at the UTC is directly integrated into SKF's R&D programmes. SKF has six UTCs: the University of Cambridge, UK, for steel technology, Imperial College London, UK, 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 microstructures and residual stresses. The continual 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 Centre 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. Examples of such technologies into a product are SKF Insight and SKF Enlight. SKF Insight is a revolutionary bearing health management technology, and has been successfully applied in several high-end industry applications. The technology, which uses a self-powered, intelligent wireless sensor in the SKF bearing to provide instant condition monitoring data via the internet, is undergoing trials in challenging projects in the wind turbine and railway industries.

By using dynamic bearing data provided by SKF Insight, bearing health management is an innovative new approach being developed, which will determine how actual conditions affect bearing health and trigger corrective action to cure it – such as automatically adding lubricant or altering machine conditions. Results have successfully proved the applied technology and the value for 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 customers' applications, considering the environmental consequences of a product or manufacturing process, no matter where in the product's life cycle these consequences occur. SKF collaborates with renowned universities and industrial expertise centres in this area. Methods for environmental assessment have been developed to suit industrial needs better and improve knowledge about products' environmental performances and manufacturing processes. These methodologies have been a key enabler for launching and expanding the SKF BeyondZero product portfolio, see page 68.

Simulation engineering

SKF has very comprehensive, powerful sets of modelling and simulation products, 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.



Ileana Nedelcu, Researcher, Tribology and Lubrication Department, is analyzing the surface chemical properties of the raceway of a bearing using XPS (X-ray Photoelectron Spectroscopy). This is to be able to study the impact of the additives of the lubricant on wear and surface life.

Some of these capabilities are also offered on apps for tablets and smartphones, supporting the greater use of these devices by SKF's customers to also carry out engineering tasks. SKF is also embedding ICT technology 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 better quality and customer service. Initiatives for continually improving manufacturing are brought together by SKF Production System, which ensures consistent implementation throughout the Group.

To support the technology strategy, R&D focuses on developing and implementing new technology 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 results in less waste. Near Net Shape (NNS) technologies aim at forming a component to almost its final shape, reducing cost and time for the machining operation.
- New technologies for sustainable manufacturing resulting in less use of process media and energy use.
- Building tomorrow's intelligent factories where digitalization and automation will play an important role.
 - Mobile Information and Communication tools providing the right information, at the right time and place, to the right people.
 - Intelligent manufacturing systems integrating sensors and measuring equipment into machines, for more consistent and reliable manufacturing processes.
 - Advanced intelligent technologies for vision and measuring systems, providing tighter control of manufacturing processes. Combining these with the use of advanced signal processing makes it possible to improve process control and machine condition monitoring.

New products and solutions

Industrial Market



The TKSA 51 is an innovative instrument for laser shaft alignment and the second SKF Shaft Alignment Tool that is specifically designed for usage with smartphones or tablets.



A new magnetic bearing control cabinet for turbo-machinery, for onshore, off-shore and subsea turbo-machinery. This offers the opportunity to minimize costs while improving reliability.



SKF Enlight combines a powerful new mobile app with a special Bluetooth-enabled sensor. It allows non-expert staff to gather critical data with standard mobile devices and gaining access to SKF's specialist analysis.



Two new oil-free bearing solutions for centrifugal compressors in chillers. One is a magnetic bearing system and the other a pure refrigerant lubricated bearing. Both solutions eliminate the losses that occur with oil-lubricated bearings, giving energy savings of at least 10% versus conventional centrifugal compressor designs.



A solution to improve the reliability, safety and performance of jack-up gearboxes used in the offshore oil and gas industry and in the renewable energy industry. The solution includes CARB toroidal roller bearings, SKF Explorer spherical roller bearings and high performance seals.



SKF Data Collect, a cloud-based solution using iPads to record and manage data making the transition from volumes of paper to an entirely electronic, cloud-based data solution.



TKSA31 is a smaller version of the shaft alignment tool that was launched earlier in the year. The tool is designed to make shaft alignment easy and intuitive.



SKF Customized Interfacing that integrates the SKF@ptitude condition monitoring suite with customers' existing ERP and CMMS solutions. Allowing businesses to review all condition monitoring data in their existing business management system.

The SKF SEAL JET solution for distributors puts the SKF proprietary machined seals concept to work for distributors, allowing them to custom-machine seals, in the right seal profile and size (up to 200 mm), right on-site at their facility.



A range of small-size sealed SKF Explorer spherical roller bearings has been upgraded. Offering even lower friction, reduced operating temperatures, higher limiting speed ratings and reduced maintenance.



A new generation of highly effective and easily maintained shaft seals for wind turbines that can prolong service life.

Automotive Market

Engine timing chain kits were launched to help customers take advantage of a growing market segment and carry out accurate and efficient repairs on the most popular European and Asian car models.



An upgraded version of SKF's third generation hub bearing unit, designed to reduce preload, friction and CO₂ emissions. Developed for use in cars and vans.



Specialty Business



More than 400 new part numbers were added to the Reali-Slim thin section bearings range.



TILLXTREME (PEER) an exclusive high-performance solution designed to eliminate the need for relubrication with a patented seal design which provides significantly improved contamination exclusion.

Cooper Bearings, an SKF Group company, has introduced new angled pedestals for Cooper split- to-the-shaft bearings that further reduce installation cost and time. Cooper Quick-Change pedestals are split into two halves for easy assembly around a fixed shaft.



SEEDXTREME (PEER) improved bearing solutions using a patented seal design and optimized internal bearing construction in a wide range specifically designed for gauge wheels, disc openers and closing wheels.



Purchasing

SKF purchases goods and services for around SEK 40 billion annually, which is around 55% of SKF's net sales. This means that purchasing and supply chain management has a significant impact on SKF's performance.

SKF sources both materials and services from suppliers around the world. The purchased materials consist of steel raw materials such as bars, wires, tubes and strips, and steel-based components such as rings, balls, rollers and sheet metal parts, and other direct materials as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services.

SKF's factories need to be close to their customers to provide optimal services and they need local and regional suppliers that can fulfil SKF's requirements regarding 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, Turkey, Ukraine, Slovakia 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 and subcontracting, components, indirect and 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 capturing and driving 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.

Alignment to the SKF Group's five strategic priorities

- 1 Creating and capturing customer value**
Collaboration with sales teams to ensure contract alignment with suppliers and quick alignment with suppliers capturing customer needs.
- 2 Application-driven innovation**
Many projects have been initiated in close collaboration with suppliers to better ensure SKF can deliver competitive products for its different customer segments.
- 3 World-class manufacturing**
SKF constantly develop local and regional suppliers to support its local manufacturing, focusing on high performance in, and fulfilment of, its targets in QCDIM. This results in shorter lead-times, greater flexibility and reduced total costs.
- 4 Cost competitiveness**
Today SKF uses the leading purchasing practices to fully drive cost competitiveness by close integration and collaboration with suppliers.
- 5 Maximizing cash flow over time**
Leading practices are applied in combination with electronic order/invoicing and consumption-based replenishment, to maximize cash flow over time and reduce lead-times.

Key initiatives driving and delivering value leadership through cost leadership

Over the year the purchasing organization continued to have a strong focus on the following areas to support the Group's financial targets;

Strategic sourcing waves

SKF continued to implement strategic sourcing waves across all areas by introducing a structured process for how to reduce the total cost of ownership. This is a leading purchasing practice using data analysis and supplier segmentation modelling, to drive down the total cost of ownership. This was supported by strong business alignment, product standardization and supplier consolidation.

Supplier development

Significant improvement in supplier performance was achieved in India by focusing on continuous improvement activities carried out in collaboration with purchasing, manufacturing and the suppliers.

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

SKF is closely monitoring the market price trend for steel from its different purchasing offices around the world. As a part of safeguarding the competitiveness of SKF's products, SKF is continually conducting sourcing studies and running sourcing programmes in the steel sector.

Responsible sourcing

SKF was top ranked in the Dow Jones Sustainability Index for the 9th consecutive year regarding standards for suppliers and supply chain management. SKF has developed a strong foundation for ensuring that suppliers fulfil the SKF Code of Conduct principles

and comply with its standards for doing business. Over the year SKF carried out over 120 code of conduct audits globally.

Building a strategic supplier base, through consolidation and standardization.

In 2015 SKF continued to develop the business with its strategic suppliers across all categories and today roughly 2,000 suppliers equal 80% of the global spend volume. Thousands of suppliers have been taken out and volumes have been given to future strategic suppliers, fulfilling SKF's QCDIM performance targets. At SKF's annual global supplier day in Gothenburg the best suppliers were awarded for their quality, cost, delivery, innovation and management capabilities. SKF's ambition is to work closer with strategic suppliers regarding product and supply chain development to enable the supply chain to operate at a lower cost and become more competitive.

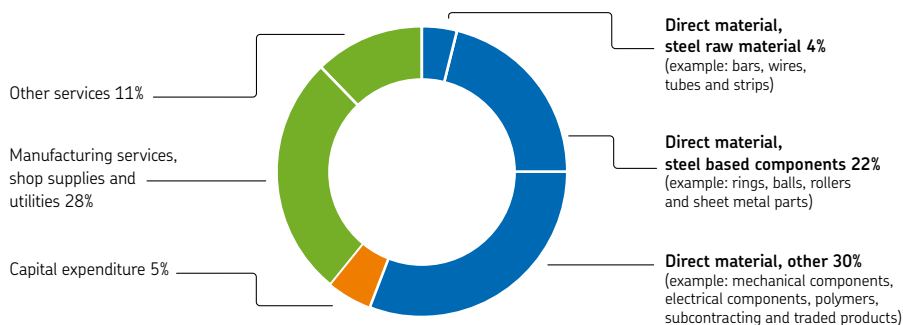
From price to total cost and value

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

Operational efficiencies and standardization of business processes and systems

Purchasing plays a vital role in SKF's ongoing transformation program (UNITE). In 2015 a purchasing system for indirect material was introduced in Sweden based on SAP-ARIBA. In 2016 the system will also include direct material. This standardized way of working in one common system will continue to reduce operational costs in the area of purchasing. This will also help the continuous work to drive down the total sourcing costs through better spend and data management, contract and process compliance, better supply chain transparency and supplier performance monitoring.

Purchasing – around SEK 40 billion 2015



Responsible Sourcing

SKF's responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of Supplier development, which covers areas of delivery, quality, product compliance and code of conduct. For more information on the governance and management approach, please refer to Sustainability statements on page 162.

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 they will adopt the SKF Code of Conduct, Environment, Health and Safety and Zero Defects concepts.

Risk assessment, audits and follow-ups

All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier. The large direct material suppliers (making up 90% of spend) in high risk regions are required to undertake an on-site Code of Conduct audit conducted either by SKF specialists or third party auditors. Input on the level and type of risk associated with specific regions is taken from external sources such as Transparency International, ILO and Control Risks.

SKF employs a number of specialist Code of Conduct auditors who are located in China, India, Europe and the Americas. In addition, SKF educates supplier quality assistants on Code of Conduct auditing to extend the auditing capacity. The audit procedure is based around a checklist with 45 specific questions focusing on a wide range of aspects, such as environment, labour, human rights and general code of conduct issues. Between 2012 and 2015, SKF has completed over 500 such supplier audits in total.

Code of Conduct certification and audit findings

The extent and approach of Code of Conduct auditing has led to more detailed understanding of the issues and challenges faced at suppliers. With this, the Group has been able to develop effective and pragmatic ways of driving improvements.

Already in 2012, SKF established a Code of Conduct certification programme for all its major, direct material suppliers in high risk regions (this focuses on existing suppliers as new suppliers are covered according to the process described above). In order to become certified, a supplier must have closed all Code of Conduct deviations which have been identified during audits. Year to date 2015, 155 (100) suppliers had been certified. Of the suppliers included in 2015, 29 had resolved deviations found before 2015 and 26 were compliant after the first audit.

76 suppliers have deviations identified in previous audits which are not yet resolved, SKF continues to work with the sup-

pliers to close these. SKF covers the cost for the first site audit and one follow up. In cases where the supplier has not taken sufficient actions to close the deviations they are charged for the cost for a third audit. Those suppliers with outstanding deviations are tagged in SKF's system as 'uncertified', which could result in reduced volumes and new business restrictions. Suppliers which fail to address critical issues over time risk having their contracts with SKF terminated. No such termination was necessary during 2015.

The most common deviations found are related to health and safety, work hours, compensation and other employment practices. For more detailed information please refer to Sustainability statements on page 162. Based on certain audit findings, an externally hosted supplier employee whistle blower line has been implemented in India.

Product material compliance

SKF's purchasing operations support the upstream investigations required to gather information needed by the product material compliance function. This relates to requirements such as those set out in REACH, RoHS and conflict minerals. Read more on these in topics on page 68.

The issue of conflict minerals – as defined in Section 1502 of the US Dodd-Frank act is being addressed as part of the overall responsible sourcing activity. Although SKF is not directly affected by this act, the Group supports the ethical motives behind it and has a significant number of customers who are directly affected by it. SKF carries out due diligence and works with suppliers and sub-contractors to help customers meet the requirements. The Group will not knowingly procure products or materials containing conflict minerals from the DRC region, or other conflict areas, unless they are certified as "conflict free", please read more at skf.com/responsible-sourcing.

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 and avoid future increased costs.

31 suppliers had been targeted for implementing energy management systems according to ISO 50001 by year-end 2015. 15 suppliers have already implemented the standards and 16 have started work on certification.



Cages



Grinding machines



Electrical motors



Compounds



Tubes

Manufacturing

Manufacturing activities are core to the overall success of SKF and have been since the very beginning.

SKF has 115 manufacturing plants in 24 countries worldwide with about half of the Groups workforce directly involved in manufacturing. The large majority of SKF's assets in property, plant and equipment are directly deployed in manufacturing.

The Group mission: To be the undisputed leader in the bearing business requires SKF's manufacturing operations to be second to none. This is the rationale behind SKF's **World-class manufacturing** strategy, which is one of SKF's five strategic priorities.

The strategy describes how SKF will achieve a more flexible, responsive, safe and sustainable manufacturing process with zero defects at the lowest possible cost. The strategy comprises four main programmes:

- 1 The SKF production system – standardizing working methods
- 2 Integrated cost reduction (ICR) – cross functional efforts for minimizing input costs
- 3 Technology step-up – leveraging technology and standardization for creating higher performing, more efficient production systems
- 4 Manufacturing footprint – optimizing the geographical distribution and utilization of production capacity

The SKF Production System

The SKF Production System was launched in February 2015 and is fundamentally based on lean thinking. The system complements SKF's established Business Excellence approach by helping to focus more on customer value, eliminating waste, reducing variation and building a culture of continuous improvement with the involvement of everyone. The fundamental concepts of the production system are;

Value: The customer defines the value of a product or service, and SKF must take account of this in all processes.

Value stream: The chain of processes required to fulfil every customer requirement defines the value stream. It is possible to identify value increases and waste reductions by visualizing the stream of material and information and analyzing the processes.

Flow: Information and material should flow without any disturbances in the value stream. Disturbances generate defects, delays and increased costs and will be avoided by using defined, agreed and standardized working methods.

Pull: The flow of product, service or information is triggered by customer demands.

Strive for perfection: This is achieved by continually working at identifying and addressing improvement opportunities.

A highly focused approach is needed to support the effective implementation of the production system. Therefore the production system also sets out priorities: Safety, Quality, Behaviour, Delivery, Cost, Working Climate and Environment. These help the decision making process and facilitate appropriate resource allocation.

The SKF Production system is another step on SKF's journey to maximize customer value and minimize waste. It has been rolled out across 35 units during 2015 and already resulted in significant improvements as illustrated in the examples below.

Implementing the Production System at SKF Luton

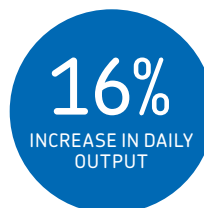
Deploying the Production System is about fundamental change. It takes the time and the dedicated focus from everyone at the factory; from the management team to the production workers out on the shop floor.

SKF Luton started this journey in April 2015. There is real passion and active engagement across the factory to make it work and with that comes a willingness to challenge old ways of doing things and make fundamental changes happen. Based on a carefully developed plan and with expert support from the global implementation team, numerous related activities took place at the factory during 2015. These actions are setting the foundations; changing the culture, increasing the expertise and building the standardized, disciplined way of working that will allow this factory to deliver and sustain significant performance gains going forward.



Implementing the SKF Production System at Pune Factory

SKF's facility in Pune, India, which serves the automotive sector, has deployed the production system to achieve a more systematic, structured approach and this has increased performance significantly. Examples of typical improvements achieved at some of the pilot implementation areas include;



Integrated Cost Reduction

Integrated Cost Reduction (ICR) is fundamentally about setting the right specifications on SKF products and the processes, components and materials used to make them. The idea is to provide the customer with the function and performance that they value without compromising on quality and at the best possible cost.

To achieve this requires a structured and coordinated effort involving customers, product design, application engineering, production engineering, validation testing and purchasing. SKF has been working with ICR for a number of years, but in 2015 this approach was further emphasized and prioritized within the World-class manufacturing strategy. The three main levels in ICR are illustrated on the right.

With this approach, ICR delivers savings by replacing over-specified components, processes or materials with lower cost solutions that meet the customer's needs.

The three steps in Integrated Cost Reduction

- 1 Review technical solutions
- 2 Optimize sourcing
- 3 Review product specification

ICR – use of alternative production processes example

A recent example of the savings realised by the Integrated Cost Reduction approach comes from the production of rings for Truck Hub Units.

Following the ICR principles, the conventional series of processes used to produce the rings was questioned and challenged and the use of cold rolling was identified by SKF's process mobilisation team as a potential alternative to the previous forging and turning process. A cold rolling process where the rings are plastically formed almost to the desired shape was developed by SKF. This allowed a smaller forged ring to be made that could then be expanded by cold rolling, reducing material waste in forging and reducing the need to remove a lot of material in turning defined in the old process, resulting in up to 30% reduction in direct raw materials, along with comparable savings in energy use and other impacts associated with the old process.

This high tech, low waste cold rolling process is carried out in-house and the key aspects have been patented by SKF.

ICR – design optimization for achieving better functionality and lower cost

A second example of the achievements of ICR can be found in the re-design of an automotive belt tensioner unit (used in passenger car engines).

In this case the complex and highly customized design of the original bearing within the unit was questioned. A revised design and specification was developed and this was based around the use of a standard bearing mounted in a plastic pulley and a simple shaft arrangement.

This simplification has released direct material cost reductions of around 11%, in addition the revised product is easier to mount and as a result the customer has been able to implement an automated assembly process.

SKF's production systems and integrated cost reduction programmes are essentially about driving operational excellence and continual improvements. The technology step-up and manufacturing footprint programmes will provide the big step change improvements and require a change of investment focus from that of recent years – as described in the figure below.

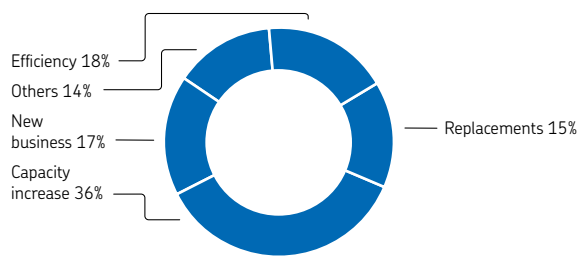
Between 2009 and 2015 an average of 36% of overall plant, property and equipment (PPE) investments made by SKF were dedicated to the addition of new factories and capacity, predominantly in China, India and other developing economies. This achieved a more balanced geographical match between

customer demand and SKF's production capacity. There is scope to further optimize this balance, however the need of additional new capacity investments was reduced to around 5% in 2015 and will remain at this level over the medium term.

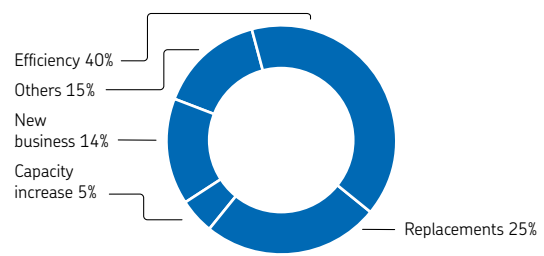
Going forward, SKF's investment focus has shifted towards improving and optimizing its existing production capacity and tuning its geographical footprint. Investments in efficiency measures will increase from an average of 18% of the total in 2009 to 2015 to around 40% in 2016 and thereafter. At the same time investments in replacement machinery will also increase from 15% to 25% of the total PPE investment budget.

Investment shift to achieve World-class manufacturing

2009–2015 average 2,100 MSEK



2015 and going forward forecast 2,200 MSEK



Technology Step-up

The shift of investment focus to support the Group's World-class manufacturing strategy will deliver a number of step improvements to the technical performance of SKF's manufacturing operations.

The step up areas being focused on are:

- **standardization**
- **maintenance excellence**
- **flexibility**

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

A number of Process Centres of Excellence were established in 2015 aimed at coordinating and accelerating standardization and the benefits they bring. These centres drive machine refurbishing programmes – ensuring that agreed latest technical features are included in the refurbishment specifications and help in deploying and rolling out newly defined technology solutions.



Inauguration of the St. Cyr Process Centre of Excellence by Luc Graux and Arik Danielson.

Maintenance Excellence aims to increase machine uptime by the targeted implementation of SKF reliability solutions within the Groups manufacturing operations. Increasing uptime and avoiding breakdowns ensures that machines are available to produce with the right quality and speed according to customer demand. At the same time, the capital intensive nature of bearing manufacturing operations means that even small improvements in this area can make a significant contribution to the operating result.



A practical session from the Maintenance Excellence Boot Camp in the USA.

The success of Maintenance Excellence rests on the competence and knowledge of the maintenance managers and engineers, production managers and other professionals who work with it. Therefore, systematic and structured training has been developed and deployed in 2015 via a series of Maintenance Excellence Boot Camps. Three of these regional sessions (each taking 5 days) have been completed involving around 75 people and covering most of SKF's factories in Europe, China and the USA.

Flexibility is about defining the technology set up best suited to market demands. This can range from a high volume set up (producing millions of the same item) to the super flexi set up (producing bespoke individual pieces for a specific customer demand) and a range of solutions in-between.

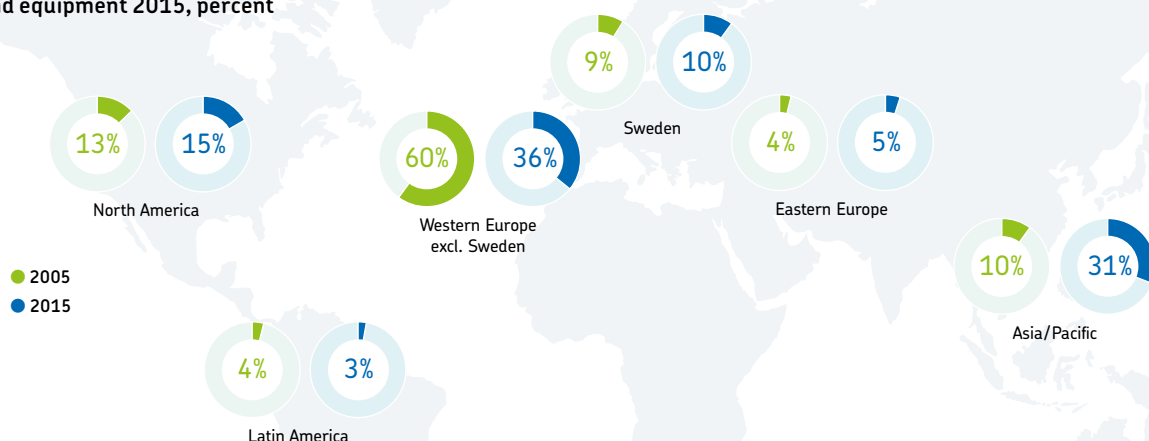
The different set ups require very different approaches, such as how machines are re-set (moving from producing one item to another). During 2015 SKF developed a super flexible production set up with zero re-setting time. The machines are automated and robotised to such an extent that it is possible to move from producing one item to another without any human intervention or reduction in output.

Manufacturing Footprint

In order to better serve its fast growing customer base in Asia and other developing regions and to reduce the costs of doing so, the Group has worked to address the geographical balance between manufacturing footprint and customer demand.

As seen below, a significant improvement in this balance has been achieved by the investment in new factories and acquisitions which SKF has made in recent years.

Geographical distribution of property, plant and equipment 2015, percent



There is still more to do to rebalance the manufacturing footprint towards Asia and this work is being driven under the Manufacturing Footprint programme.

An example from 2015 is the recent capacity move to SKF's facilities in Dalian, China. SKF has installed two new production channels for medium size spherical roller bearings, plus one channel for deep groove ball bearings and one for cylindrical roller bearings. This covers size ranges that had previously been supplied to customers in China predominantly from factories located in Europe.

At the same time as matching production capacity to Asian customer demand, the programme puts equal focus on reviewing, adapting and upgrading the long established legacy manufacturing footprint in Europe and the Americas.

An example of the types of action being taken in this regard in 2015 is the bearing factory in Gothenburg, Sweden. This unit will be impacted by the ramp up of the new capacity in Dalian mentioned above and the machines and systems were installed

more than 30 years ago. Without significant change, the factory will not be competitive in the face of increasing customer demands for flexibility and the need of a lower cost base. Therefore in early 2015, the decision was taken to run a focused Technology Step-up programme at the Gothenburg facility.

With a total investment of SEK 190 million, SKF is decommissioning a number of old production channels and installing new production capacity, which can achieve high output and high flexibility at low costs. This features for example, zero resetting machines, intelligent grinding and higher level of automation.

– *Zero resetting* means no setup time between production of different sizes of bearing batches.

– *Intelligent grinding* refers to integrated documented SKF knowledge in to machine control system, combining acoustic and the grinding power to precisely control the grinding force, this to increase output and reduce variation significantly.

– *Automated assembly* for the first fully automated bearing production channel in the world. Automated guided vehicles that do not require manual transport of components or finished products inside the production channel.



New Channels at SKF Dalian MSB, China.

In addition to this, the production channels include Radio Frequency Identification (RFID) tagging for full process traceability, bearings individually ID marked for full material and process traceability of each individual bearing, energy efficient machines, flexible LED lighting.

The facility has will also be equipped with the latest SKF customer offerings such as SKF Condition Monitoring and portable devices, which realizes higher reliability and predictive maintenance to assure the highest level of up-time. It will also provide real time manufacturing process status, work instructions, maintenance and machine documentation to a smart device worn on the wrist of the operator.

Logistics and Demand Chain

SKF reaches over 50,000 customer sites, with short lead-times, through its global transportation network and local and regional warehouses. Logistics and Demand Chain effectively manages the flow of components and goods from suppliers to SKF and from SKF to its customers. As a global organization it supports with services related to transportation, customs, material handling, inventory management, warehousing, packaging and deliver/return processes. Expertise and activities in these areas are a key competitive advantages for SKF.

To ensure product availability, regional warehouses are located in Belgium, the USA, Uruguay, Singapore and Shanghai. The warehouse in Shanghai, which became fully operational in 2014, was LEED (Leadership in Energy and Environmental Design) certified in 2015.

SKF is continually striving to develop and deliver services that are cost-effective, competitive and reduce environmental impact.

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's shippers and importers to access the FAST lanes via mutual recognition of the existing customs security programmes.

SKF is an active partner and participates in this programme in various countries. The programmes are managed by Logistics 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.

Logistics – environment

SKF works to constantly improve transport efficiency and has set a target to reduce CO₂ per tonne-kilometre by 30% between



SKF Logistics Services unit in Shanghai, China.

2012–2016. This is one of the four main areas in SKF's overall climate strategy and part of SKF's commitment to the WWF Climate Savers, please read more on page 69. A total reduction of 18%* had been achieved at year-end 2015.

SKF is 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 CO₂-efficient transport modes
- Improving efficiency in the transport chosen

To minimize the total emissions from transport, SKF is working with incentive schemes and strategic plans to increase the fill rate (which was 70% for 2015), improve planning and routing of trucks and increased consolidation of air/sea transport. 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.

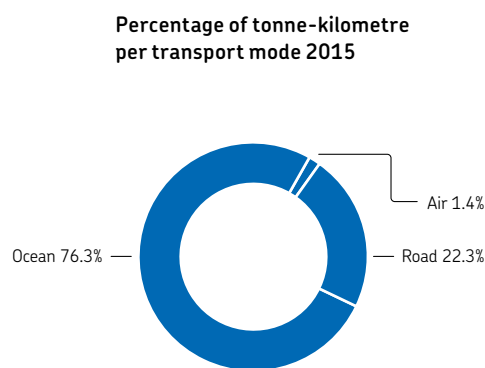
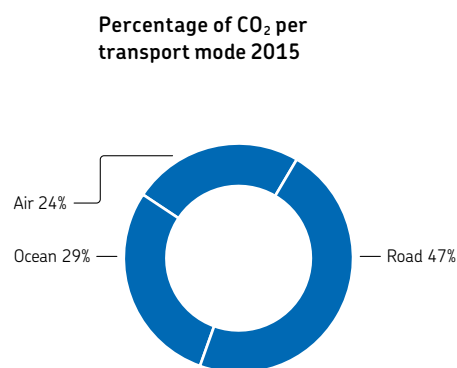
In 2014, SKF started investigating a train transport connection from Europe to China for a specific range of products.

After successful evaluation the assortment for this rail solution has been expanded in 2015, resulting in both financial and CO₂ emission savings. By mounting special devices on some of the containers, data about shocks, temperature and humidity fluctuations is also measured throughout the full rail transportation.

SKF also gained more experience using transportation over inland water (barging) between the ports of Antwerp and Genk, located about 30 km from SKF's EDC in Belgium. In 2015, 86% of EDC's inbound containers were barged. For the outbound containers, SKF managed to increase the number from 85% in 2014 to 91% in 2015. Together with the re-use of the inbound containers for the outbound flow, this is currently representing a 40% CO₂ emission reduction compared to road transportation.

* In 2015 the scope of reporting changed significantly. The method to calculate emissions has been refined and updated accordingly. Between 2012 and 2014 SKF reduced the total CO₂ per tonne-kilometre by 15% according to baseline 2011. The refined calculation tool now contains more absolute data and fewer assumptions reflecting the market situation more transparently. A new baseline has been set for 2015 and 2016 based on data from 2014. The actual reduction in from 2014 to 2015 was 3%.

The choice of transport mode is important when optimizing emission efficiency. The most obvious is the shift from air freight to train, road or sea transportation. Air transportation stands for only 1% of the shipped volume but 24% of the total emissions. SKF works continually to reduce the transport works sent by air, but some transport routes and urgent shipments still require air freight. Road transport in the graph below also includes rail.



SKF Care

SKF's decision to make sustainability one of its strategic drivers stems from the belief that the company is responsible, not only for the economic results of its activities, but also for wider social and environmental impacts. SKF Care helps to enact this driver by clearly defining what sustainability means to the Group and its employees. The four dimensions are: Business Care, Environmental Care, Employee Care and Community Care. The SKF Care framework guides how the Group operates.

Business Care



Employee Care



Environmental Care

Community Care

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

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

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

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

External principles and charters

In order to reflect and communicate the importance of sustainability and SKF Care, the Group has endorsed or subscribed to a number of internationally recognized principles, charters and guidelines which promote sustainable and ethical business practices.



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, and referring to the Rio Declaration on Environment and Development, SKF applies a precautionary approach in its development work. Conservative assumptions are also used for any claims made by SKF regarding product or operational performance.



The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social wellbeing of people around the world.

SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

Industry associations and peer collaboration

SKF is an active partner in several industry collaborations and initiatives and holds talks with industrial peers on issues relating to technical and management aspects across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in UN Global Compact, World Bearing Association, WWF Climate Savers, the Conference Board, Teknikföretagen, The Royal Swedish Academy of Engineering Sciences, Swedish Life-cycle Centre and International Standardisation Organisation among others. In addition, SKF collaborates formally with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy.



WWF partnership

SKF has also sought to engage and collaborate with non-governmental organizations that are respected and active in areas that are material to the Group. One such area is climate change and the company has been part of the WWF Climate Savers programme since 2012. The programme is a global leadership platform, which aims to help drive and communicate the transformation of business and industry towards lower carbon emissions and a more energy efficient world. Read more about Climate Savers and SKF's related commitments on page 69.

Quality, Environment, Health and Safety

Proper management of quality, environment, health and safety is fundamental to SKF Care and critical for the success of the Group.

Effective management of the related performance is achieved with a systematic and standardized approach which is embedded throughout the organization, its people and its processes. This requires;

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

SKF uses Group-wide management systems to deploy these requirements and thus assure that related objectives, customer requirements, stakeholder needs and regulatory obligations are met. In addition to meeting these basic requirements, the systems also support and drive continual improvement.

Continual improvement is further supported by tools such as the SKF Six Sigma programme – and the realization of an operational culture based on SKF's Business Excellence approach, put into practice in manufacturing operations by the SKF Production System.

The SKF approach to quality management has been evolving for over 40 years. Today, SKF's global quality management system is based around a standardized approach to quality replicated across the organization. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The preference is for multi-site certification by accredited certification bodies; the advantage is that SKF's systems and processes are certified along the end-to-end flow, giving assurance of transparency of customer needs across the organization. The system is structured with the Group Quality Policy as the highest level requirement, the way to execute on these demands is then described in progressively more detail (procedures down to detailed work instructions) firstly in the Group wide management system (Qb), then the Business Areas and countries (Qc) and finally down to the operational unit (Qd).

As with quality, the SKF approach to environmental, health and safety management has been evolving over many years. Today it is based around a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and as of February 2015, ISO 50001* (energy management). All relevant units are included in this single Group-wide certificate, and recently acquired companies are part of the plan for certification. SKF has established a Group policy as the highest requirement in relation to EHS, and then the Group wide management system (Eb), country specific systems – adapted to specific legal requirement in each country (Ec) and finally site level (Ed).

* Major sites making up 90% of total energy use are included in the ISO 50001 scope.

Management systems developments

2015 saw the revision of ISO 14001 (environment) and ISO 9001 (quality) with new standards being issued in September. One of the key features of these revisions is the adoption of a common structure and harmonization of various requirements. SKF sees potential in this to combine elements of its management system, benefitting the ease and efficiency of implementation. Activities towards this more integrated management system approach were initiated at the end of 2015.

Other standards, including ISO/TS 16949 (automotive), OHSAS 18001 (health and safety) and ISO 50001 (energy management) are also planned to follow the adoption of a common structure over the coming years and will be incorporated as the revisions are published.

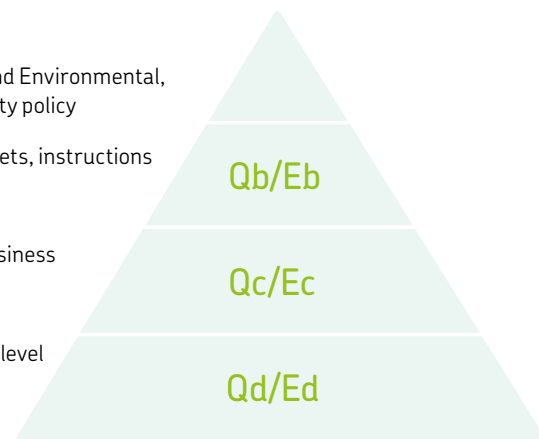
Group policy

Quality policy and Environmental, Health and Safety policy

Group level targets, instructions and guidelines

Country and Business Area level

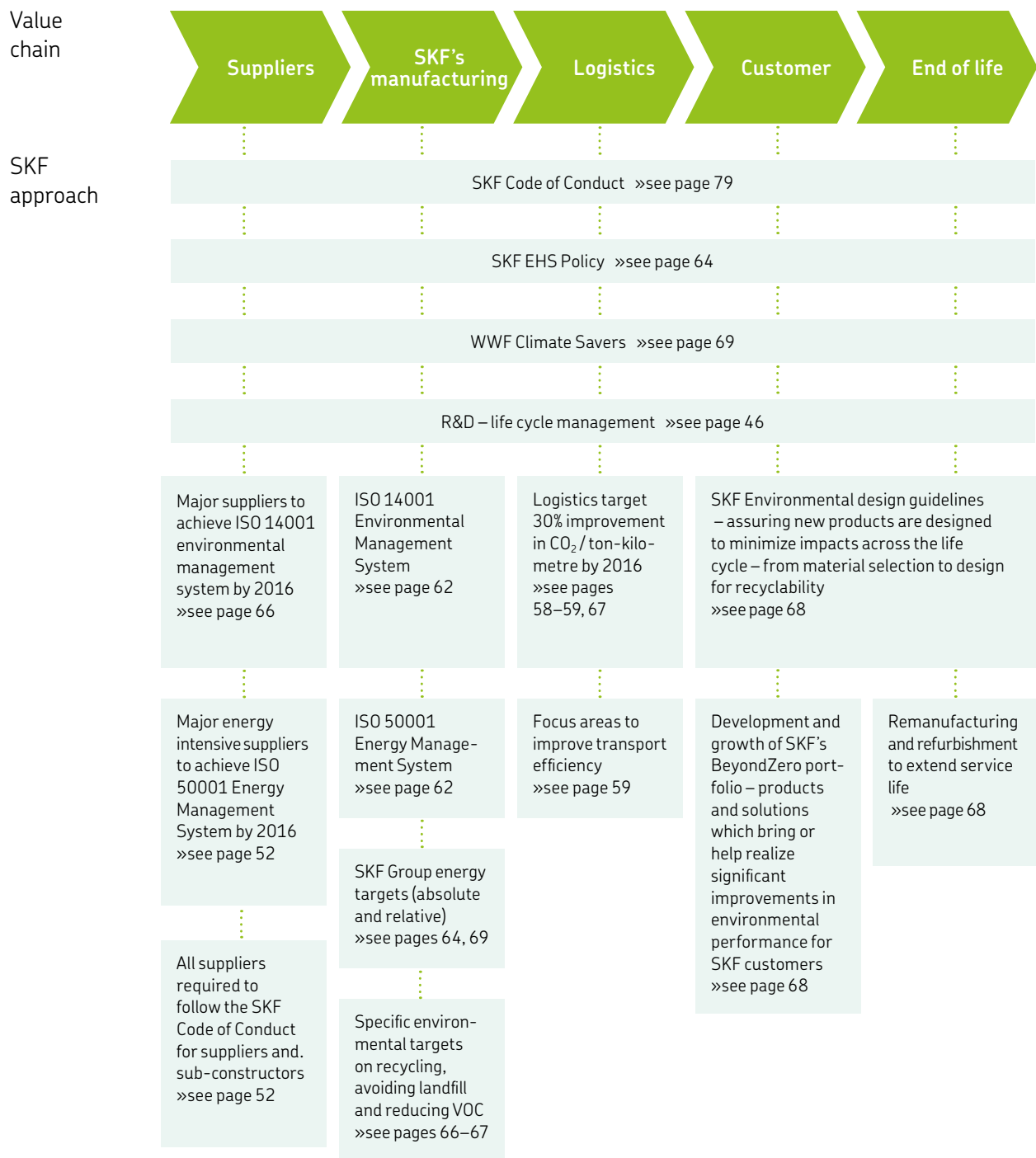
Operational site level guidelines and procedures



Addressing environmental issues along the value chain

The principles set out in SKF Care, specifically Environmental Care and BeyondZero, require the Group to take steps for understanding and reducing or avoiding the various environmental impacts occurring along its value chain.

The chart below summarises the main elements of this approach, and the following pages, together with the Sustainability statement section of the report, provide a more detailed explanation.



SKF BeyondZero - overall strategy for addressing environmental and business performance

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 the products when running in customers' installations, to the way in which products are disposed of when they come to the end of their useful life.

To SKF this means that every stage in the value chain presents the potential for reducing environmental impact. Releasing this potential not only addresses SKF's responsibility towards society and future generations, it also enhances the ability for the Group and its customers to do more with less, thereby creating value and a sustained competitive advantage.

SKF BeyondZero provides a strategic framework, helping to realize this objective. It drives action to reduce the impact resulting from SKF's operations and those of its suppliers, logistics etc. (reducing the negatives) while at the same time providing customers with solutions that deliver reductions in the impact of their products or operations (increasing the positives).

Aligned with, and in support of SKF Care and SKF BeyondZero, is SKF's Environment, Health and Safety policy. This describes the company's commitment to both short- and long-term actions to protect the environment, as well as providing a safe and healthy working environment for employees. This policy reflects the requirements of ISO 14001, OHSAS 18001 and ISO 50001 and is the basis for the Group's EHS management system, see page 62.

In order to focus on key issues and make efficient use of time and resources, SKF has identified the most significant and material environmental impact areas along the value chain. This has been achieved via lifecycle assessments, long established practical knowledge and experience, and stakeholder dialogues. These significant impact areas include energy and climate, recycling and waste management, resource use and efficiency, chemical use and water use – sometimes compiled as systematic environmental protection.

The following sections provide further explanation on how these impacts are addressed along the value chain.

SKF operations (factories, warehouses and other facilities)

The Group increased its focus on operations by issuing the Environmental, Health and Safety Policy (EHS policy) in 1989. SKF became the first international bearing manufacturer to receive global ISO 14001 Environmental Management System certification in 1998. The current EHS Management system describes how SKF's environmental performance in its operations must be managed. The system has been designed to drive an integrated approach where responsibility for Environmental (and health and safety) performance is owned by those in charge of a unit (e.g. factory manager) and on up the line organization. Environmental, Health and Safety specialists are deployed at site, country, Business Area and Group level – and their role is to support and facilitate the effective management of EHS matters within the line organization.

The SKF group-wide ISO 14001 certificate consisted of 117 sites in 35 countries at the end of 2015. 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/14001.

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.

Direct energy use and related greenhouse gas emissions

SKF has defined two parallel targets for total direct absolute energy use and direct 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 ensures that high pressure and focus on improving energy performance is maintained, irrespective of the external economic development and location of the site.

Amongst many actions aimed at achieving these targets, the Group has adopted the ISO 50001 energy management standard at its major, energy intensive sites around the world. The standard will facilitate systematic improvement over many years in energy and CO₂ efficiency. The requirements were integrated into the existing EHS management system. SKF received global ISO 50001 certification from the independent auditor – DNV-GL in February 2015.



New solar power installation in Pune India

SKF installed a 1 MW solar photo voltaic (PV) power plant at the factory in Pune, India in 2015. The factory represents around half of the total energy use and CO₂ emissions resulting from SKF's direct operations in India and the plant consists of 4,000 solar PV panels in total. It reduces CO₂ emissions by 1,200 tonnes and saves around 500,000 SEK per year.

SKF's foundry in Katrineholm, Sweden, inaugurated its new melting shop in 2014. Now after running the new facility at full speed SKF has concluded energy savings of over 20% per year compared with the old one. Total energy savings amount to over 3 GWh per year, in addition to avoided maintenance cost of almost SEK 7 million.

SKF is expected to be within the scope of energy mapping requirements as defined by the EU directive and Swedish legislation. The energy intensive sites in the Group, which together make up 90% of the total energy use, have already completed detailed energy mapping as part of the requirements for ISO 50001 certification. In Sweden, Gothenburg and Katrineholm are included in the scope, and will individually report energy mapping to the authorities. SKF sites in the rest of the EU will report their energy mapping according to local interpretation of the EU directive. As SKF's energy management system is globally certified, energy intensive sites outside Europe are also carrying out energy mapping and work with continual improvement according to the same requirements as sites within the EU.

As reflected in the targets above, the most significant and important contribution to reducing greenhouse gas emissions resulting from SKF's operations is delivered by improving energy efficiency. However, in addition to reducing energy use, SKF also makes efforts to increase the amount of low-carbon, renewable energy 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 include geothermal, solar (thermal and photovoltaic) etc.

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.

Energy use 2015 compared to 2006 was reduced in absolute terms by 17% (16%) and the Group continues to be well ahead of the targeted 5% reduction by 2016. Energy efficiency (per output) worsened slightly in 2015 compared to 2014, this was mainly due to a somewhat lower production volume. For all CO₂ and energy data, please refer to Environmental statements on page 150.

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 scrap steel, as this provides favourable material properties and is widely available.

A total of 432,000 tonnes (447,000) of steel was used in 2015. The Group is continually working to improve efficiency of material use because this equates to both environmental savings (avoiding the impacts of producing the material) and cost benefits. The company invests in research into advanced manufacturing technology that minimizes the amount of material 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.

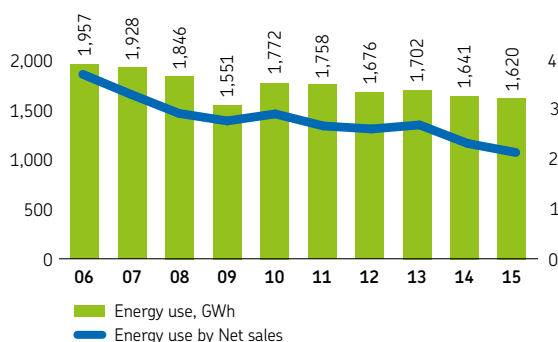
Chemical use

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be harmful to health and the environment. SKF has achieved a reduction of more than 60% since 2002 when the Group started to target this aspect. The current target is to achieve a 50% reduction from 2007's level by 2016. In 2015, the amount used was 902 tonnes (882), a reduction of 44% from 2007.

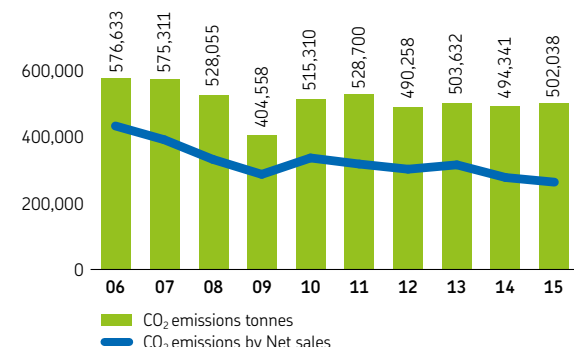
Ozone-depleting substances

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 Sustainability statements on page 154 for detailed data.

Energy use at SKF's operations



Carbon dioxide emissions from SKF's operations (scope 1 and 2)



Water use and discharge

As the majority of SKF's factories are located in industrial areas, 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 2015 was 5.5 million cubic metres.

SKF's global environmental management system helps ensure compliance to local rules and legislation related to water use and responsible water management, including wastewater handling.

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

Waste management/recycling

SKF's objective is to minimize waste and increase recycling. All scrap metal from SKF's operations is recycled, totalling 83,734 tonnes in 2015.

The largest volume by-product from SKF's manufacturing process is grinding swarf – a mixture of small particles of ground steel, abrasive materials and grinding liquids. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2016.

In 2015, the rate was 80% (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 year-end 2016.

SKF in Nankou, China has successfully reduced its grinding waste by separating coolant and the small steel residuals. The coolant media can be reused in SKF's processes and the briquettes of pressed steel swarf is sent to re-melting and put back in the steel cycle. Cost savings associated are around SEK 700,000 per year.

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 in 2010, SKF defined that all major constructions undertaken by, or on behalf of, the Group must be designed and constructed in accordance with the US Green Building Council's (USGBC) "Leadership in Energy and Environmental Design" (LEED) standard.

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.

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 undertaken by, or for the Group, are required to apply SFR in conjunction with LEED. Read more about SKF's construction standards at skf.com/leed.

Environmental permits

Operations requiring permits exist in all countries where SKF has manufacturing sites. On 31 December 2015, SKF held permits in Sweden covering 7.6% of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to the production of bearings, bearing housings and couplings.

Landfills

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

Spill incidents

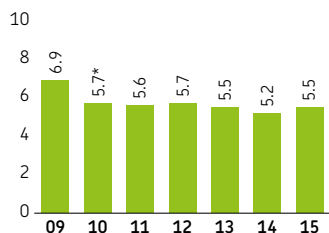
SKF received no significant directives from the environmental authorities in 2015. Two minor spill was reported over the year. These has been acted on and in line with local regulation been communicated with the environmental authorities.

Suppliers

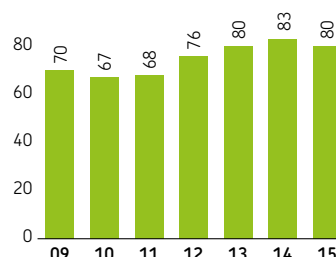
SKF's approach towards supporting and driving improved environmental performance at the Group's suppliers is part of the responsible sourcing initiative, which is summarised along with the overall purchasing strategy on pages 50–52.

The approach dictates that major suppliers achieve ISO 14001 environmental management standard and ISO 50001 energy management standard certification for energy intensive major suppliers. Environmental performance requirements are also defined in SKF's Code of conduct for suppliers and subcontractors and are reflected in SKF's supplier agreements, terms and conditions. Evaluation of environmental management and performance is also included in general supplier audits as well as specific code of conduct audits.

Water use (million cubic metres)



Grinding swarf recycling rate (%)





Michael Baumann, Eric Baudez and Jim Marnoch of SKF representing their teams and receiving the SKF Climate Savers Award 2015.

SKF hosted the 2015 WWF climate savers conference together with Volvo Group

In May 2015, Volvo and SKF hosted the biennial WWF Climate Savers conference. Among the key note speakers at the business forum were Marcus Wallenberg of SEB and Investor, Jim Skee of the IPCC (International Panel on Climate Change), and the French ambassador to Sweden, Jacques Lapouge. SKF was represented by Rob Jenkinson, Director of Corporate Sustainability in a panel discussion on how companies can work to reduce or eliminate CO₂ emissions over the value chain.

In conjunction with the conference, SKF ran a parallel event at which teams and projects judged to have made a significant contribution towards the achievement of SKF's Climate Savers targets were recognized. One of the awards was given to the team behind the main shaft unit for tidal stream turbines, a market-pioneering solution taking ocean power generation one step closer to become commercially viable. And the other went to the developers of a groundbreaking clutch bearing unit, which significantly reduced power losses in the gearbox of passenger cars and thereby reduces fuel consumption and emissions.

Logistics

Greenhouse gas and other air emissions are the most significant of the environmental impacts related to SKF's logistical operations. Therefore, the Group has established targets and a number of initiatives aimed at reducing air emissions. These are based on the promotion of lower impact transportation modes (e.g. avoiding air freight as much as possible), the improved utilization (fill rates) of trucks, promotion of best technology and other measures, which bring both cost and environmental savings. For more information please see pages 58–59 and the Sustainability statements on page 151.

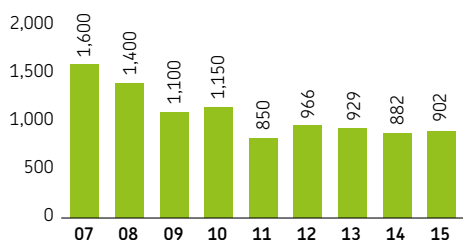
SKF has very strict specifications and requirements concerning packaging materials and the packaging process. As defined in its Packaging Standard instruction S9, all packaging materials must comply with environmental and waste disposal legislation such as EU Directive 94/62/EC, as well as with local 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. If pallet bases, collars or lids are damaged they will be repaired and put back into circulation.

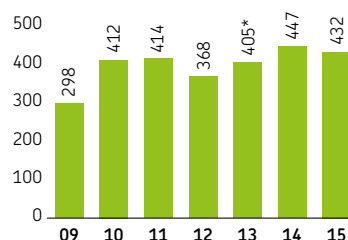
SKF Logistics Services provides component suppliers with GSPs and the same transport packaging is used when products are finally shipped to customers. Reusing the same transport packaging eliminates waste. For each pallet there is a returnable deposit, which is refunded when the pallet boxes are returned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

Use of Volatile Organic Compounds, VOC (tonnes)



Metal as a raw material (1,000 tonnes)

* restated due to reporting error



Product design, customer use and disposal

Environmental compliance of SKF's products

During 2015, SKF continued to focus on product related environmental compliance areas such as REACH and RoHS. The SKF Group has a centralized function for the environmental compliance surveillance of SKF's products, with respect to chemical legislation, such as, 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 complies by communicating both up and down the supply chain. This is to ensure that materials and compounds used in SKF's products and manufacturing are registered as safe to use. 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 Product Material Compliance section on page 59 in the Purchasing chapter.

The SKF BeyondZero portfolio

Numerous life cycle studies confirm that the greatest potential for SKF to reduce environmental impact – and support the transition to a more sustainable industry – lies in the customer use phase of the Group's solutions. SKF's customers in all industries are increasingly driven to improve energy efficiency and reduce the environmental impact from their products, services and processes. Therefore in 2012, SKF launched the SKF BeyondZero portfolio in order to put additional focus on the development and marketing of solutions that can reduce these impacts, help customers meet these drivers and grow SKF's business in this area. The SKF BeyondZero portfolio consists of solutions that help customers reduce environmental impact either directly via the provision of more energy efficient bearings or seals for example

or indirectly by supplying solutions that help to enable larger system improvements (supply to the wind or electric vehicle industry for example).

The environmental improvements provided by the various solutions in the portfolio are validated through a lifecycle assessment-based methodology developed by SKF. In order to ensure the accuracy and credibility of the portfolio and approach, the process, as well as reported results, is reviewed by external auditors.

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. In 2015, the revenues amounted to 5.9 billion. Please refer to Sustainability statements on page 152 for more details on the avoided emissions and calculations.

Environmental design guidelines, product re-use and recycling

SKF has developed general guidelines for product designers, which support the integration of environmental aspects (such as energy efficiency, recyclability and low impact material selection) into the normal product design process. In addition, the product development process has been adapted to focus on environmental performance aspects at various important stages in the design phase.

In general, SKF's products are highly recyclable due to the nature of the main materials used.

SKF also focuses on further development and expansion of its reconditioning and product re-manufacturing solutions. See example below.

The SKF BeyondZero portfolio includes solutions that realize significant environmental and operational benefits in the customers' applications. At the end of 2015, the portfolio included 60 specific customer solutions. Please read more at beyondzero.com



The SKF Low Friction Hub Bearing Unit is part of the SKF BeyondZero portfolio. The solution helps to reduce friction, fuel consumption and CO₂ emissions for passenger cars. It also delivers longer service compared to a conventional solution.



SKF's remanufacturing services provide a systematic service to prolong bearing life for the customer, reduce cost and significantly reduce environmental impact. SKF has workshops all over the world that provide remanufacturing service of bearings and complete units to railway, aerospace, machine spindles and large size bearings for general industry.

Climate strategy – based on SKF BeyondZero

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

The motivation for SKF's continued commitment in addressing climate change can be summarized in three points:

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it may have catastrophic long-term consequences for both.
- Energy prices are likely to increase over time. SKF's ability to run its business activities in a highly energy and carbon-efficient way will increasingly affect a long-term competitive advantage.

- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solutions it provides, and in doing so create considerable value for customers and investors.

SKF's climate strategy is based on the SKF BeyondZero approach and sets out a number of targets that drive energy and related greenhouse gas reduction activities along the company's full value chain. These 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	31 targeted, 15 certified, 16 started implementation	i) 1,620 GWh. Absolute energy use 17% below 2006 level. ii) Relative energy use increased 2% from 2014 to 2015.	18% reduction since 2011. (New baseline set, read more on page 59)	Revenues 2015: SEK 5,930 million.
Read more	Purchasing section, »see page 52	Environmental section »see page 65	Logistics section, »see pages 58–59	Products section, »see page 68

WWF Partnership

SKF's climate strategy is recognized by the WWF as being best in class in its industry and the Group has since 2012 partnered 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 prepared to take the lead on climate and energy solutions. The member companies set, in agreement with the 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





» Safe and Respectful workplace

» Positive and Engaging workplace

» Employee Wellbeing

» Take part in community activities



Employees

Employee Care is about promoting a safe working environment, health, education and the wellbeing of SKF's employees whilst ensuring employees' rights are respected. SKF's position in the industry 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.

The SKF Code of Conduct and Social Policy are fundamental to Employee Care. The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) is a key collaboration for the effective deployment of the SKF Code of Conduct through the

organization. As one of the first agreements of its kind, the framework helps promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of Employee Care throughout the Group.

Safe and Respectful workplace (To respect) <ul style="list-style-type: none"> • Safety • Code of Conduct • Equality, labour and human rights 	Positive and Engaging workplace (To develop) <ul style="list-style-type: none"> • Leadership • Learning and development 	Employee Wellbeing (To be healthy) <ul style="list-style-type: none"> • Work-life balance • Health 	Take part in community activities (To engage) <ul style="list-style-type: none"> • Volunteer • Charity
SKF provides a respectful and safe workplaces for its employees. This commitment is stipulated in the SKF Code of Conduct and followed up via a number of programmes.	SKF offers a positive and engaging workplace that emphasizes employee development and engagement at work. This is done by means of setting individual goals, performance follow-up and employee engagement survey measurement.	SKF works to promote employees' health and wellbeing at work. Programmes and initiatives are coordinated locally.	Through SKF's Community Care programmes, SKF enables employees to engage in the local communities.

As part of overall efforts to increase productivity and focus a restructuring programme took place as of 1 January 2015.

SKF merged two industrial businesses – Strategic Industries and Regional Sales and Service to form a more simplified, efficient and more customer-focused industrial market structure. The restructuring programme combined with a rationalization of corporate staff functions to increase white collar productivity, has affected approximately 2,100 employees worldwide.

Extensive dialogues were held with employees and their representatives and as with previous restructuring programmes, strenuous efforts were made to minimize the negative impacts on those employees leaving the Group. These included the use of early retirement schemes as well as voluntary redundancy schemes.

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 and UN Guiding Principles on Business and Human Rights. 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 level of commitment from business partners.

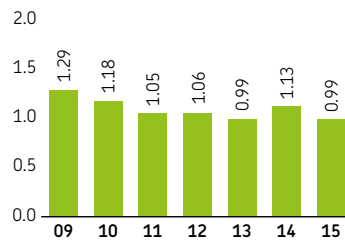
Safe work environment – Zero Accidents and OHSAS 18001

SKF launched the Zero Accidents target in 2000 with the aim to eliminate work-related accidents. The belief that accidents are preventable and that an accident-free work environment is achievable, has led to substantial progress over the years. 2015's accident rate was 0.99 (1.13).

To further its progress in this area, SKF follows up on near misses and the severity rate of accidents. This increased focus has resulted in a lower rate of severe incidents. SKF also follows up on lost time, long term health index and psycho-social work related health to uphold a safe work environment, whilst giving an insight on employee wellbeing at work SKF's health and safety management system is integrated with the environmental management system.

Regular hazard and risk assessments of working environments are part of OHSAS 18001 certification. SKF's management system also requires that all new employees are subject to health and safety training. At the end of 2015, the certificate covered 117 sites in 35 countries. Read more on page 155 for boundaries. 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

Spotlight on Safety in the USA

In 2015, SKF USA launched Spotlight on Safety to help the American sites move closer to the goal of Zero Accidents. The process combines quarterly health and safety measurements with actions for all sites, and specific actions for sites with specific improvement needs.

All sites implemented a common Hand Safety program, since hand injuries made up 50% of total recordable accidents. All SKF sites were divided into three categories where those with the highest accident rates (Spotlight), medium level (Watchlist) and lowest rate (Green). The spotlights sites have reduced their lost or restricted days by over 60% 2014 to 2015. Workers compensation costs associated with these was reduced by almost 90%.



SKF USA's management reviews safety features in the new St. Louis automated warehouse.

Respectful workplace – equality, labour and human rights

SKF follows the United Nation's Guiding Principles on Business and Human Rights and its 'protect, respect and remedy' framework.

The Group's commitment on human rights is embedded in the SKF Code of Conduct which was updated during 2014. It covers salient issues such as – freedom of association, compensation, work hours, health and safety and discrimination and other human rights. SKF has been carrying out due diligence on the compliance on the SKF Code of Conduct, both internally and over the value chain in different ways. The Group is continuing to develop related processes in order to evolve and refine its due diligence approach.

Due diligence outside SKF's legal boundaries is coordinated by the relevant function, and is supported by Group Legal and Sustainability. As part of the due diligence process for major acquisitions, SKF evaluates aspects that are covered in the SKF Code of Conduct such as safety, ethics and compliance. The precise approach is adapted to the specific conditions of each acquisition.

SKF's policy audit system is based on the SKF Code of Conduct 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, all SKF units are audited on a three year cycle based on risk.

In 2015, audits were conducted at 38 sites, of which 16 were in Europe, ten in Asia, nine in the Americas, and three in other regions. The audits showed five cases of noncompliance with the Code of Conduct, four of which were also legal noncompliances. Three of these were for overtime hours worked above the legal limit, and one for shift working by a young employee, who was above the legal minimum age for work, but just below the age restriction for shift work. Corrective action was taken in all cases, for one audit, corrective actions are ongoing.

In addition to identifying and following up on the noncompliances, SKF internal audit function also makes recommendations to units which are compliant but where there is potential to improve monitoring systems.

For a summary of Code of Conduct audits at SKF suppliers, please refer to page 162.

Grievance mechanism and 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 escalate to the country management. If none of the fore-mentioned options are viable, employees can raise their concerns to a Group-level reporting mechanism. A new and more advanced tool – SKF's ethics and compliance reporting line – has been introduced throughout the Group to replace the existing mechanism which was built upon an internal email address. The reporting line is managed by third-party where SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Read more on this in the SKF Ethics and compliance section on page 79.

Labour management relations

Issues relating to significant changes at SKF, such as acquiring or divesting operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council.

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.

Remuneration and equal opportunities

Remuneration at SKF is based on individual performance with equal opportunities. The SKF Code of Conduct stipulates that all employees are to be treated equally, fairly and with respect. This means that two persons who have the equal performance, equal education, equal responsibilities and work experience in the same country shall have the equal level of compensation. For salaried employees, 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 and this used to determine market competitive remuneration. SKF periodically performs salary mapping in order to adjust potential systematic errors.

Equal remuneration for men and women

In Sweden, SKF performs salary mapping taking into consideration job roles and seniority. For staff, SKF Sweden has 17 different job roles and three levels of seniority in each. The latest salary mapping in Sweden showed no significant deviations between men and women when comparing employees within the same roles and level of seniority. Across the Group, SKF does not have the same possibility to map all employees in detail as the job roles and categories are defined locally. Local data indicates that there is a gap between men and women when not considering responsibility and scope of positions and SKF needs to look further into the factors behind. Data also indicates that while women are relatively well represented in junior management positions, men are overrepresented in top management. Although the share of women in the SKF Group in total and in leading positions has increased over the years, it remains challenging to rapidly alter this ratio.

SKF also works to ensure that wages and other related benefits meet at least the legal or industry minimum standard in the country in question. Wages and benefits are rendered in full compliance with laws and collective agreements. At the end of 2015, 89% of the Group's employees were covered by trade union agreements.

In order to ensure that all employees have the same opportunity to compete for jobs, openings at SKF up to a certain level are posted on the Group's internal website. The entitlement to fair chance to compete for job opportunities is also stipulated in the SKF Code of Conduct. All SKF units are accountable for ensuring the effective deployment of the SKF Code of Conduct which is the main policy on equal opportunities. SKF also works with knowledge based recruitment as a means to ensure that candidates compete on skills and experience.

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 realized. SKF has implemented tools and processes that help leaders, managers and employees to create this engagement.

Continuous improvement

SKF works to improve continuously in all aspects. With people, SKF seeks to enhance the strengths of individuals, develop skills and behaviours needed to deliver result and maximizing employee engagement. People development at SKF follows a cyclical management system approach.

Competency and performance management

Employees' competency – SKF's knowledge, skills and behaviours are all important assets for SKF to enable the Group to support and develop its customers and to deliver value for stakeholders. At the beginning of the year, all employees and their managers agree on individual goals based on the team planning. This involves employees to influence their own work and future compensation and is a key to drive employee engagement.

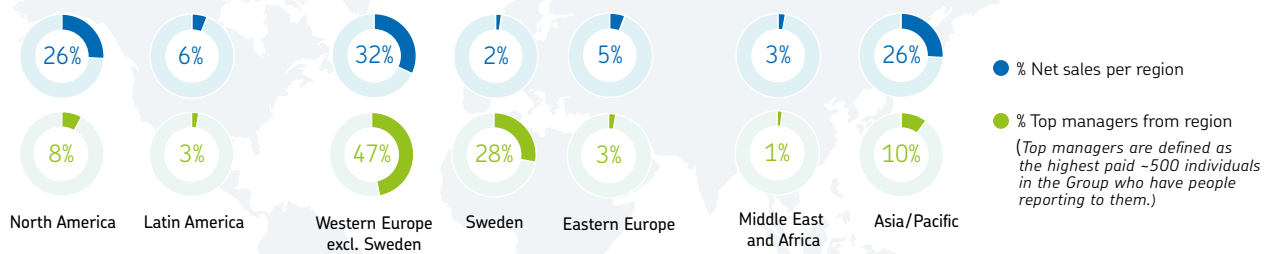
Development activities are then selected that enable the individual to deliver on her/his targets. Competency Management is all about having the right competency, at the right place at the right time. In addition to continuous feedback, people at SKF have access to different types of formalized performance assessments such as:

- 90-degree assessment, where the individual and the manager gives input.
- 180-degree assessment, where the individual, peers and managers gives input.
- 360-degree assessment, for people managers where individual, manager, peers and sub-ordinates gives input.

At the end of each cycle, employees and their managers summarize achievements and behaviours in an annual review. During this, employees and their manager reflect on the performance during the year, how and to what extent goals were met and the overall impact achieved.

In the latest follow-up in 2014, 69% of employees stated having had a structured performance review within the last 12 months.

Net sales by region and geographic diversity among top management in the SKF Group



Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), reviewed annually through discussions with their managers. In the latest follow-up in 2014, 60% consider that they have an individual development plan in agreement with their immediate manager.

SKF College is the central function in SKF that manages and coordinate tools for learning in SKF. The curriculum is built up by a number of academies headed by the functional units in SKF's business areas and staff functions with the purpose to supply quality learning to SKF's people, where they need it, when they need it in order to keep up performance.

An assortment of development programmes focusing on professional skills (e.g. sales and marketing, engineering, products and platforms, demand chain, manufacturing), leadership skills, personal skills (e.g. negotiation skills, communication skills, time management), and other strategic areas are made available to employees according to the Group's strategies and priorities.

Utilizing different tools and methods – web conferencing, e-learning, classroom setting, group work, projects, and coaching – SKF's learning and development programmes aim at enhancing the quality in learning for employees. Managers' involvement and support through coaching is important for employees to achieve sustained personal and professional development.

SKF supplies programmes based on concepts owned or leased by SKF, which can easily be replicated with local internal or external resources as trainers, to meet the goal of making learning affordable to all SKF organizations. The Group has established SKF College campuses in Sweden, USA, Argentina, China, India and Singapore. This enables SKF's global curriculum to be locally adapted and provided in local languages by local trainers.

Talent management and recruitment

SKF works with talent management and recruitment to ensure a good succession planning of key roles in the Group. Talent management is a group wide business process for all parts of the business. Each part of the company is accountable to identify talents in order to secure that appropriate development actions are offered.

Recruitments and employer branding activities are otherwise based on local needs and contexts. SKF applies knowledge based recruitment as a means to ensure that candidates compete on skills and experience. The Group's central recruitment office sets the standards for internal and external recruitment for SKF's global operations, and all job openings up to a certain level are first of all open to internal candidates and posted on the Group's internal webpages in order to ensure that every employee has the same opportunity to compete for jobs.

Leadership and diversity at SKF

SKF strives to represent as many dimensions of diversity as possible and to meet customer demands in a global market. Therefore SKF works to achieve management teams, which reflect the Group's diverse operations. This work focuses on gender, national origin, background and other indicators of diversity. SKF has 70 country managers, representing 66 nationalities. Top management is represented by people from all regions where SKF has business, please refer to illustration above.

- Employee retention rate across the Group was 93%.
- The percentage of employees in full-time employment was 98% in 2015.
- In addition to SKF's full time equivalent employees, SKF employed 2,646 (3,133) agency staff and workers.
- At the end of 2015, 27% of the Board of Directors and 14% of SKF Group management's positions were held by women.
- Among SKF's higher management, 11% were women.
- Locally, 80% of SKF units had at least one woman in local management.
- In these local management groups, throughout the Group, 20% were women.
- The proportion of female employees in the Group was 22%.

For more detailed information, please refer to Sustainability statements on page 157.

Working Climate Process

The cycle of SKF's Working Climate Process is typically 12 to 24 months during which a strictly confidential survey is offered to all employees focusing both on Group-wide as well as team activities. The last result is from 2014 when the response rate was 87%. Managers and employees go through the aggregated results together, discuss them and develop a Team Development Plan to improve the working climate and psycho-social health. The focus areas in each plan vary based on the survey responses from the team.

Since the latest result SKF Group has focused on Code of Conduct training, negative work-stress management as well as management communication.

- A new Code of Conduct e-learning was introduced in early 2015.
- SKF is undergoing a major change when it comes to prioritization of tasks with the aim of simplifying work for employees and reducing non value-adding activities and double work.
- SKF has also heightened its programme and communication on ethics and compliance with more activities and a strong tone from the top.

Health and wellbeing

SKF takes care to ensure the wellbeing and life-balance amongst the Group's employees. Focus on wellbeing helps create a more commitment which leads to increased productivity. Beyond occupational health, SKF works in different ways to promote a sound work-life balance, 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 18001 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 private health and safety. 81% 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, or are working to implement programmes to prevent HIV/Aids. One recently acquired entity in South Africa had at year-end 2015 not

implemented a formal programme, but has in February 2016 launched a workplace programme including prevention of HIV/Aids. The programme is partly financed by SWHAP (Swedish Workplace HIV/Aids Programme). Previous sustainability reports and the company website have reported various HIV/Aids initiatives or programmes. More information about this is also available on page 78. A variety of other Employee Care programmes are offered in various countries including free access to third party counseling, childcare services, access to fitness facilities, household services, and regular health-checks by professional medical staff.

In many countries, paid volunteer work is also 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 Communities section on next page for further information about some of SKF's involvements.

SKF Germany's focus on psychological health

In 2011, SKF GmbH initiated its training for manager and employees "Resist stress – foster resilience". This has matured into a health programme focusing on preventing and acting on stress-related illness. The training is still a central part but also includes psychological risk assessment, workshops on managing stress, anonymous helpline and coaching. Since the start, absent days from psychological illness has been

reduced by 20%. Psychological diseases involving alcohol and substances is below 1%. SKF is cooperating with the Mental Diagnostics Centre at Würzburg University. The next step is to implement healthy leadership in the leadership trainings for all managers in order to have a 'license to lead' and scaling up tools for employees to manage their stress resilience.

SKF Sweden's six health determinants leads to wellbeing

SKF wants to be an attractive employer that offers healthy workplaces. On this basis, SKF Sweden together with the unions and occupational health care partner, created a health model with health determinants. The health determinants are created from evidence-based health strategies and SKF Sweden is confident that its health determinants leads to good work environment and wellbeing.

• Clarity

Management and mandate to lead the business. Clear expectations must be communicated from the manager to the employees referring to the work role, task, results, mandate, framework etc. Objectives for our work. Prioritize and reprioritize. Communication and information.

• Challenge

Every employee must have an IDP (Individual Development Plan). Development possibilities, with the right stretch, that stimulate the employee and are in line with individual and business goals.

• Feedback

Feedback between manager and employee and vice versa to create clarity about performance. Structured meeting forms with manager.

• Participation

The employee as well as the team should be able to participate in the way of working and development of the department. Awareness on how to input ideas, constructive critics as well as praise. Regarding this, the business excellence model plays an important role.

• Social relations

Every team must live after SKF values, described in The SKF Commitment and Code of Conduct. Zero tolerance against harassment and victimization. Social interaction and social support from management and colleagues.

• Responsibility

The team members and co-workers knows their responsibility and are able to act according to it.



» Education and vocational training

» Youth and sports



» Helping to tackle challenges faced by local communities

» Sponsoring



Communities

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, 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 related initiatives often result in considerable benefits for the local communities which are in focus, and for SKF in terms of proud employees and an enhanced standing in the local community.

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 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.

This policy empowers SKF's employees around the world 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 and 2015, this includes everything from small event driven activities to big Group wide projects. The number and diverse range of Community 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.

34 SKF country organizations have reported community care activities in 2015, these countries make up over 95% of the Group's global operations in terms of employees. Out of a total quantifiable contribution of SEK 32 million, SEK 26 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Close to SEK 6 million was donations to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving. In addition, SKF employees engage in various volunteer work, including 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.

SKF mechanic entrepreneurship programme in Pune, India

SKF in Pune is running a vocational training programme on vehicle repair for less privileged youth together with a local NGO. In addition to mechanical skills, the programme includes modules on goal setting, marketing, tax, legal and finance, personal development, communication skills and customer service – all to increase chances for employment at a service centre or garage. All beneficiaries are also guided on practicalities on how to setup their own business, budgeting, applying with banks, governments and micro finance agencies. At the NGO premises, SKF has set up a lab with engine, car and two-wheeler sections. SKF has also set up an interactive classroom for the students to learn automotive vehicle principles applications, interactive videos, SKF products application and other skills.

Youth and sports

Supporting youth and sports has been a top priority for SKF over the years. SKF was once again the main partner of the Gothia Cup in 2015 – an annual event in Gothenburg for over 30,000 young people. SKF has been sponsoring the event since 2006.



Nusrat Shaikh, India

What was your best Gothia Cup experience?

I was very happy about going to Sweden. We got experience of different cultures from different countries. I learnt what it was like playing against different teams and co-operate with other people. I was very impressed with the attitude of Swedish girls. They always extended support on the field and apologized to us if they tackled hard or made us fall.

My first ever visit to Sweden it was an unforgettable moment and memorable trip for me. It was a mesmerizing experience to see the many, huge pitches as we approached day 1 of the tournament.

The opposing teams' players were much stronger physically than our team. My confidence was boosted as we scored goals and that was the memorable moment for me. Now, whenever I play I recall that team and play with full confidence and with true spirit of the game.

and it is the largest football tournament in the world for boys and girls between the ages of 11 and 18, read more at gothiacup.com. Meet the World is an SKF 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 2015 qualifying tournaments were held in 21 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.

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 local Community Care programmes.

During the year, the world community has witnessed devastating impacts of the war in Syria. The SKF Group made a financial donation to Save the Children's Syrian refugee relief fund and many European subsidiaries have initiated their own relief actions and donations.

For example, SKF in Germany initiated a collection of clothes, shoes, bags and toys. Over a period of eight days, the goods could be dropped off at designated collection points at each production site in Schweinfurt. The collection was made in close communication with the Red Cross.

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 significant obstacles for development. While continuing to work with HIV and AIDS in recent years the focus has been broadened, taking other health issues into consideration. SKF is a member of the Swedish Workplace HIV/AIDS Programme (SWHAP) that supports over 350 workplace programmes on HIV and wellness in eleven countries in sub-Saharan Africa. It was jointly initiated in 2004 by the International Council of Swedish Industry and the Industrial 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.

In addition to its workplace programmes, SKF South Africa is also supporting two community projects; the St Francis Care Centre in Boksburg and Legae in Daveyton. These focus on vulnerable children either infected or affected by HIV/AIDS. SKF support financially or through fundraising projects and volunteering. SKF managers also serve on the Boards of Directors of both these institutions and beyond financial support SKF pays visits and bring material goods when needed.

During the 2015 blanket drive, all employees of SKF South Africa, were involved in collecting supplies for the colder winter months. In July, SKF paid Legae in Daveyton a visit, bringing cupcakes and blankets for use of the pre-school children during nap time.

Youth empowerment in Kenya

In 2015, in collaboration with the local SWHAP, SKF Kenya has initiated successful workshop training for children and young adults on issues confronting young people today, such as anxiety, self-esteem, sexuality, alcohol and substance awareness, excessive use of internet, friendships and peer pressure. Economic development is moving rapidly in sub-Saharan Africa, and along with this, new needs and challenges emerge. The goal is to help these young people to gain useful life skills which help them to face up to these challenges and succeed.

Yo corro con Causa – Run with Purpose

SKF in Mexico holds annual Run with Purpose events to boost teambuilding, contributing to local environmental and social challenges and to stimulate health and family interaction. Employees and their families and friends enroll in local running events in Mexico where SKF has operations and contribute per kilometer run or walked, usually 5, 10, 21 or 42 km. In 2014, employees in Mexico covered almost 8,000 km, which resulted in SKF organizing and executing the biggest reforestation campaign in Puebla with 9,000 trees planted. In 2015, the earned kilometers contributed to a recycling campaign where 1,500 kg of waste was collected and sold to a recycling company with all proceeds going to charity.

Sponsoring

High speed and innovation

At the tenth anniversary of Formula Student Germany at the Hockenheimring the teams supported by SKF had an excellent cut: among 110 racing teams from 32 countries with around 3,600 participants. Seven of the SKF supported teams landed in the top 10.

Formula Student is an international design competition for automotive engineers. 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 Greenteam from Stuttgart have built an electric racing car that can accelerate from 0 to 100 km/h in 1.779 seconds – faster than the F1 cars.

In many European countries, there is a risk of shortage of engineers and this trend is likely to increase according to many forecasts. Initiatives such as the Formula Student seeks to inspire young people to seek higher education within technology.



Formula Student 2015, Germany.

SKF's ethics and compliance programme

SKF's ethics and compliance programme is made of up four building blocks – prevent, detect, respond and improve.



The main improvements of SKF's ethics and compliance programme during 2015 can be summarized as follows:

- Launch of a new comprehensive mandatory code of conduct e-learning course.
- Launch of a new mandatory competition law e-learning course.
- Global roll out of SKF's external ethics and compliance reporting Line.
- The introduction of ethical leadership training in certain leadership programs.
- Screening of customers and vendors globally against sanctioned party lists (export control).

Prevent

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 the value chain. All other policies are subordinate to the SKF Code of Conduct.

SKF uses several means to create awareness and commitment to ethics and compliance, including e-learning, face to face trainings, audits and workshops. The ethics and compliance e-learning 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 2015 (a selection of the courses available):

- Code of Conduct (launched 2015): 72% (18,367) of the employees in the scope had completed the course.
- Anti-corruption (launched 2012): 75% (13,621) of the employees in the scope had completed the course.
- Antitrust – with focus on contacts with distributors (launched 2015): 64% (13,743) of the employees in the scope had completed the course.
- Antitrust – with focus on competitor contacts (launched 2014): 75% (17,305) of the employees in the scope had completed the course.
- Antitrust – Law (launched 2014): 84% (7,399) of the employees in the scope had completed the course.

In early 2016 SKF will launch new anti-corruption and anti-fraud e-learning course.

During 2015 SKF reinforced ethical leadership as an explicit and integrated aspect of leadership development, and will continue to strengthen ethics and compliance in local and global management programs, performance reviews and recruitment.

In the area of export control, SKF has implemented an IT tool, which automatically screens all customers and vendors in SKF's common systems against sanctioned party lists issued by the UN, EU, US and certain other countries. This helps to ensure that SKF does not carry out business transactions with parties under sanction. SKF has also strengthened its processes and increased training to ensure compliance with export control regulations.

Detect and respond

SKF finds non-compliances and improvement potential in the ethics and compliance area through day to day contacts between the compliance organization and the operations and through discussions in training and workshop sessions. SKF's employees also report concerns, either locally or through the globally available reporting channel SKF's ethics and compliance reporting line. This reporting channel allows employees to file reports in their own language when they feel they cannot report their concerns locally. SKF received 160 reports on people-related issues via the ethics and compliance reporting line in 2015. Of these, 109 has been closed during the year. 40 was substantiated and resolved and 69 was unsubstantiated. 51 were in progress at year end.

SKF also finds non-compliances and improvement potential during internal audits. These audits are risk based and cover areas such as antitrust, export control and code of conduct. For more information on the code of conduct audit and how it relates to equality, labour and human rights in the Safe and respectful workplace section on page 72.

During 2015, 41 investigations relating to fraud and corruption were carried out by Group Audit. 36 of these investigations were finalized and closed during the year. 23 of the 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 SKF or that they received verbal or written warnings. 5 of the cases are still under investigation.

In addition, SKF performs compliance audits and training at SKF's suppliers, see page 52 for more information.

Improvement

Information received from employees and managers, audit and investigation findings are used as input for activities strengthening SKF's compliance program. SKF will continue to increase ethical awareness, train and provide tools to the organization and SKF senior management will continue to send strong messages to the organization that the code of conduct must be adhered to and that misconduct – with no exception – will have consequences.

Risk management at SKF

The effective identification, evaluation and management of risks is critical to the long term success of any business activity. SKF has therefore established overall risk management processes which ensure a sound understanding of – and effective and appropriate responses to – relevant risks.

The material risks that SKF is seeking to address can be categorised into two main areas:

- Business risk
- Reporting risk

Business risk

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

SKF has developed an integrated approach to business risk management where, as much as possible, risk identification, evaluation and response determination is carried out by persons within the business with the relevant operational responsibility and experience.

A risk evaluation has been performed to identify the most significant (major) risks to SKF and the findings have been reviewed and agreed with Group Management. This has led to the identification of the following major business risks:

- Competitor Actions – New products, distribution methods, solutions to customer, pricing and other actions that SKF would not be able to match in the short to medium term, resulting in lost sales.
- Quality – Deficiency in processes for quality assurance, which could cause lost sales, warranty claims and loss of brand name value.
- Pricing – Pricing not in line with customer value perception, resulting in either lost sales or eroded margins.
- Cost Development – Productivity improvement and cost reduction process not matching competition, thus eroding margins.

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

The SKF risk matrix (pages 80 to 83) provides more information on risks and a brief description of the specific mitigation approaches defined. Those related to the major business risks described above are highlighted.

Reporting risk

The Group's systems for internal control and risk management in relation to the preparation of the consolidated financial and other statements are described in the Corporate Governance Report under the heading 'Internal control and risk management regarding financial reporting' – see page 174.

Risk Type	Specific Risk	Specific Risk	Mitigation approach
Financial risk*	Currency risk	SKF is subject to both transaction and translation exposure. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia as well as intra-European business.	The Group's policy is to hedge the net currency flows from 1 to 6 months on average. Translation exposure on Group accounts is hedged to some extent by borrowing in foreign currencies.
	Interest rate risk	SKF's interest costs are impacted by market rates.	Liquidity and borrowing are managed at Group level. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.
	Credit risk	SKF's exposure to losses caused by financial institutions failing to discharge their obligation, and by SKF's customer's inability to pay.	The Group's policy states that only well established financial institutions will be approved as counterparties. Exposure per counterpart is continuously monitored. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.
	Liquidity risk	Acceptable liquidity levels are required in order to achieve desired financial results.	Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks that will expire in 2019, and two committed credit facilities of SEK 3,000 m that will expire in 2018 and EUR 150 m that will expire 2017.

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

Risk Type	Specific Risk	Specific Risk	Mitigation approach
	Fraud risk	SKF's employee or employees fail to adhere to the Group's Code of Conduct and related policies and requirements and act in a fraudulent manner leading to financial losses.	SKF takes a proactive approach to assure awareness of demanded ethical standards through education, compliance programs including antifraud. The work to follow up adherence is facilitated by the whistle blower function and a risk- and incident based audit system. See page 79.
Product related risks	Product failure in customer application	Product does not meet SKF/ISO or agreed specifications, leading to potential warranty claims and / or loss of business.	SKF Global quality management system ISO 9001 (and other industry relevant industry standards) is implemented to ensure that products and services conform to specified requirements and to continuously improve processes, products and services. Identification and minimisation of potential performance risk is based on the use of SKF design rules and guidelines for product development, SKF application engineering, product simulation and product testing.
	Loss of technological advantage	A new and disruptive technology becomes available from an external party, which can replace existing SKF platform solutions leading to loss of revenues.	SKF's overall R&D strategy for application-driven innovation aims at ensuring SKF technology leadership with the development of innovative solutions that customers value. In order to keep abreast of the latest technological developments SKF performs regular technical megatrend analyses and utilizes pacing technology activities.
Market risk	Competitor risk	Competitors find ways to produce better functioning products or competing products at dramatically lower cost.	SKF's mission is to be the undisputed leader in the bearing business. This is achieved firstly by offering customers with products and services that have differentiated and acknowledged value through the Group's R&D activities and secondly by working to assure that SKF operations and those of suppliers are world class in terms of productivity, efficiency, cost and waste avoidance. See a summary of the Group strategy on pages 8-9. SKF's diverse customer base (in terms of regions, sectors and industries) means that this risk is highly spread and the impact of the risk at Group level risk is thereby reduced.
	Economic downturn	SKF customers could be impacted by a major economic downturn resulting in lower demand for SKF products and services.	SKF has a highly diversified and well balanced global customer base. The risk is therefore spread widely in both regional and industrial sector/segment perspective. SKF has focused on making manufacturing operations flexible in the face of changing customer demands. SKF uses sales and market data intelligence to follow and anticipate developments – allowing proactive management of changing market conditions.
Legal and compliance risks	Non-compliance with export control regulations	SKF or SKF's employee(s) may act in breach of export control regulations when exporting products, services or data leading to imprisonment, debarment of carrying out certain business, loss of business, financial penalties and reputation damage.	Export control officers are appointed in high risk countries. SKF is classifying products and implementing processes and systems, which support compliance. Specific training for key personnel has been developed and is being deployed.
	Non-compliance with antitrust or anti-corruption laws	SKF's employee or employees may act in breach of antitrust or anti-corruption laws leading to imprisonment, loss of business, financial penalties and reputation damage.	SKF has put in place specific antitrust and anti-corruption compliance programmes. The programmes are risk-based and focus on training and the creation of an ethical business culture and aim at ensuring that applicable laws and regulations are identified, understood and adhered to, see page 79.

Risk Type	Specific Risk	Specific Risk	Mitigation approach
Legal and compliance risks – continued	Non-compliance with applicable laws	The global and diverse nature of SKF's business and operations means that the Group is required to adhere to numerous laws and regulations related to all aspects of its activities. Failure to meet these requirements could lead to legal and financial consequences as well as damage to the Group's reputation.	SKF has put in place policies, procedures and training programs in order to make sure that legal risk relating to its business activities are identified and that risk decisions are taken on the appropriate level. In addition, SKF legal counsels support the SKF units in identifying and handling legal risks. The legal counsels work closely with the SKF units and provide contract drafting and negotiation support, claim and litigation management, training and general advice. Ethical aspects are emphasised within SKF management training and development programs.
	Legal risks relating to our business performance	In connection with the sale of SKF's products and services and in the purchase of products and services from our suppliers, large liabilities may occur in case of e.g. late delivery, delivery of defective products, unfulfilled service commitments and incorrect advice. Therefore, it is important that all such risks are identified, that risk decisions are taken on the appropriate level and that carefully worded contractual provisions aiming at reducing SKF's liabilities are included in contracts.	SKF has deployed an ethics and compliance reporting hotline, which allows concerned employees to raise related concerns in a fully confidential way and in local language, see page 79.
Supply chain risks	Raw material and component cost fluctuations	Significant changes in raw material (and therefore component) costs can impact on the Group's profitability. See sensitivity analysis on page 89.	SKF has established a globalized supply chain, which ensures components and materials are purchased in a highly competitive manner. Raw material cost indexes are often included in SKF customer agreements.
	Code of conduct deviations in the supply chain	The Group requires its suppliers and sub-suppliers to work with high ethics in accordance with the SKF Code of Conduct for suppliers and sub-contractors. Deviations from this code could have an adverse impact on the environment and society and could damage the reputation of SKF.	SKF has established a responsible sourcing approach, which includes supplier training and development, auditing and follow up as well as corrective action. Relevant demands have been included in purchasing contracts. Targets for suppliers regarding social and environmental performance have been defined and are followed up, see page 52.
	Supply chain disruption	External factors such as fires, extreme weather events, natural disasters, water stress, war or pandemic illness result in disruption of supply to SKF and impact on revenue and profit.	SKF has intentionally set up a flexible and global supply chain and works to avoid dependence on a single source or production location. The global supply chain organisation tracks issues of risks such as social unrest, terrorist or drug activity, or high levels of corruption as these may impact the supply. In addition SKF focuses on working with suppliers that have adequate insurance for both production and transports.
	Material source or type compliance risks	SKF aims to avoid the use of hazardous substances in its products and processes, the company also strives to avoid negative social impacts within the extended supply chain. Legislations have been, and are being, introduced in these aspects. Failure to meet with requirements according to these legislations could result in costs as well as loss of business for SKF.	SKF has established a product environmental compliance approach, see page 68. As part of SKF's responsible sourcing activities, SKF is working to effectively address the conflict minerals issues as defined in the US Dodd-Frank act. In addition, SKF's Environmental Design Guidelines are part the Group's product development process, taking environment, health and safety risks into consideration.
Production risks	Labour disputes	Industrial disputes lead to industrial action which impacts SKF's ability to meet customer demands.	SKF has maintained an open and positive relationship with the unions, as exemplified by the Groups' global framework with the World Union Council, see page 73.
	Loss of a major production site	Fire, flood or natural disaster could result in the temporary loss of a production facility, in addition to the reconstruction and remediation costs. This could put customer deliveries and revenues at risk.	SKF has globalised manufacturing operations, with more than 115 separate facilities around the world. SKF's manufacturing strategy aims at ensuring a high degree of flexibility, so that if one unit is taken out of action, others could provide support production. SKF Reinsurance Co. Ltd is the SKF Group's internal insurance company. It is Group policy to have centrally purchased insurance lines as well as loss prevention programs. The mission is to protect the SKF Group's tangible and intangible assets through active risk management.

Risk Type	Specific Risk	Specific Risk	Mitigation approach
Environmental risks	Major incident at an SKF facility	A major incident during which a significant amount of local environmental damage occurs leading to fines, loss of reputation etc.	SKF's environmental management system is ISO 14001 certified. The system works to ensure that all material environmental risks are identified and effective counter-measures are implemented in order to mitigate them. This includes actions to mitigate the risk as well as emergency response plans to ensure the impacts of any incident are minimised.
	Water risk	Water scarcity in the supply chain or at an SKF facility leads to reduced production.	SKF's direct processes are not water intensive. Most water systems are closed loop. SKF's facilities located in areas of water scarcity are identified and required to run strong water reduction programs. SKF has a diversified supply chain with requirements for suppliers to follow environmental norms, implement certified management systems and this facilitates risk reduction and avoidance for water risks and other environmental risks.
	Risk of SKF's products causing environmental damage	SKF's products result in environmental damage during use or disposal by customer.	SKF Environmental Design Guidelines exist as part of the Group's overall product development process. Using lists of restricted substances and the compliance monitoring of relevant legislation e.g. REACH and RoSH facilitates proper use phase and end-of-life management, see page 68.
	Climate change risks – extreme weather events	Extreme weather events disrupt SKF's facilities, distribution or supply chain.	Requirements for emergency response plans at all sites include flood risks etc. See also Production risks and Supply chain disruption above.
	Climate change risks – energy and cost of carbon	Increased energy and other environmental cost due to legislation leading to increased material and production costs and / or impacting certain market segments.	SKF focuses on energy efficiency at its own facilities and suppliers – reducing energy demand and related risks, see pages 64–65.
Health and safety risks	Health and safety at SKF operations	SKF's employees are hurt or killed by an accident at work.	SKF's Health and Safety management system is certified to OHSAS 18001. The Groups' Zero Accident program supported by proactive near miss reporting aims at the avoidance of all workplace accidents, see page 72.
	Health and safety related to SKF products and services	Person or persons are hurt or injured as a result of SKF product failure or defect.	SKF follows strict design and validation rules for all products, and fully adheres to industry-specific requirements for safety critical applications such as aerospace, rail and automotive. SKF provides detailed instruction on the correct use, fitting and application of products. SKF's overall approach to quality management ensures product conformance to the highest level.
	Health and Safety at supplier and business partner operations	Employees of SKF's suppliers or business partners are hurt or killed.	SKF has defined specific requirements to ensure health and safety for the employees within its Code of Conduct for suppliers and subcontractors. See also Code of Conduct deviations in the supply chain above.
Human rights risks	Human rights non-compliances at SKF	SKF's employees' human rights are not respected.	SKF adheres to international standards and guidelines such as the UN Global Compact, see page 61. The SKF Code of Conduct sets out the requirements to respect human rights and SKF enforces the SKF Code of Conduct policy in all operations, see pages 72 and 79.
	Code of Conduct non-compliances or abuses in the supply chain	Human rights and labour rights of suppliers' employee (extended supply chain) not respected.	See Code of Conduct deviations in the supply chain above, read also on SKF's supply chain management on page 52.
Brand risks	Other companies or counterfeiters use SKF Brands to market their products.	SKF is one of the strongest global industrial brands and subject to counterfeit globally. Counterfeit products of all types pose a risk to people and the global economy.	SKF focuses on protecting customers, safeguarding health and safety of machine operators, avoiding unexpected downtime, environmental and financial damage. Fake products are universally recognized as a major risk and continuous support to law enforcement, customs and other authorities makes up the majority of SKF's anti-counterfeit work. In addition to arranging customer events to make customers aware of the importance to safeguard authenticity, SKF runs anti-counterfeit e-learning designed for the Group's personnel and distributors, see page 15.

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

Introduction

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

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

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

Fixed salary

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

Variable salary

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

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

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 40% and 70% for Group Management members.

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

Performance Shares

Since 2008 SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees (SKF's Performance Share Programmes 2008 – 2015). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2016.

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 2016–2018 compared to the financial year 2015. 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 2016 and a share price of SEK 148, the cost,

including social security costs, is estimated at around SEK 178 million. On the basis of a share price of SEK 177, the cost, including social security costs, is estimated at around SEK 212 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 – 2015 resolved on SKF's Performance Share Programmes 2008–2015.
- 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. Any allotment of shares under SKF's Performance Share Programme 2015 will be made during 2018.
- The pension conditions of the President are described under Note 23 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions as described in Note 23 in the Annual Report.
- 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 2015 and remuneration of Group Management 2015, see Consolidated Financial Statements Note 23.

Nomination of Board members and notice of General Meeting

In addition to specially-appointed members and deputies, the company's Board of Directors shall comprise a minimum of five and a maximum of twelve members, with a maximum of five deputies. The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

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

Shares and shareholders

SKF's shares as of 31 December 2015

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 2015 was 675,589,473.

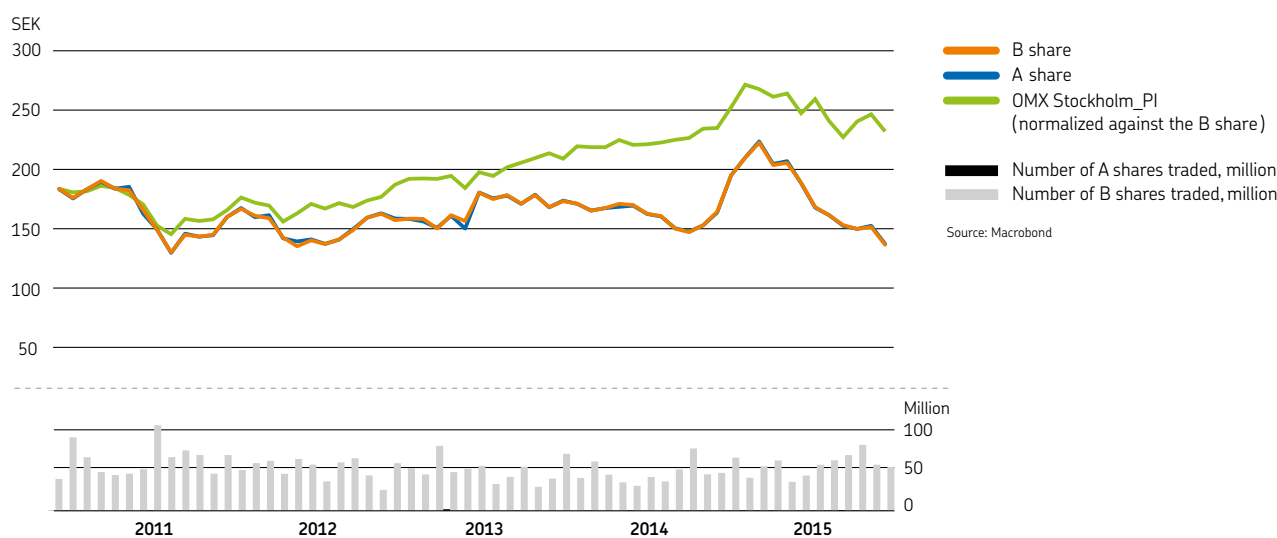
SKF's B shares are also traded on other market places, the most important are Chi-X Europe Limited, Bats Europe and Turquoise. The total number of shares traded on these three market places together in 2015 was 388,568,945. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	36,298,533
B shares, unrestricted	419,052,535
Total	455,351,068

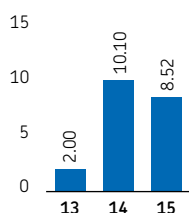
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 1,350,548 A-shares were converted to B shares in 2015.

A-shares are constituting 8.0% of total number of shares, to be compared to 8.3% in December 2014 and 43.3% in December 2001.

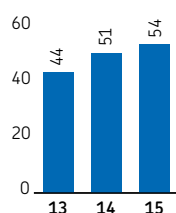
Price trend of SKF's shares



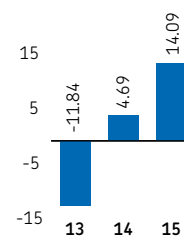
Basic earnings per share, SEK



Shareholders' equity per share, SEK

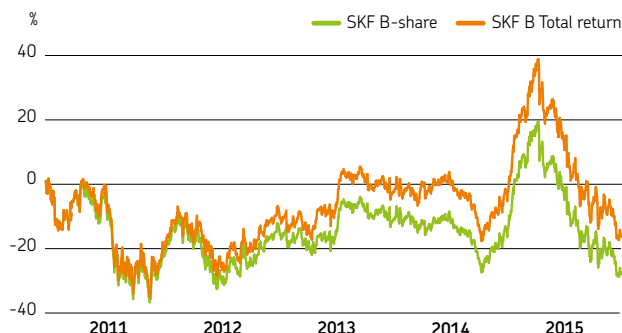


Cash flow after investments before financing, per share, SEK*



* Reclassification made to previously published report. See note 1.

Total return 2011–2015



The total return from investing in SKF shares over the past five years was -16%.

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	2015	2014	2013	2012 ²⁾	2011	2010	2009
Earnings per share	8.52	10.10	2.0	10.23	13.29	11.28	3.61
Dividend per A and B share	5.50 ¹⁾	5.50	5.50	5.50	5.50	5.00	3.50
Total dividends, SEKm	2,504	2,504	2,504	2,504	2,277	1,594	1,594
Purchase price of B shares at year-end on NASDAQ OMX Stockholm	137.2	164.9	168.7	163.2	145.60	191.60	123.60
Equity per share	54	51	44	47	47	42	38
Yield in percent (B)	4.0 ¹⁾	3.3	3.3	3.4	3.8	2.6	2.8
P/E ratio, B (share price/earnings per share)	16.1	16.3	84.2	16.0	11.0	17.0	34.2
Cash flow from operations, per share ³⁾	17.0	10.5	11.6	12.5	12.4	12.3	17.6
Cash flow, after investments before financing, per share ³⁾	14.09	4.69	-11.84	6.69	8.73	-6.11	12.63

¹⁾ According to the Board's proposal for the year 2015.

²⁾ 2012 restated for amended IAS 19. All years prior to 2011 continue to use the old IAS 19 rules.

³⁾ Restated for financing derivatives 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	29.45
Alecta	2,192,404	5,999,148	8,191,552	2,792,319	1.80	3.57
Harris Associates L.P.	0	24,072,200	24,072,200	2,407,220	5.29	3.08
AFA Försäkring	1,573,300	5,500,072	7,073,372	2,123,307	1.55	2.72
Livförsäkringsbolaget Skandia	1,675,222	841,579	2,516,801	1,759,380	0.55	2.25
SEB Trygg Liv	1,349,516	41,009	1,390,525	1,353,617	0.31	1.73
Didner & Gerge Fonder	0	10,243,654	10,243,654	1,024,365	2.25	1.31
SEB Stiftelsen	700,000	600,000	1,300,000	760,000	0.29	0.97
Swedbank Robur Fonder	0	7,130,413	7,130,413	713,041	1.57	0.91
Government of Singapore	0	6,515,706	6,515,706	651,571	1.43	0.83

Source: Holdings, Modular Finance as of 31 December, 2015.

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 2015, about 52% of the share capital was owned by foreign investors, about 39% by Swedish companies, institutions and mutual funds and about 9% 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	54,542	82.9	16,090,604	3.5
1,001 – 10,000	9,971	15.2	27,501,265	6.0
10,001 – 100,000	931	1.4	26,404,350	5.8
100,001 –	315	0.5	385,354,849	84.6
	65,759	100	455,351,068	100

Source: Holdings, Modular Finance as of 31 December 2015.

Changes in share capital 1982–2015

	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

There are currently around 25 analysts who analyze and follow SKF and give recommendations on the shares. Names and companies can be found at skf.com, Investors, The SKF shares and Analysts.

Share savings fund for employees

SKF Allemansfond has been discontinued with effect from 15 November 2015, when it was merged with SEB Sverige Indexfond.

AB SKF Stock Fund in the USA

The AB SKF Stock Fund has been discontinued with effect from 31 December 2015.

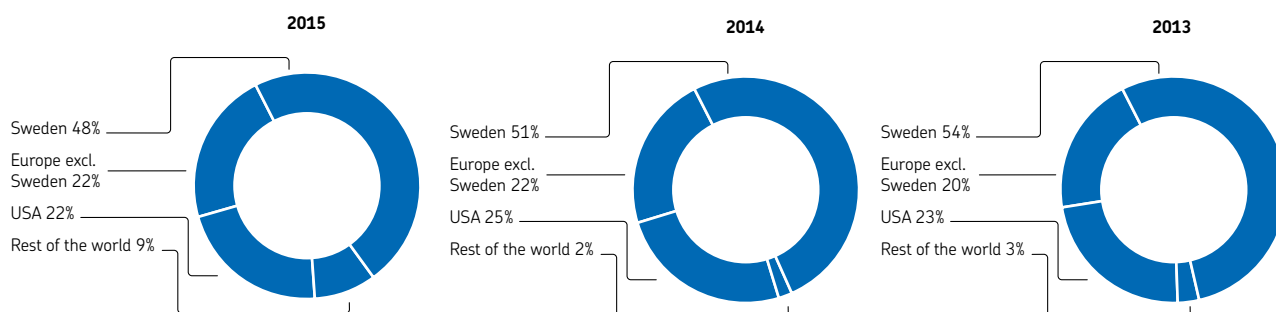
Additional information

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.

Geographic ownership

Source: Holdings, Modular Finance



Sensitivity analysis

Costs

The annual cost of raw materials and components is around SEK 23 billion of which steel-based products account for the majority. An increase/decrease of 1% in the cost of raw materials and components reduces/increases the operating profit by around SEK 230 million. Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices decrease/increase SKF's operating profit by around SEK 50 million, which is already included in the figure for raw materials and components that impacts the operating profit. See page 51.

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

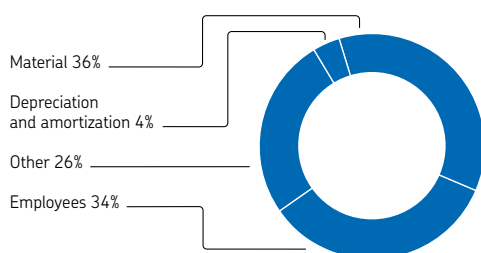
A decrease/increase of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 190 million, based on the current position. The Group had net debt of SEK 26,269 million on 31 December 2015.

Currency impact

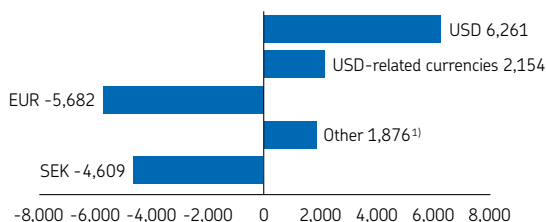
Translation effects: Most of the operating profit is made outside Sweden, meaning that the Group is exposed to translation risks from all major currencies into the reporting currency SEK. Based on 2015 operating profits in local currencies, a weakening/strengthening of 5% of the SEK versus all currencies would have caused an increase/decrease in the Group's reported operating profit in 2015 of some SEK 400 million.

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 will be the same as in 2015, a sensitivity analysis shows that a 5% stronger SEK against the USD would give a negative effect on operating profit of approximately SEK 300 m. A 5% stronger SEK against the EUR would have a positive effect on operating profit of approximately SEK 300 m. A sensitivity analyses of a 5% stronger SEK against each of the USD related currencies and Other currencies would have not material effect on operating profit for any of these currencies individually considered, while the aggregate effect of all these currencies would have a negative effect on operating profit of some SEK 200 m.

Cost split 2015, operating expenses SEK 69,086 m



Net currency flows 2015, 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 2015, the gearing was 56.7% (60.5), the equity/assets ratio 33.0% (29.9) and the net debt/equity ratio 99.9% (126.6). 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 2015, the average maturity of SKF's loans was five years. SKF has four notes issued on the European bond market. EUR 234 million due 2018, EUR 266 million per 2019, EUR 750 million per 2020 and one with an outstanding amount of EUR 500 million, due 2022. According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company in combination with a rating downgrade to a non-investment grade as a consequence of this. Change of control meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF's shares carrying more than 50% of the voting rights. Since SKF has relatively

standardized loan documentation similar conditions also apply to other loan agreements. In addition to the loans mentioned above SKF also has four loans, two of EUR 100 million each, due in 2016, 2020, one of EUR 200 million due in 2021 and one of SEK 1,000 million due in 2017.

In addition to its own liquidity, AB SKF had three committed credit facilities, one of SEK 3,000 million with due date 2018 and one of EUR 150 million with due date 2017 and EUR 500 million with a due date in 2019.

Credit rating

On 31 December 2015, 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 negative 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 2016, see page 146, Proposed distribution of surplus.

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 EUR, USD and to USD-related currencies. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies. The financial position of the parent-company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profits and lower dividend income for the parent company, as well as a need for writing down values of the shares in the subsidiaries.

SKF and other companies in the bearing industry are part of investigations by the US Department of Justice and the Korea

Fair Trade Commission regarding a possible violation of antitrust rules. SKF and other bearing manufacturers are subject to an investigation in Brazil by the General Superintendence of the Administrative Council for Economic Defense regarding an alleged violation of antitrust rules. An enquiry has been initiated by the Competition Commission of India against several different companies, including SKF, regarding an alleged violation of antitrust rules in India. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers.

For further explanation of SKF's overall approach to risk and risk management please see pages 80–83.

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 7,050 million (3,193).

Net increase in investments in subsidiaries amounted to SEK 5,152 million (4,089) of which SEK 4,944 million (634) is related to acquisitions from companies within the SKF Group, SEK 0 million (37) is related to acquisitions from companies outside the SKF Group, SEK 208 million (3,425) to capital contributions to existing units and SEK 15,879 million (7) 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 14,771 million.



Financial Statements

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Consolidated income statements

SEKm	Note	Years ended 31 December	
		2015	2014
Net sales	2	75,997	70,975
Cost of goods sold	5, 6	-57,483	-53,228
Gross profit		18,514	17,747
Selling expenses*	6	-11,164	-9,537
Administrative expenses*	6	-439	-532
Other operating income and expenses, net	7	57	123
Operating profit		6,968	7,801
Financial income and expenses, net	8	-1,134	-1,133
Profit before taxes		5,834	6,668
Income tax	9	-1,760	-1,918
Net profit		4,074	4,750
Net profit attributable to:			
Shareholders of AB SKF		3,880	4,600
Non-controlling interests		194	150
Basic earnings per share (SEK)	16	8.52	10.10
Diluted earnings per share (SEK)	16	8.52	10.10

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2015	2014
Net profit		4,074	4,750
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	17	1,236	-3,208
Income tax	9	-334	960
		902	-2,248
Items that may be reclassified to the income statement			
Currency translation adjustments		-445	2,824
Available-for-sale assets	13	217	85
Cash flow hedges	26	41	-53
Income tax	9	-361	477
		-548	3,333
Other comprehensive income, net of tax		354	1,085
Total comprehensive income		4,428	5,835
Total comprehensive income attributable to			
Shareholders of AB SKF		4,221	5,498
Non-controlling interests		207	337

*Reclassification made to previously published amounts. See Note 1.

Comments on the consolidated income statements

Amounts in parentheses refer to comparable figures for 2014.

General

The Group's income statement for 2015 include the results of divested companies as follows: Purafil and Kaydon Custom Filtration Inc for the period January 1 - June 30, Erin Engineering Inc for the period January 1 - May 31 and Canfield Technologies for the period January 1 - August 15 2015.

Net sales

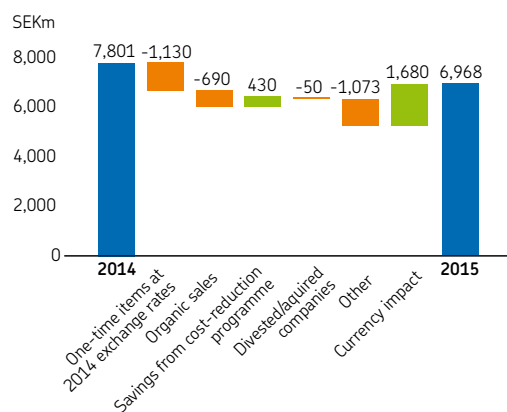
In 2015, net sales amounted to SEK 75,997 m compared to SEK 70,975 m in 2014, corresponding to an increase of 7.1%. The weakening of the Swedish krona towards other currencies had a positive impact in 2015 of 10.2%. Structural changes accounted for -0.5%. Net sales in local currencies decreased by 2.6% driven by lower sales volumes primarily in North America and in Asia. Net sales in Europe and Latin America were on the same level as in 2014 and in the Middle East and Africas sales volume increased significantly.

Sales development percent y-o-y	Q1	Q2	Q3	Q4	Full year
Organic	1.4	-1.5	-4.7	-5.2	-2.6
Structure	0	-0.2	-0.8	-1.0	-0.5
Currency	14.9	12.9	8.8	4.7	10.2
Total	16.3	11.2	3.3	-1.5	7.1

Operating profit

Reported operating profit was SEK 6,968 m (7,801) and excluding one-time items it amounted to SEK 8,655 m (8,291) giving an operating margin of 11.4% (11.7%).

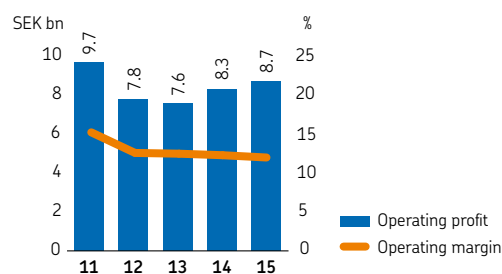
Operating profit development y-o-y



Operating profit development on a y-o-y basis was negatively affected by the lower organic sales volumes by around SEK -690 m. One-time items y-o-y had a negative impact of SEK -1,130 m. Savings from the ongoing cost reduction programme improved operating profit by around SEK 430 m while other impacts including manufacturing volumes, purchased material, the Unite IT project, R&D expenses and general inflation had a negative effect on operating profit by SEK 1,073 m. Currency impacts including translation and transactional flows were some SEK 1,680 m (180), mainly USD.

One-time items for the year amounted to SEK -1 687 m (-490) whereof SEK -1 199 m related to the ongoing cost reduction programme, SEK -431 m related to profits on sold businesses, impairments, and write-off of assets, and the remaining SEK -57 m related to negative revaluation effects due to currency developments.

Operating profit excluding one-time items



Financial income and expenses, net

The financial income and expenses, net for 2015 was SEK -1 134 m (-1 133) which included one-time items of SEK -336 m including SEK -276 m related to the buy-back of bonds, SEK -140 m related to negative revaluation effects due to currency developments in Latin America, and the remaining SEK 80 m to a gain on the sale of equity securities.

Taxes

The effective tax rate for the year was 30.2% (28.8) and was negatively impacted by divestments.

Values by quarter

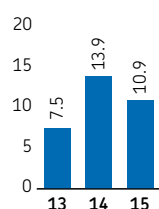
SEKm	Q1	Q2	Q3	Q4	Full year
Net sales	19,454	19,961	18,367	18,215	75,997
Operating profit	1,721	2,383	1,825	1,039	6,968
Profit before taxes	1,592	2,241	1,348	653	5,834
Basic earnings per share (SEK)	2.46	3.65	1.59	0.82	8.52

Consolidated balance sheets

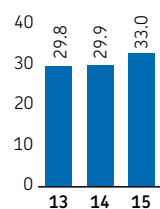
SEKm	Note	As of 31 December	
		2015	2014*
ASSETS			
Non-current assets			
Goodwill	10	12,078	12,233
Other intangible assets	10	9,407	9,905
Property, plant and equipment	11	15,303	15,482
Long-term financial assets	13	1,448	1,705
Deferred tax assets	9	3,185	3,350
Other long-term assets	17	159	157
		41,580	42,832
Current assets			
Inventories	12	14,519	15,066
Trade receivables	13	11,777	12,595
Other short-term assets	14	3,357	3,705
Other short-term financial assets	13	1,282	1,521
Cash and cash equivalents	13	7,218	5,920
		38,153	38,807
Total assets		79,733	81,639
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF		24,815	23,089
Equity attributable to non-controlling interests		1,467	1,315
		26,282	24,404
Non-current liabilities			
Long-term financial liabilities	19	22,383	24,077
Provisions for post-employment benefits	17	13,062	13,978
Deferred tax provisions	9	1,373	1,717
Other long-term provisions	18	1,204	1,278
Other long-term liabilities		98	83
		38,120	41,133
Current liabilities			
Trade payables	19	5,671	5,938
Short-term provisions	18	891	805
Other short-term financial liabilities	19	1,442	2,028
Other short-term liabilities	21	7,327	7,331
		15,331	16,102
Total equity and liabilities		79,733	81,639

* Reclassification made to previously published amounts. See Note 1.

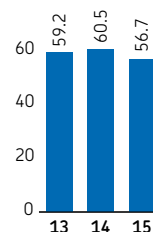
Return on capital employed, %



Equity/Assets, %



Gearing, %



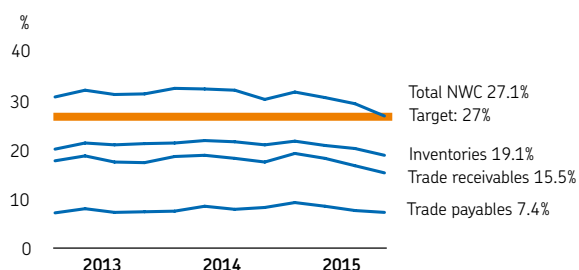
Comments on the consolidated balance sheets

Amounts in parentheses refer to comparable figures for 2014.

Net working capital

The 2015 target for net working capital as a percentage of sales is set at 27%. At 31 December 2015 it was 27.1% (30.6) consisting of the following components:

Net working capital as % of annual sales

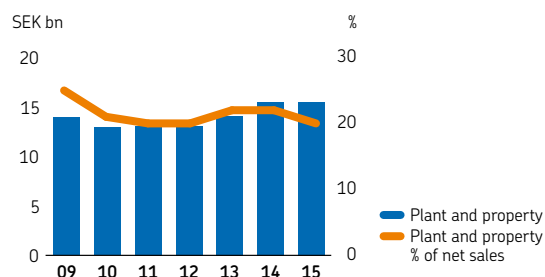


- Inventories amounted to SEK 14,519 m (15,066) being 19.1% (21.2) of annual sales. The change in inventories was caused by some SEK -78 m due to a weaker Swedish krona and included a decrease in volumes of SEK -469 m.
- Trade receivables amounted to SEK 11,777 m (12,595) which is 15.5% (17.8%) of annual sales. The change in trade receivables was attributable to currencies with SEK -198 m, and also included a volume decrease of some SEK 620 m. The average days of outstanding trade receivables were 64 days (64).
- Trade payables amounted to SEK 5,671 m (5,938) being 7.5% (8.4) of annual sales. The change attributable to currencies was SEK -117 m and the remaining SEK -150 m was volume.

Plant and property

Plant and property amounted to SEK 15,303 m (15,482) at 31 December 2015. This was as a percentage of annual sales 20% (21.8). The change attributable to currencies was SEK -213 m.

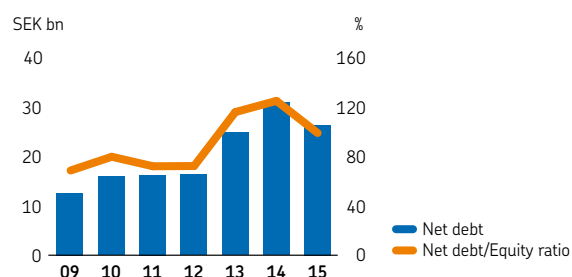
Plant and property % of net sales



Net Debt

Net debt amounted to SEK 26,269 m (30,892) at the end of 2015, representing an improvement of some SEK 4,600 m. Post employment benefit provisions totalled SEK 13,010 m (13,942) at year end, representing a net decrease of SEK -932 m (4,127), which was attributable to cash payments of SEK -894 m (-912), actuarial gains and losses of SEK -1,236 m (3,208) mainly increasing discount rates, expenses of SEK 1,127 m (812), with the remainder being mainly currency translation differences. Loans totalled SEK 21,349 m (23,388) at the end of 2015 representing a decrease of SEK -2,039 m. The decrease was primarily attributable to net repayments of SEK -942 m and currency translation effects of SEK -1,102 m being primarily EUR.

Net debt/equity



Equity

During the year, equity increased from SEK 24,404 m to SEK 26,282 m. Net profit amounted to SEK 4,074 m (4,750) and dividends paid were SEK 2,605 m (2,578). The decrease caused by currency translation effects of SEK -445 m (2,824), was offset by SEK 902 m (-2,248) net of tax related to remeasurement gains on post-employment benefits and other changes totalling SEK -48 m (504).

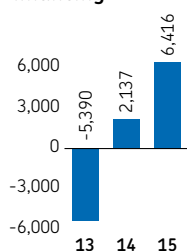
The capital structure target for the Group is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business. On 31 December 2015, the gearing was 56.7% (60.5), the equity/assets ratio 33.0% (29.9) and the net debt/equity ratio 99.9% (126.6).

Consolidated statements of cash flow

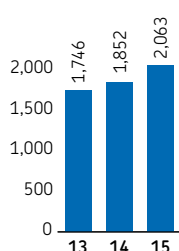
SEKm	Note	Years ended 31 December	
		2015	2014*
Operating activities			
Operating profit		6,968	7,801
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	2,858	2,392
Net gain on sales of businesses and property, plant and equipment		-217	16
Other non-cash items		952	-3
Income taxes paid		-2,320	-2,090
Contributions to and payments under post-employment defined benefit plans	17	-894	-912
<i>Changes in working capital</i>			
Inventories		469	238
Trade receivables		620	-138
Trade payables		-150	749
Other operating assets and liabilities, net		421	-2,862
Interest and other financial items		-976	-394
Net cash flow from operating activities		7,731	4,797
Investing activities			
Additions to intangible assets	10	-247	-792
Additions to property, plant and equipment	11	-2,063	-1,852
Sales of property, plant and equipment		128	61
Acquisitions of businesses, net of cash and cash equivalents	3	-102	-69
Divestments of businesses, net of cash and cash equivalents	4	1,165	-
Income taxes paid related to divestments		-317	-
Sales of equity securities		121	-8
Net cash flow used in investing activities		-1,315	-2,660
Net cash flow after investments before financing		6,416	2,137
Financing activities			
Proceeds from medium- and long-term loans		4,624	1,813
Repayments of medium- and long-term loans		-5,566	-941
Other financing items		-1,304	-287
Cash dividends to shareholders of AB SKF and non-controlling interests		-2,605	-2,578
Investments in financial assets		-560	-374
Sales of financial assets		212	494
Net cash flow used in financing activities		-5,199	-1,873
Net cashflow		1,217	264
Cash and cash equivalents at 1 January		5,920	5,369
Translation effect		81	287
Cash and cash equivalents at 31 December		7,218	5,920

* Reclassification made to previously published report. See Note 1.

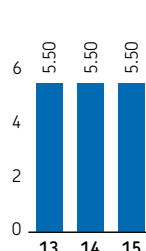
Cash flow after investments, before financing*



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 2015, which is subject to approval at the Annual General Meeting in March 2016, includes an ordinary dividend of SEK 5.50 per share, see Note 15.

Comments on the consolidated statements of cash flow

Amounts in parentheses refer to comparable figures for 2014.

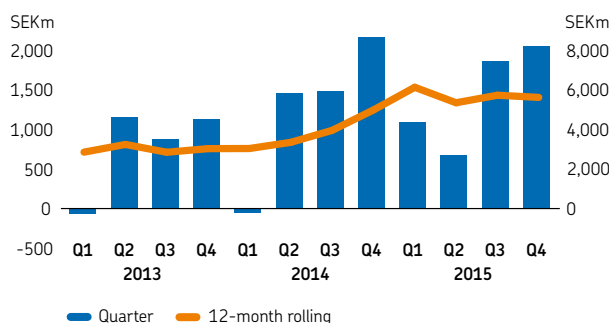
The consolidated statements of cash flow have been adjusted for exchange rate effects arising upon the translation of foreign subsidiaries' balance sheets to Swedish krona, as these do not represent cash flows.

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

Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measure used in the Group, reached SEK 6,416 m in 2015 (2,137). Adjusted for acquisitions and divestments of businesses, and the EU payment in 2014, the cash flow amounted to SEK 5,670 m (5,031). The main contributor to the improvement was the reduction of working capital of some SEK 1,360 m in 2015.

Cash flow after investments before financing excl. acq/divest



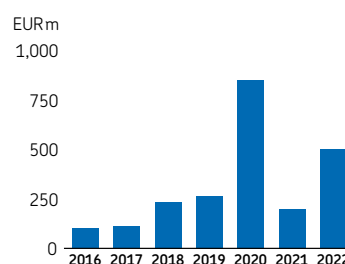
Other non-cash items included expenses for which the cash flow has not yet occurred. The most significant item was operating expenses on the post-employment benefits. Interest and other financial items included interest paid of SEK 560 m (533), interest received of SEK 145 m (84), and the remainder related primarily to realised derivatives on commercial flows between Group companies.

During the year the Group divested the businesses Erin Engineering Inc, Purafil and Kaydon Custom Filtration, and Canfield Technologies, which generated SEK 848 m after the payment of taxes.

Cash flow used in financing activities

The Group's debt structure was improved in 2015 via the issuance of a 7-year EUR 500 million bond with a 1,625% coupon. The proceeds were used for the refinancing of existing debt through the buy-back of parts of two outstanding bonds, maturing in 2018 and 2019. In addition, the EUR 100 m loan due 2015 was repaid in the second quarter.

Current debt structure



Other financing items included primarily SEK -369 m interest paid related to the buy-back of borrowings and SEK -935 m (-275) to realised derivatives related to long-term borrowings.

	2015 Closing balance	Cash change	Businesses acquired/sold	Other non- cash changes	Translation effect	2015 Opening balance
Change in net debt (SEKm)						
Loans ¹⁾	21,349	-942	–	5	-1,102	23,388
Post-employment benefits, net ²⁾	13,010	-894	–	-52	14	13,942
Other short-term financial assets ³⁾	-872	-348	–	-2	-4	-518
Cash and cash equivalents	-7,218	-1,199	-18	–	-81	-5,920
Net debt	26,269	-3,383	-18	-49	-1,173	30,892
	2014 Closing balance	Cash change	Businesses acquired/sold	Other non- cash changes	Translation effect	2014 Opening balance
Change in net debt (SEKm)						
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 short-term financial assets ³⁾	-518	-168	–	243	-77	-516
Cash and cash equivalents	-5,920	-264	–	–	-287	-5,369
Net debt	30,892	-484	–	4,145	2,427	24,804

¹⁾Excludes derivatives, see Note 19.

²⁾Other non-cash changes includes remeasurements as well as expenses on defined benefit plans.

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

Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF							Non-controlling interests	Total
	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal		
Opening balance 1/1/2014	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
Net profit	–	–	–	–	–	3,880	3,880	194	4,074
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-2,057	–	-2,057	13	-2,044
Change in fair value of available-for-sale assets and cash flow hedges	–	–	297	-46	–	–	251	–	251
Release of available-for-sale assets and cash flow hedges	–	–	-80	87	–	–	7	–	7
Release of net investment hedge	–	–	–	–	1,599	–	1,599	–	1,599
Remeasurements	–	–	–	–	–	1,236	1,236	–	1,236
Income taxes	–	–	–	-10	-351	-334	-695	–	-695
Transactions with shareholders									
Non-controlling interest	–	–	–	–	–	-5	-5	46	41
Cost for Performance Share Programmes, net ¹⁾	–	–	–	–	–	14	14	–	14
Dividends	–	–	–	–	–	-2,504	-2,504	-101	-2,605
Closing balance 31/12/2015	1,138	564	512	-15	-256	22,872	24,815	1,467	26,282

¹⁾ See Note 23 for details.

Available-for-sale reserve

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

Hedging reserve

The hedging reserve accumulates activity related to cash flow hedges net of tax, being both changes in fair value as well as amounts released to the income statement. See Note 26 for details on hedging activity.

Translation reserve

Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated in the translation reserve. Upon the sale of a foreign operation, the accumulated translation amounts are recycled to the income statement and included in the gain or loss on the disposal. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. See Note 26 for details.

Non controlling interests

The category non-controlling interests accumulates the portion of a subsidiary's equity that is not attributable to the Group for subsidiaries where the Group owns less than 100%. The largest non-controlling interest is SEK 947 m relating to SKF India Ltd, representing a 46.4% shareholding. This represents 3.6% of the Group's total equity and is not considered by management to be significant.

Notes to the consolidated financial statements

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2014.

1 | Accounting policies

Critical accounting policies

Basis of presentation (IAS 1)

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 7 March 2016. 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 31 March 2016.

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

Basis of consolidation (IFRS 10)

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.

Business combinations and goodwill (IFRS 3)

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 were derived at acquisition date with the assistance of external valuation experts using generally accepted valuation techniques based on forecasted future cash flows. Acquired land, buildings and equipment were 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, were 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.

Segment information (IFRS 8)

The Group has three reportable operating segments: Industrial Market, Automotive Market, 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 Industrial Market, Automotive Market, 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 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 and eliminations. The only reconciling item to the Group profit relates to the European Commission provision reversal in 2014.

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.

1 | Accounting policies (cont.)

Translation of foreign financial statements (IAS 21)

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

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

Translation of items denominated in foreign currency (IAS 21)

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 (IAS 18)

Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfillment of the contract. Sales are recorded net of allowances for volume rebates and sales returns. Accruals for such allowances are recorded at the time of revenue recognition.

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

amounts due is reasonably assured (4) any costs in respect of the sale are identifiable and can be measured reliably.

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

Revenues from service and/or maintenance contracts where the service is delivered to the customer over time 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) (IAS 16)

Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost, less accumulated depreciation and any impairment loss.

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

The useful lives are:

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

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

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	
			2015	2014	2015	2014
Argentina	1	ARS	0.91	0.84	0.64	0.91
China	1	CNY	1.34	1.12	1.29	1.26
EMU countries	1	EUR	9.33	9.10	9.14	9.52
India	100	INR	13.11	11.29	12.58	12.31
Brazil	1	BRL	2.56	2.95	2.16	2.89
United Kingdom	1	GBP	12.85	11.31	12.38	12.16
USA	1	USD	8.41	6.88	8.36	7.82

Intangible assets (IAS 38)

Intangible assets are stated at initial cost less any accumulated amortization and any impairment. Amortization is made on a straight line basis over the estimated useful lives and begins once the asset is ready for its intended use. The 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;
- Strategic tradenames indefinite
- Goodwill indefinite

Amortization and impairments are 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.

Inventories (IAS 2)

Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realizable value). Initially raw materials and purchased finished goods are valued at actual purchase costs and work in process and manufactured finished goods are valued at actual production costs. Production costs include direct costs such as material and labour, as well as manufacturing overhead as appropriate.

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.

Financial assets and financial liabilities (IAS 32, IAS 39, IFRS 7)

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

Financial assets categorized as loans and receivables are measured at amortized cost using the effective interest method. Impairment losses (primarily allowance for doubtful accounts) are recognized if management believes that sufficient objective evidence exists indicating that the asset may not be recovered. For disclosure purposes, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data. For current receivables and liabilities (such as trade receivables and payables) the carrying amount is considered to correspond to fair value.

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

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

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.

1 | Accounting policies (cont.)

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.

Hedge accounting (IAS 39)

The Group manages risks related to the volatility of balance sheet items and future cash flows, which otherwise would affect the income statement, by hedging. A distinction is made between cash flow hedges, fair value hedges and hedges of net investment in foreign operations based on the nature of the hedged item.

Derivative instruments which provide effective economic hedges, but which either do not qualify for hedge accounting under IAS 39 or are otherwise not designated for hedge accounting by the Group, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial income or expense or in the operating result depending on the nature of the hedged item.

Income taxes (IAS 12)

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.

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 (IAS 36)

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. If an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected assets exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives have been allocated to CGUs, and are tested for impairment annually and whenever an indication of impairment exists.

The impairment test is carried out at the lowest level at which these assets are monitored by management. In most cases this is the acquisition level but over time as integration occur, can become the business unit level.

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 strategic plans for a three-year period* representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information;
- *estimates are extrapolated for another seven years* using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors;
- *a terminal value* is then calculated based on the Gordon Growth model, which includes a terminal growth factor representing the real growth rate and inflation expected in the country in which the CGU operates.

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.

Provisions (IAS 37)

In general, a provision is recognized when there is a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as provisions is management's best estimate of the future cash flows necessary to settle the obligations at the balance sheet date, and the timing of settlement is uncertain. 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.

Post-employment benefits (IAS 19)

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.

1 | Accounting policies (cont.)

Remeasurements arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized immediately in other comprehensive income and are never reclassified to the income statement.

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

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

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

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 17)

Reclassifications made to previously published financial information

Reclassifications to statement of cash flow

The Group utilizes derivatives to manage risks related to external loans. Cash flows from such derivatives have been reclassified to cash flow used in financing activities. Previously these were included as cash flow from operations.

	As previously reported 2014	Restated cash flow 2014
Net cash flow from operations	4,528	4,797
Net cash flow used in investing activities	-2,660	-2,660
Net cash flow after investments before financing	1,868	2,137
Net cash flow used in financing activities	-1,604	-1,873
Net cash flow	264	264

Reclassifications on the balance sheet

Derivatives amounting to some SEK 1,900 million have been reclassified in the balance sheet at 31 December 2014 from short-term financial liabilities to long-term financial liabilities.

	As previously reported 2014	Restated 2014
Long-term financial liabilities	22,200	24,077
Other short-term financial liabilities	3,905	2,028

Reclassifications on the income statement

Expenses totalling to SEK 91 m have been reclassified in 2014 from administrative to selling expenses to correspond to the classification of these expenses in 2015.

New accounting principles

New accounting principles 2015

IASB issued several amended accounting standards effective starting 1 January 2015. None of these had a material impact on the SKF Group's financial statements.

New accounting principles 2016

IASB issued several amended accounting standards effective starting 1 January 2016. 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 2016 as noted.

* 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. The Group does not expect any material effect from the change to the expected loss model. Additionally the application of hedge accounting is today very limited in the Group and no material impact is expected here either (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. The vast majority of the Group's sales are non-complex product sales and at this point in the Group's implementation project, nothing has come up to indicate any significant difference in accounting from what the Group applies currently (2018).

* IFRS 16 "Leases" eliminates the classification of leases as either operating leases or financing as is required by IAS 17 and instead introduces a single lease accounting model. Applying that model a lessee is required to recognize, (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liabilities in the income statement. The Group's leasing commitments are discussed in Note 20, and the full impact of the new standard is currently being investigated (2019).

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

2 | Segment information

The SKF Group operates primarily through three business areas: Industrial Market, Automotive Market and Specialty 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 21-35.

Industrial Market serves the global industrial market directly and indirectly through SKF's worldwide distributor network. Key customer industrial segments are heavy industry segments (such as metals, mining, cement, pulp and paper), general industry segments (such as automation, machine tools, industrial drives), railway, marine, energy (such as wind, oil and gas) and off-highway (construction, agriculture). These customer segments are served both directly to OEM's and end-users as well as indirectly through SKF's network of industrial distributors.

Automotive Market provides a range of products, solutions and services to manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket.

Specialty Business consists of five stand-alone businesses with different customer-specific application solutions. SKF Linear and Actuation Technology and SKF Aerospace are marketed under the SKF brand. Kaydon Corporation, PEER Bearing Company and GBC are marketed under their own brands.

Previously published amounts have been reclassified to conform to the current Group structure in 2015. The main change was the merging of the two previous industrial business areas, Strategic Industries and Regional Sales and Services into one business area, Industrial Market. Additional reclassifications of units between business areas also occurred.

Changes to Group management (refer to pages 176-177) were made effective from 2016 in order to further increase management's focus on driving organic sales growth and improving profitability. As a consequence, the Group's segment reporting will be specified into automotive and industrial customers, as from Q2 2016.

2 | Segment information (cont.)



Industrial distribution Sales through industrial distributors.

Industry, general Automation, machine tools, industrial drives, medical and health care.

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



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

Energy Renewable energy and traditional energy.

Railway Passenger, locomotives and freight cars.

Off-highway Construction, agriculture and forestry and fork lift trucks.



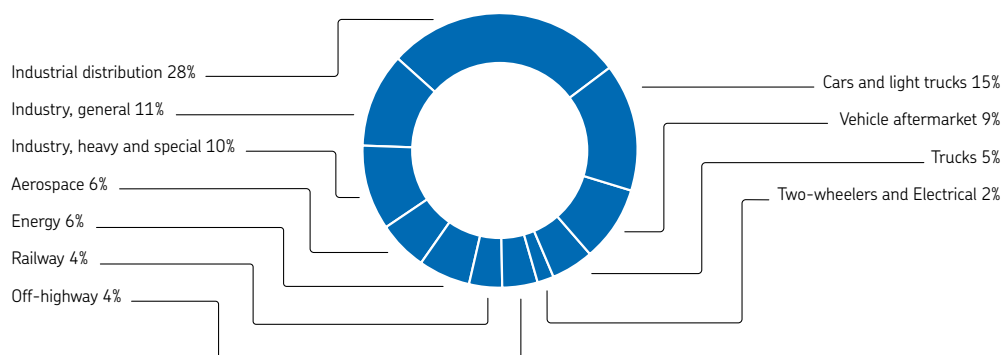
Cars and light trucks Cars and light truck manufacturers (OEMs) and their sub-suppliers.

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

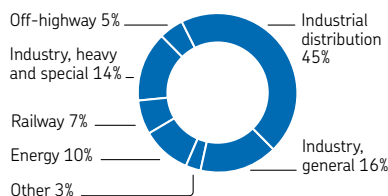
Trucks Truck, trailer and bus manufacturers (OEMs) and their sub-suppliers.

Two-wheelers and Electrical Motorcycles, scooters and skates. Home appliances, portable power tools and electric motors.

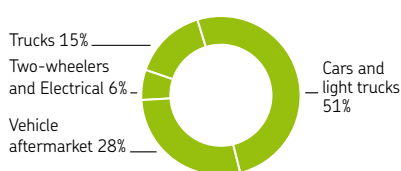
Net sales by customer industry



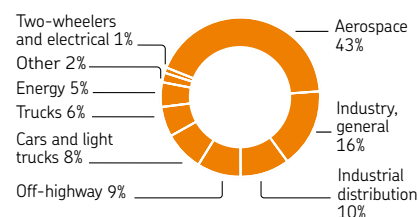
Net sales by customer industry
Industrial Market



Net sales by customer industry
Automotive Market



Net sales by customer industry
Specialty Business



SEKm	Net sales		Sales including intra-Group sales		Contribution to profit before tax	
	2015	2014*	2015	2014*	2015	2014*
Industrial Market	45,279	42,768	46,699	44,521	5,401	6,010
Automotive Market	19,908	18,330	23,284	21,469	575	571
Specialty Business	10,415	9,426	12,088	10,992	992	1,070
Subtotal operating segments	75,602	70,524	82,071	76,982	6,968	7,651
Eliminations of intra Group sales	—	—	-6,074	-6,007	—	—
Unallocated items	395	451	—	—	—	150
Financial net	—	—	—	—	-1,134	-1,133
Total	75,997	70,975	75,997	70,975	5,834	6,668

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2015	2014*	2015	2014*	2015	2014*
Industrial Market	1,138	1,042	213	5	782	806
Automotive Market	665	635	85	7	560	635
Specialty Business	616	543	141	160	505	276
Eliminations and unallocated items	—	—	—	—	463	927
Total	2,419	2,220	439	172	2,310	2,644

SEKm	Assets		Liabilities	
	2015	2014*	2015	2014*
Industrial Market	32,042	33,324	6,333	6,645
Automotive Market	12,067	12,371	3,687	3,667
Specialty Business	17,450	18,197	1,667	1,619
Subtotal operating segments	61,559	63,892	11,687	11,931
Financial and tax items	13,987	13,321	36,435	40,294
Eliminations and other unallocated items	4,187	4,426	5,329	5,010
Total	79,733	81,639	53,451	57,235

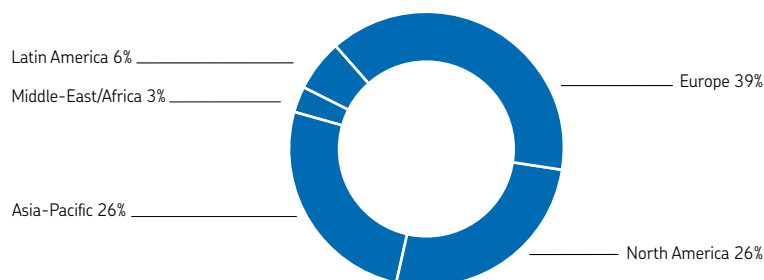
* Reclassification from previously published report.

Geographic disclosure SEKm	Net sales by customer location		Non-current assets	
	2015	2014	2015	2014
Sweden	1,799	1,746	3,379	2,559
Europe excl. Sweden	28,033	27,423	10,852	11,313
North America (incl Mexico)	19,876	18,184	17,469	17,810
Asia-Pacific	19,806	17,756	5,295	5,542
Middle East/Africa	1,998	1,813	72	8
Latin America	4,485	4,053	495	680
Eliminations	—	—	-666	-171
Total	75,997	70,975	36,896	37,741

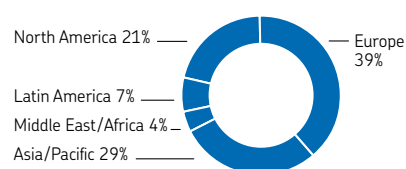
Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 22% (22) were located in the USA, 14% (13) in China, and 12% (12) in Germany. Non-current assets exclude financial assets, deferred

tax assets and post-employment benefit assets. Non-current assets are allocated according to the location of the subsidiaries. Of the Group's total non-current assets as defined above, 45% (45) were located in the USA, 14% (14) in Germany, and 10% (10) in China.

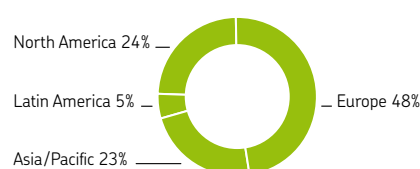
Net sales by geographic area



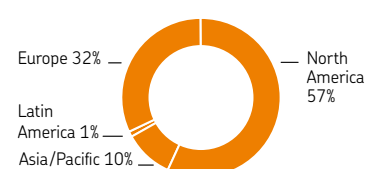
Net sales by geographic area Industrial Market



Net sales by geographic area Automotive Market



Net sales by geographic area Specialty Business



3 | Acquisitions

SEKm	2015	2014
Total fair value of net assets acquired		
Property, plant and equipment	8	47
Current assets	71	–
Current liabilities	-32	–
Fair value net assets acquired	47	47
Goodwill	87	22
Total acquisition cost	134	69
Less:		
Consideration payable	14	–
Cash and cash equivalents acquired	18	–
Cash outflow	102	69

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

In 2014, the Group had total net cash outflows of SEK 69 m for the acquisition of GLOi and Hofmann Engineering North America.

4 | Divestment of businesses

SEKm	2015
Goodwill	556
Other intangible assets	394
Property, plant and equipment	52
Current assets	110
Deferred tax provisions	-109
Current liabilities	-8
Non controlling interest	41
Net assets disposed of	1,036
Profit	171
Impairment on goodwill in divested company	-42
Total consideration and cash flow	1,165

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

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

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

In August 2015, SKF completed the divestment of Canfield Technologies, Inc. to Gen Cap America, a private equity firm headquartered in Nashville, Tennessee. The total consideration of the divestment was around USD 23 m on a cash and debt-free basis.

In June 2015, SKF sold 25.81% of its share in PT SKF Indonesia, reducing SKF's ownership to 60%.

5 | Research and development

Research and development expenditure, excluding developing IT solutions, totalled SEK 2,372 m (2,078), corresponding to 3.1% (2.9) of annual sales. The number of first patent applications was

461 (488). For more information on the research and development expenditures see page 44.

6 | Expenses by nature

SEKm	2015	2014
Employee benefit expenses including social charges	23,920	21,881
Raw material and components consumed, including traded products	24,617	22,199
Change in work in process and finished goods	331	302
Depreciation, amortization, and impairments	2,858	2,392
Other expenses, primarily purchased services, shop supplies and utilities	17,360	16,523
Total operating expenses	69,086	63,297

Depreciation, amortization and impairments were accounted for as (SEKm)	2015				2014			
	Depre- ciation	Amorti- zation	Impair- ments	Total	Depre- ciation	Amorti- zation	Impair- ments	Total
Cost of goods sold	1,765	113	218	2,096	1,623	104	172	1,899
Selling expenses	99	442	129	670	109	384	–	493
Other operating expenses	–	–	92	92	–	–	–	–
Total	1,864	555	439	2,858	1,732	488	172	2,392

7 | Other operating income and expenses

SEKm	2015	2014
Other operating income		
Exchange gains on trade receivables/payables	377	317
Profit from sale of property, plant and equipment	63	24
Profit from associated companies	4	6
Profit from divestment of businesses	171	–
Other	101	72
Total	716	419
Other operating expenses		
Exchange losses on trade receivables/payables	-511	-361
Loss from sale of property, plant and equipment	-17	-22
Impairment loss on divested business	-42	-3
Other	-89	90
Total	-659	-296
Other operating income and expenses, net	57	123

Other expenses in 2014 include amounts related to the reversal of SEK 150 m related to the European commission payment.

8 | Financial income and financial expenses

SEKm	2015	2014
Interest income	108	142
Interest expense	-640	-452
Net gains/losses:		
Net interest cost on post-employment benefits	-377	-370
Exchange differences, net	-154	-289
Other financial income including dividends	133	5
Other financial expense	-204	-169
Financial net	-1,134	-1,133

Interest expenses include SEK -270 m related to the buy-back of the bonds. The exchange differences, net include SEK -140 m related to negative revaluation effects due to currency developments in Latin America. Other financial income includes a gain of SEK 80 m on the sale of equity securities. Other financial expense 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. For a specification of the underlying financial assets and financial liabilities to these categories see Note 13 and Note 19.

Financial net specified by category of financial instruments (SEKm)	2015			2014		
	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	-	-
Derivatives held for trading	7	220	-1,793	-	46	-355
Derivatives held for hedge accounting	-	-	497	-	90	380
Financial assets classified as loans and receivables	101	-	1,098	128	-	532
Financial assets classified as available-for-sale	-	-	-	-	-	7
Other financial liabilities, primarily loans	-	-860	176	-	-588	-848
Other liabilities including post-employment benefits	-	-	-580	-	-	-539
Total	108	-640	-602	142	-452	-823

Derivatives classified as held for trading are mainly used for economic hedging. Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for

other liabilities, which includes primarily net interest costs on post-employment benefits and other financial expenses.

9 | Taxes

Tax expense (SEKm)	2015			2014		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,198	-	-2,198	-2,400	-	-2,400
Deferred taxes	438	-695	-257	482	1,437	1,919
Total	-1,760	-695	-2,455	-1,918	1,437	-481

Taxes charged to other comprehensive income includes SEK -334 m (961) related to remeasurements of post employment benefits, SEK -10 m (12) related to cash flow hedges and SEK -351 m (464) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2015	2014
Tax calculated using statutory tax rate in Sweden	-1,284	-1,467
Difference between statutory tax rate in Sweden and foreign subsidiaries	-507	-532
Other taxes	-40	-51
Tax credits and similar items	67	140
Non-deductible/non-taxable differences	179	134
Change in tax rate	1	-17
Tax loss carry-forwards	-148	-69
Current tax referring to previous years	17	-85
Other	-45	29
Actual tax	-1,760	-1,918

The corporate statutory income tax rate in Sweden was 22.0 % (22.0). The actual tax rate on profit before taxes was 30.2 % (28.8).

The non-deductible/non-taxable differences included non-taxable translation gains and tax costs on divestment of businesses.

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

	2015		2014	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Gross deferred taxes per type (SEKm)				
Intangibles and other assets	-191	2,828	-299	2,973
Property, plant and equipment	-46	1,075	-32	1,131
Inventories	-460	474	-492	519
Trade receivables	-56	5	-62	25
Provisions for post-employment benefits	-3,240	12	-3,429	12
Other accruals and liabilities	-773	100	-743	21
Tax loss carry-forwards	-1,215	–	-1,092	–
Other	-415	90	-251	86
Gross deferred taxes	-6,396	4,584	-6,400	4,767
Net deferred taxes presented in the Consolidated balance sheet	-3,185	1,373	-3,350	1,717

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 600 m (493), whereof SEK 164 m (80) related to tax loss carry-forwards, SEK 255 (264) related to tax credits and SEK 181 m (149) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams.

Unrecognized deferred tax assets of SEK 25 m related to tax losses and SEK 70 m related to tax credits will expire during the period 2016 to 2020. The remaining unrecognized assets will expire after 2021 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 30 m (14) relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that increased deferred tax expense was SEK 137 m (92) 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 2015, the Group had tax loss carry-forwards amounting to SEK 5,974 m (5,124), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2016	25
2017	74
2018	130
2019	129
2020	75
2021 and thereafter	693
Never	4,848

10 | Intangible assets

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

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

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
Total	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
Total	3,717	488	–	–	162	–	360	2,707
Net book value	22,138							19,023

Impairment losses

Impairments amounted to SEK- 398 m in 2015, of which SEK -188 m related to goodwill and the remaining SEK -210 m related to internally developed software which is described below under Significant intangibles. SEK -96 m of the goodwill impairments related to the Actuation and Linear Motion business segment in Taiwan, where recent changes in strategic direction have not yet had the impact on profitability as expected. An impairment of SEK -159 m was taken on this unit in 2014. The remaining impairments for 2015 included SEK -42 m related to Canfield Corporation which was sold during the year, and SEK -50 m related to a smaller heat transfer coil and tube machinery business operating in the US.

Intangibles with indefinite useful lives

Certain tradenames and trademarks are considered to have indefinite useful lives as the Group anticipates to continue to promote these brands in the foreseeable future. This includes the tradenames and trademarks in Peer SEK 210 m (206), and GBC SEK 191 m (179) in addition to those in Lincoln and in 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 2015 was SEK 1,279 m (1,297). The project is still in the development phase, hence no amortization has been made. In 2015 certain expenditures did not qualify for capitalisation in managements' judgement, resulting in a lower capitalisation rate than in 2014. An impairment of SEK -210 m was made due to anticipated changes in one of the technical platforms that will result in scrapping of several modules. Other individual intangible assets that are material for the Group include the customer relationship intangibles for Lincoln amounting to SEK 1,381 m (1,474) having a remaining useful life of 10 years, and for Kaydon total amounting to SEK 1,859 m (2,095) having a remaining useful life of 13 years.

CGUs with significant intangibles

Goodwill and intangibles with indefinite useful lives allocated to the CGUs Lubrication business unit (LBU), Kaydon Friction and Kaydon Velocity, are considered to be significant in comparison to the total book value of such intangibles for the Group.

	LBU		Kaydon ¹⁾		
	2015	2014	Friction 2015	Velocity 2015	2014
Goodwill, SEKm	4,310	4,095	3,165	1,749	5,146
Tradenames, SEKm	1,237	1,158	645	270	926
Average revenue					
growth rate	2.3%	3.3%	4.1%	5.1%	4.7%
Discount rate, pre tax	10.1%	11.0%	10.5%	10.8%	11.3%
Terminal growth factor	2.5%	2.5%	3.0%	3.0%	3.0%

¹⁾ In 2015, Kaydon is split into two CGUs reflecting the way the businesses are managed.

The recoverable amounts used in the testing of the LBU and the Friction and the Velocity 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 15 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. No impairments were noted, except as described in the impairment losses section above.

11 | Property, plant and equipment

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

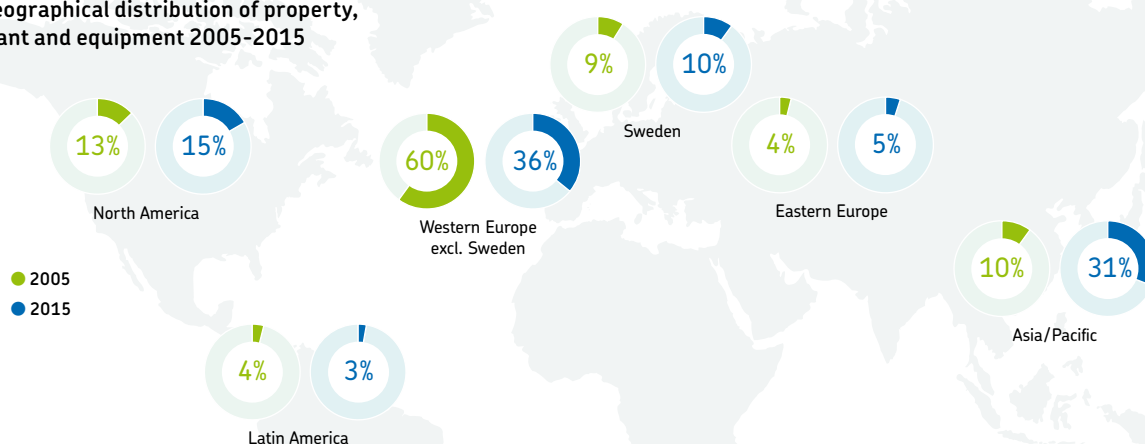
SEKm	2015 Closing balance	Depreciation	Businesses sold	Disposals	Impair- ments	Other ¹⁾	Translation effects	2015 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,527	245	-3	-31	-	-7	-107	3,430
Land improvements	197	10	-	-	-	2	-9	194
Machinery and supply systems	18,953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

SEKm	2014 Closing balance	Additions	Businesses acquired/sold	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
Total	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
Total	25,179	1,732	-	-563	10	37	1,811	22,152
Net book value	15,482							14,095

1) Includes primarily reclassification between categories.

Geographical distribution of property, plant and equipment 2005-2015



12 | Inventories

SEKm	2015	2014
Finished goods	8,560	9,003
Raw materials and supplies	4,328	4,500
Work in process	1,631	1,563
Total	14,519	15,066

Inventory values are stated net of a provision for net realizable value of SEK 1,409 m (1,413). The amount charged to expense for net realizable provisions during the year was SEK 105 m (140). Reversals of net realizable provisions during the year were SEK 28 m (13).

13 | Financial assets

Financial assets per category 2015

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	11,777	–	–	–	–	11,777	11,777
Cash and cash equivalent	2,340	–	4,878	–	–	7,218	7,218
Equity securities	–	703	–	–	–	703	–
Marketable securities	–	–	–	607	–	607	–
Deposits	783	–	–	–	–	783	783
Derivatives	–	–	–	411	14	425	410
Loans and receivables	128	–	–	–	–	128	25
Debt securities	–	20	64	–	–	84	64
Carrying amount	15,028	723	4,942	1,018	14	21,725	20,277
Fair value	15,028	723	4,942	1,018	14		

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

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

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

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.

13 | Financial assets (cont.)

Fair value hierarchy for financial assets at fair value (SEKm)	Level 1	Level 2	Level 3	2015	Level 1	Level 2	Level 3	2014
Available-for-sale								
Equity securities	665	–	–	665	506	–	–	–
Debt securities	20	–	–	20	21	–	–	21
Fair value through profit or loss								
Trading securities	602	–	70	672	506	–	64	570
Cash and cash equivalents	4,878	–	–	4,878	3,776	–	–	3,776
Trading derivatives	–	411	–	411	–	303	–	303
Derivatives used for hedge accounting	–	14	–	14	–	1,174	–	1,174
Total	6,165	425	70	6,660	4,809	1,477	64	6,350

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

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

Amounts for equity securities include SEK 38 m (39) valued at cost and consequently not included in the specification above.

Trade receivables by due date (SEKm)	Carrying amount	Not yet due	Past due, net of allowance			
			1-30 days	31-60 days	61-90 days	> 91 days
2015	11,777	9,967	1,092	334	152	232
2014	12,595	10,603	1,308	310	175	199

The average days outstanding of trade receivables in 2015 were 64 days (64). Trade receivables as a percentage of annual net sales totalled 15,5% (17,8). Trade receivables included receivables sold with recourse amounting to SEK 43 m (74). The risk of customer default for these receivables has not been transferred in such a way that the financial assets qualify for derecognition.

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.

The table below shows the development of the reserve for credit losses on trade receivables.

Specification of reserve for credit losses (SEKm)	2015	2014
Opening balance 1 January	353	291
Additions	102	97
Reversals	-34	-29
Changes through the income statement	68	68
Allowances used to cover write-offs	-38	-38
Currency translation adjustments	-7	32
Closing balance 31 December	376	353

14 | Other short-term assets

SEKm	2015	2014
Value added taxes receivables, net	965	1,173
Income tax receivables	854	825
Prepaid expenses	507	514
Accrued income	149	235
Advances to suppliers	113	149
Other current receivables	769	809
Total	3,357	3,705

15 | Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2014	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
Conversion of A shares to B shares	-1,350,548	1,350,548	–	–
Closing balance 31/12/2015	36,298,533	419,052,535	455,351,068	1,138

¹⁾The quota value for all shares is SEK 2.50

An A share has one vote and a B share has one-tenth of one vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 190,638,214 A shares have been converted to B shares.

Dividend policy

The SKF Group's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow while taking account of the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend should amount to around one half of the SKF Group's average net profit calculated over a business cycle.

If the financial position of the SKF Group exceeds the target for capital structure, which is described in Note 26, an additional

distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or as a repurchase of the company's own share. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend payments

The 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 7 April 2016. The proposed dividend for 2016 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 4 April 2016. 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 2 April 2015, a dividend of SEK 5.50 (5.50) per share was paid to the shareholders.

16 | Earnings per share

	2015	2014
Net profit attributable to owners of AB SKF (SEKm)	3,880	4,600
Weighted average number of ordinary shares outstanding	455,351,068	455,328,679
Basic earnings per share (SEK)	8.52	10.10
Dilutive shares from Performance Share Programmes	–	–
Weighted average diluted number of shares	455,351,068	455,328,679
Diluted earnings per share (SEK)	8.52	10.10

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders of the Parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares. Performance shares are considered dilutive if vesting conditions are fulfilled on the balance sheet date.

To fulfill AB SKF's obligations under both the 2011 Performance Share Programme settled in 2014, SKF International AB (SKF

Treasury Centre) entered into an equity swap agreement with a financial institution. The agreement includes the possibility to get delivery of SKF shares from the financial institution to the participants of the programmes. 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 and dilutive shares for 2014 in the table above has been reduced.

17 | Provisions for post-employment benefits

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

	2014						
	US pension	US medical	Germany pension	UK pension	Sweden pension	Other	Total
Amounts recognized in the consolidated balance sheet (SEKm)							
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

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 87% of the total US obligation. Benefits are based on length of service and average final salary or a years of service multiplier. All these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. 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 2015, this reimbursement right totalled SEK 24 m (27).

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 have an agreed recovery plan to achieve full funding in ten years.

Sweden

The major plan in Sweden is the ITP plan and it represents 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.

SEKm	2015			2014		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
Opening balance 1 January	27,171	-13,229	13,942	20,802	-10,987	9,815
Interest expense/(income)	827	-450	377	863	-495	368
Current service cost	749	–	749	506	–	506
Past service cost and gains on settlements ¹⁾	-4	–	-4	-312	249	-63
Other	4	1	5	1	–	1
Subtotal expenses	1,576	-449	1,127	1,058	-246	812
Difference between actual return and interest income	–	357	357	–	-614	-614
Actuarial (gains)/loss - demographic assumptions	-124	–	-124	233	–	233
Actuarial (gains)/loss - financial assumptions	-1,354	–	-1,354	3,623	–	3,623
Experience adjustments	-111	–	-111	-31	–	-31
Other	–	-4	-4	–	-3	-3
Subtotal remeasurements in OCI	-1,589	353	-1,236	3,825	-617	3,208
Employer contribution	–	-493	-493	–	-428	-428
Employee contribution	36	-9	27	29	-9	20
Benefit payments	-1,425	997	-428	-1,093	589	-504
Subtotal cash flow²⁾	-1,389	495	-894	-1,064	152	-912
Other	53	4	57	-99	7	-92
Translation differences	380	-366	14	2,649	-1,538	1,111
Closing balance 31 December	26,202	-13,192	13,010	27,171	-13,229	13,942

Components of total post-employment benefit expenses (SEKm)

	2015	2014
Post-employment defined benefit expense	1,127	812
Post-employment defined contribution expense	387	353
Total post-employment benefit expenses	1,514	1,165

Whereof amounts charged to:

Cost of goods sold	693	528
Selling expenses	416	211
Administrative expenses	28	56
Financial expenses	377	370
Total	1,514	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 2016 are expected to be some SEK 1,050 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Plan asset composition (SEKm)	2015			2014		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Government bonds	1,622	–	1,622	2,450	–	2,450
Corporate bonds	4,532	33	4,565	4,167	–	4,167
Equity instruments	4,929	381	5,310	5,114	11	5,125
Real estate	255	604	859	152	719	871
Other, primarily cash and other financial receivables	371	465	836	52	564	616
Total	11,709	1,483	13,192	11,935	1,294	13,229

17 | Provisions for post-employment benefits (cont.)

The SKF Group strives to balance risk in the investments of plan assets, by aiming for a range of 30–50% equity instruments with the remainder in lower risk/fixed income investments such as corporate and government bonds.

The investment positions for the major pension plans are managed within the asset-liability matching (ALM) framework. Within this framework, the Group's objective is to match plan assets to the pension obligations by investing in securities with maturities that align with the benefit payments as they fall due and in the appropriate currency. SKF Treasury Centre regularly monitors

how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Final investment decisions are taken by the local subsidiary/trustee together with SKF Treasury Centre.

The fair value of real estate in the specification of plan assets above includes SEK 136 m (128) 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 (8).

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

Significant weighted-average assumptions at end of year	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

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 paid out.

n/a = assumptions not applicable or not significant for the plan.

Sensitivity analysis of significant assumptions	Change in actuarial assumption	Impact on DBO Defined benefit obligations
Discount rate	+1%	-3,210
	-1%	4,135
Salary growth rate	+0.5%	515
	-0.5%	-530
Pension increase rate	+0.5%	680
	-0.5%	-695
Longevity	+1 year	830
	-1 year	-920

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 with prior years.

18 | Other provisions and contingent liabilities

SEKm	2015 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2015 Opening balance
Claims	396	150	-120	-43	-104	-3	516
Other long-term employee benefits	591	104	-94	-1	-35	-15	632
Restructuring	639	1,064	-792	-23	-42	-14	446
Other	469	107	-105	-20	3	-5	489
Total	2,095	1,425	-1,111	-87	-178	-37	2,083

Claims include both provisions for litigation and warranties, and represent management's best estimate of the future cash flows necessary to settle obligations, although the timing of the settlement is uncertain. Provisions for litigation are based on the nature of the litigation, the legal process in the applicable jurisdiction, the progress of the cases, the opinions of internal and external legal counsel and advisers regarding the outcome of the case and experience with similar cases. Warranty provisions involve estimates of the outcome of claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers. Assumptions are required for anticipated returns and for cost for replacing defective products and/or compensating customers for damage caused by the Group's products. These assumptions consider historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the company.

Other long-term employee benefits refer to benefits earned and expected to be settled before employment ends. These provisions are calculated using the projected unit credit method and remeasurements (actuarial gains and losses) are recognized immediately in the income statement. The largest items included jubilee bonuses in Italy and part-time retirement programmes in Germany.

Restructuring programmes are defined as activities that materially change the way a unit does business. Any related restructuring provisions are recognized when a detailed formal plan has been established and a public announcement of the plan has occurred

thereby creating a valid expectation that the plan will be carried out. Restructuring provisions involve estimates of the timing and cost of the planned future activities where the most significant estimates involve the costs necessary to settle employee severance/separation obligations, as well as the costs involved in contract cancellations and other exit costs. These estimates are based on historical experience as well as the current status of negotiations with the affected parties and/or their representatives. The provisions and expenses above related primarily to SKF's cost reduction programme which at the end of 2015 affected some 2100 employees with full year savings of SEK 1 200 m. The expenses included both voluntary and involuntary termination benefits spread over a large number of countries, with the largest being the USA, Sweden, Italy, Germany, Mexico, China and India. The majority of the remaining provisions is expected to be settled in 2016.

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

Contingent liabilities at nominal values (SEKm)	2015	2014
Guarantees	143	73
Other contingent liabilities	10	27
Total	153	100

19 | Financial liabilities

SEKm	Maturity	2015		2014	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
EUR 100 m	2016	–	–	952	953
SEK 1,000 m	2017	1,000	1,000	1,000	1,001
EUR 500 m (outstanding EUR 234 m)	2018	2,216	2,345	5,010	5,335
EUR 500 m (outstanding EUR 266 m)	2019	2,419	2,542	4,736	4,991
EUR 750 m	2020	7,216	7,294	7,557	7,637
EUR 100 m	2020	913	941	950	991
EUR 200 m	2021	1,828	1,830	1,905	1,907
EUR 500 m	2022	4,531	4,891	–	–
Other long-term loans	2017–2021	91	92	65	64
Derivatives held for hedge accounting	2017–2020	1,325	1,325	1,880	1,880
Derivatives held for trading	2016	844	844	22	22
Subtotal long-term financial liabilities		22,383	23,104	24,077	24,781
Short-term financial liabilities					
EUR 100 m	2016	914	913	–	–
EUR 100 m	2015	–	–	952	978
Medium-term loans	2016	20	20	37	37
Trade payables	2016	5,671	5,671	5,938	5,938
Short-term loans	< 3 months	201	202	223	223
Derivatives held for trading	2016	296	296	788	788
Derivatives held for hedge accounting	2016	11	11	28	28
Subtotal short-term financial liabilities		7,113	7,113	7,966	7,992
Total		29,496	30,217	32,043	32,773

Derivatives are classified in the category “Fair value through profit or loss” and fall into Level 2 of the fair value hierarchy for both 2015 and 2014. See Note 13 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.

One of the loans is the subject of fair value hedging. The fixed EUR interest on the EUR 750 m loan has been swapped into floating USD interest rate.

The loans with due date 2018 and 2019 have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to SEK 4,887 m (11,502) as of the balance sheet date.

More information regarding financial risk management and hedge accounting can be found in Note 26. Methods used for establishing fair value are described in Note 13. Interest rates for the loans are disclosed in Note 11 of the Parent company.

Other long-term and short-term financial liabilities have been secured by assets totalling SEK 5 (23) m.

20 | Leasing

	2015		2014	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Future minimum lease payments at 31 December (SEKm)				
Within one year	9	686	9	705
Later than one year but within five years	31	1,715	28	1,459
Later than five years	7	1,202	13	646
Total	47	3,603	50	2,810
Less: Interest	-3		-4	
Present value of minimum lease payments under finance leases	44		46	
Less: Current portion	-8		-7	
Non-current portion	36		39	

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

Net rental expense related to operating leases was SEK 769 m (898). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in USA, China, Germany, Sweden and Singapore.

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

21 | Other short-term liabilities

SEKm	2015	2014
Employee related accruals	2,897	2,948
Accrual for rebates	653	668
Income tax payable	336	387
Deferred income	321	339
Customer advances	286	269
Value added taxes payable, net	383	256
Other current liabilities	770	776
Other accrued expenses	1,681	1,688
Total	7,327	7,331

22 | Related parties including associated companies

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 2015 FAM is the major shareholder of the Parent company, holding 29,5% (29.0) of the voting rights and 12,9% (12.9) of the share capital.

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

Transactions with Associated companies	2015	2014
Sales of goods and services	65	57
Purchases of goods and services	282	223
Receivables as of 31 December	18	12
Liabilities as of 31 December	24	31

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

23 | Remuneration to Key Management

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

Principles of remuneration for Group Management

In March 2015, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

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

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

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

Fixed salary

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

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

Variable salary

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

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

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 40% and 70% for Group Management members.

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

Performance Shares

The Annual General Meeting 2015 decided on the introduction of SKF's Performance Share Programme 2015. The programme covers a maximum of 225 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF shares of series B.

The number of shares that may be allotted is related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial years 2015-2017 compared to the financial year 2014. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

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

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

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

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

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

Other benefits

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

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

Pension

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

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

Notice of termination and severance pay

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

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

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

Preparation of matters relating to remuneration for Group Management

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

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

Board of Directors

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2015 it was decided that the Board be entitled to a firm allotment of SEK 7,750,000 to be distributed with SEK 1,900,000 to the Chairman of the Board and with SEK 650,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that an allotment of SEK 960,000 for committee work shall be divided with SEK 220,000 to the Chairman of the Audit Committee, with SEK 157,000 to each of the other members of the Audit Committee, with SEK 126,000 to the Chairman of the Remuneration Committee and with SEK 100,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Alrik Danielson, President and Chief Executive Officer of AB SKF, received from the company in year 2015 as salary and other remunerations a total of SEK 8,926,962. Alrik Danielson did not receive any short-term variable salary related to 2014 performance.

The variable salary in 2015 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 90.

Alrik Danielson is covered by the SKF Performance Share Programme 2015. SKF's Performance Share Programme is further described on pages 126 and 129.

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

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

Group Management

The SKF's Group Management, consisting of 7 people at the end of the year, received in 2015 (exclusive of the President) salary and other remunerations amounting to a total of SEK 40,934,657, of which SEK 36,656,435 was fixed annual salary and SEK 4,278,222 was short-term variable salary related to 2014 performance. For managers that have joined or left Group Management during the year, the fixed salary is accounted in relation to the period that each individual has been a member of Group Management.

The variable salary for Group Management was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 90.

In the event of termination of employment at the request of the company of a person in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

For Group Management the Board has decided on a defined contribution supplementary pension plan. The plan entitles Group Management members covered to receive an additional pension over and above the basic pension (for Swedish members usually the ITP pension plan). The contributions paid for Group Management members covered by the defined contribution plan are based on each individual's pensionable salary (normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding the level of the basic pension (for Swedish members 30 Income Base amounts). Members of Group Management that joined Group Management 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.

23 | Remuneration to Key Management (cont.)

	Fixed salary and other benefits ¹⁾ / fixed Board remuneration		Short-term variable salary / variable Board remuneration		Performance Share Programmes		Remuneration for committee work		Gross pension costs ²⁾	Total expensed in 2015	Total expensed in 2014
	Amounts paid in 2015 ³⁾	Amounts expensed in 2015 ³⁾	Amounts paid in 2015 related to 2014 ³⁾	Amounts expensed in 2015 ³⁾	Amounts paid in 2015 related to prior years ^{3),6)}	Amounts expensed in 2015 ³⁾	Amounts paid in 2015 ³⁾	Amounts expensed in 2015 ³⁾	Amounts expensed in 2015 ³⁾		
Amounts in SEK											
Board of directors of AB SKF											
Leif Östling	720,000	1,900,000	463,203	71,097	–	–	–	283,000	–	2,254,097	2,112,676
Ulla Litzén	247,500	–	159,226	24,440	–	–	–	–	–	24,440	783,419
Marie Bredberg	572,500	650,000	159,226	24,440	–	–	157,000	157,000	–	831,440	629,786
Lena Treschow Torell	572,500	650,000	159,226	24,440	–	–	–	–	–	674,440	633,419
Peter Grafoner	572,500	650,000	159,226	24,440	–	–	100,000	100,000	–	774,440	729,419
Lars Wedenborn	572,500	650,000	159,226	24,440	–	–	320,000	320,000	–	994,440	939,419
Joe Loughrey	572,500	650,000	159,226	24,440	–	–	–	–	–	674,440	633,419
Jouko Karvinen	572,500	650,000	159,226	24,440	–	–	100,000	100,000	–	774,440	729,419
Baba Kalyani	572,500	650,000	159,226	24,440	–	–	–	–	–	674,440	633,419
Hock Goh	572,500	650,000	159,226	24,440	–	–	–	–	–	674,440	629,786
Nancy Gougarty	325,000	650,000	–	–	–	–	–	–	–	650,000	–
CEO ⁴⁾	8,926,962	9,168,419	–	3,906,000	–	517,500	–	–	3,227,257	16,819,176	34,136,694 ⁷⁾
Former CEO ^{4),8)}	13,100,297	-4,080,780	2,135,123	-1,791,877	–	-112,800	–	–	-534,171	-6,519,628	–
Group Management ^{4),5)}	36,656,435	35,741,679	4,278,222	9,356,726	–	1,428,972	–	–	10,145,826	56,673,203	117,702,845
whereof AB SKF	22,355,214	21,440,458	3,340,789	7,524,157	–	1,184,418	–	–	5,660,977	35,810,010	101,626,400
Total 2015	64,556,194	48,579,318	8,309,582	11,761,906	–	1,833,672	677,000	960,000	12,838,912	75,973,808	–
whereof AB SKF	50,254,973	34,278,097	7,372,149	9,929,337	–	1,589,118	677,000	960,000	8,354,063	55,110,615	–
Total 2014	64,601,849	92,270,771	2,444,825	14,918,014	4,255,946	490,047	918,000	918,000	51,969,891	–	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	918,000	48,129,615	–	144,217,277

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

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

³⁾ *Amounts paid* represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes.

Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual.

⁴⁾ Total pension obligations related to Group Management (including CEO) and former CEOs were SEK 73 m.

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

⁶⁾ Amounts refer to taxable benefit value.

⁷⁾ The total expense refers to the previous CEO, where fixed salary and other benefits were SEK 18,522,341 of which SEK 8,102,759 refers to 2014. The total expense also included pension expenses related to the previous CEO, which were SEK 11,589,641 of which SEK 6,179,051 refers to 2014.

⁸⁾ The negative amounts expensed in 2015 relates to adjustments relative to the amounts that were expensed in 2014.

SKF's Performance Share Programme

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

The fair value of the SKF B share at grant date is calculated as the market value of the share excluding the present value of expected dividend payments for the next three years. If there is a payout of shares, the participants are compensated for dividends as if they had owned the shares from the start of the three year period.

The estimated cost for these programmes, which is based on the fair value of the SKF B share at grant date and the number of shares expected to vest, is recognized as an operating expense with a corresponding offset in equity. The fair value of the SKF shares of series B at grant date was determined as SEK 207.0 for SKF's Performance Share Programme 2015. 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 paid 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.

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

Amounts expensed 2015 for all programmes were SEK 14 m (5) excluding social charges. The total provision for all programmes was SEK 20 m (5) and the total provision for social charges for all programmes was SEK 3 m (1).

For further details of SKF's Performance Share Programmes, see page 126.

Men and women in Board of Directors and Group Management

	2015		2014	
	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	13	77%	13	77%
Group Management incl. CEO	7	86%	10	90%
Parent Company				
Board of Directors of the Parent company incl. CEO	13	77%	13	77%
Group Management incl. CEO	6	83%	7	86%

24 | Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (SEKm)	2015	2014
Audit fees	40	38
Audit related fees	2	3
Tax fees	9	6
Other fees to auditors	3	1
	54	48
The Parent Company's share (SEKm)		
Audit fees	5	7
Audit related fees	1	2
Tax fees	1	3
Other fees to auditors	2	1
	9	13

Audit fees relate to the 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

Groups'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.

25 | Average number of employees

	2015		2014	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	647	68%	680	66%
Subsidiaries in Sweden	2,048	80%	2,211	80%
Subsidiaries abroad	41,610	79%	43,618	78%
	44,305	78%	46,509	78%

	2015		2014	
Geographic specification of average number of employees in subsidiaries abroad	Number of employees	Whereof men	Number of employees	Whereof men
France	2,613	82%	2,867	81%
Italy	3,189	77%	3,202	78%
Germany	6,449	86%	6,534	87%
Other Western Europe excluding Sweden	3,689	83%	3,770	83%
Central and Eastern Europe	3,914	63%	4,043	63%
USA	5,465	75%	6,237	74%
Canada	258	76%	236	81%
Mexico	1,267	76%	1,566	74%
Latin America	2,551	88%	2,417	80%
China	5,938	68%	6,323	68%
India	2,852	95%	2,959	95%
Other Asian countries/Pacific	2,938	80%	3,134	81%
Middle East and Africa	487	78%	330	79%
	41,610	79%	43,618	78%

26 | Financial risk management

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

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

The capital structure target of the Group is

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

Key figures ¹⁾	2015	2014
Total equity, SEKm	26,282	24,404
Gearing, %	56.7	60.5
Equity/assets ratio, %	33.0	29.9
Net debt/equity, %	99.9	126.6
Return on capital employed, %	10.9	13.9

¹⁾ Definition of these key figures is available on page 182.

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

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

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are largely centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Financial derivative instruments are used primarily to manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. The Group also uses financial derivative instruments for trading purposes, according to Group policy.

Market risk – Currency risk

The Group is exposed to changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions and to loans and investments in foreign currencies, i.e. transaction exposure. The Group's accounts are also affected by translating the results and net assets of foreign subsidiaries into SEK, i.e. translation exposure.

Transaction exposure

Transaction exposure mainly arises as a result of intra-Group transactions between the Group's manufacturing companies and the Group's sales companies, situated in other countries and selling the products to end-customers normally in local currency on their local market. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. Currency rates and payment conditions to be applied to the internal trade between SKF companies are set by SKF Treasury Centre. Currency exposure and risk is primarily, and to a large extent, reduced by netting internal transactions. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from SEK 59,881 m (56,769) to SEK 4,609 m (4,743). 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. The Group stopped applying hedge accounting on this type of contracts in 2015.

Net currency flows (SEKm)	2015	2014
USD	6,261	6,561
USD-related ¹⁾	2,154	2,049
EUR	-5,682	-6,203
Other ²⁾	1,876	2,336
SEK	-4,609	-4,743

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 will be the same as in 2015, a sensitivity-analysis shows that a 5% stronger SEK against the USD would give a negative effect on operating profit of approximately SEK 300 m. A 5% stronger SEK against the EUR would have a positive effect on operating profit of approximately SEK 300 m. A sensitivity analyses of a 5% stronger SEK against each of the USD related currencies and Other currencies would have not material effect on operating profit for any of these currencies individually considered, while the aggregate effect of all these currencies would have a negative effect on operating profit of some SEK 200 m. The effect on equity is the above result after tax. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

26 | Financial risk management (cont.)

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 5% 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 133.

Market risk – Interest rate risk

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

At year-end, total interest bearing financial liabilities amounted to SEK 34,411 m (37,366) and total interest bearing financial assets amounted to SEK 8,919 m (7,216). Liquidity management is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

To manage the interest rate risk and currency risk in the borrowing, the Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating USD, floating SEK interest rates are swapped into floating EUR and floating EUR interest rates are swapped into floating USD.

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavorable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around SEK 190 m (240). 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 665 m (506), 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 33 m (25) 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 2018 and EUR 150 m that will expire 2017.

A good rating is important in the management of liquidity risks. As of 31 December 2015 the long-term rating of the Group by Standard & Poor's and Moody's Investor Service is BBB and Baa1 respectively, both with negative outlook.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment flows. All instruments held at 31 December 2015 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 2015. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

SEKm	2015 Cash flows			2021 and thereafter
	2016	2017	2018–2020	
Loans	-1,530	-1,412	-13,356	-6,559
Trade payables	-5,671	–	–	–
Derivatives, net	-487	6	-1,766	-2
Total	-7,688	-1,406	-15,122	-6,561

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 21,022 m (21,196) as of the balance sheet date. The exposure is represented by total financial assets that are carried on the balance sheet with the exception of equity securities. No granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed as of the balance sheet date.

Credit risk (SEKm)	2015	2014
Trade receivables	11,777	12,595
Other receivables	1,602	1,204
Derivatives	425	1,477
Cash and cash equivalent	7,218	5,920
Total	21,022	21,196

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

With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The SKF Group has signed ISDA agreements (International Swaps and Derivatives Association, Inc.) with nearly all of these financial institutions. ISDA is classified as an enforceable netting arrangement. One feature of the ISDA agreement is that it enables the SKF Group to calculate its credit exposure on a net basis per counterpart, i.e. the difference between what the Group owes and is owed. The agreement between the Group and the coun-

terparty 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 140 m (1,400) and derivative liabilities of around SEK 2,400 m (2,600) subject to enforceable master netting arrangements.

Hedge accounting

Fair value hedges

Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. Changes in the fair value of these derivative financial instruments designated as hedging instruments are recognized in the income statement under financial items. The carrying amount of the hedged item (the financial liability) is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognized in the income statement under financial items. If a hedge relationship is discontinued, the accumulated adjustment to the carrying amount is amortized over the duration of the life of the hedged item.

The SKF Group hedges the fair value risk of financial liabilities at December 2015, by using cross-currency interest rate swaps. The EUR 750 m loan with fixed interest payments has been swapped into floating USD interest.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the dollar-offset method. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125%). When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item. As the list of the fair values of derivatives shows (see table in the Derivatives section below), the Group had designated interest rate derivatives for a net amount of SEK -1,317 m (-389) as fair value hedges as of 31 December 2015.

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

SEKm	Financial expense 2015	Financial expense 2014
Financial liabilities (hedged items)	63	-473
Cross-currency interest-rate swaps (hedging instruments)	-50	474
Difference (inefficiency)	13	1

Cash flow hedges

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

In 2015 the Group stopped applying cash flow hedge accounting to hedges of highly probable forecasted USD sales and the associated foreign currency risks arising from changes in USD rates. In 2015, losses totalling SEK 27 m (loss of 83) 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 79 m (losses of 25) were transferred via other comprehensive income to net sales.

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity forward contracts were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2015 financial year, losses totalling SEK 19 m (loss of 1) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year losses of SEK 8 m (loss of 7) 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	2016				2017- 2018	Total
	Q1	Q2	Q3	Q4		
Electricity forwards, SEKm	2	2	2	5	8	19

Hedges of net investments

Hedge accounting is applied to financial instruments which are effective in offsetting the exposure to translation differences arising when the net assets of foreign operations are translated into the Group's functional currency. Any gain or loss on the hedging is recognized in the foreign currency translation reserve via other comprehensive income.

As of the balance sheet date net investments in foreign operations for a nominal amount of EUR 571 m (1,474) were hedged by the Group against changes in the EUR/SEK exchange rates. EUR loans for an amount of EUR 500 m (1,200) and derivatives for an amount of EUR 71 m (274) were designated as hedge instruments.

The result of the hedges totalled SEK 1 m (-2,144) before tax in 2015 and was recognized as a translation difference in other comprehensive income. During the year SEK 1,599 m (0) has been recycled from other comprehensive income to the income statement, matching the recycling of the hedged subsidiary's cumulative translation differences.

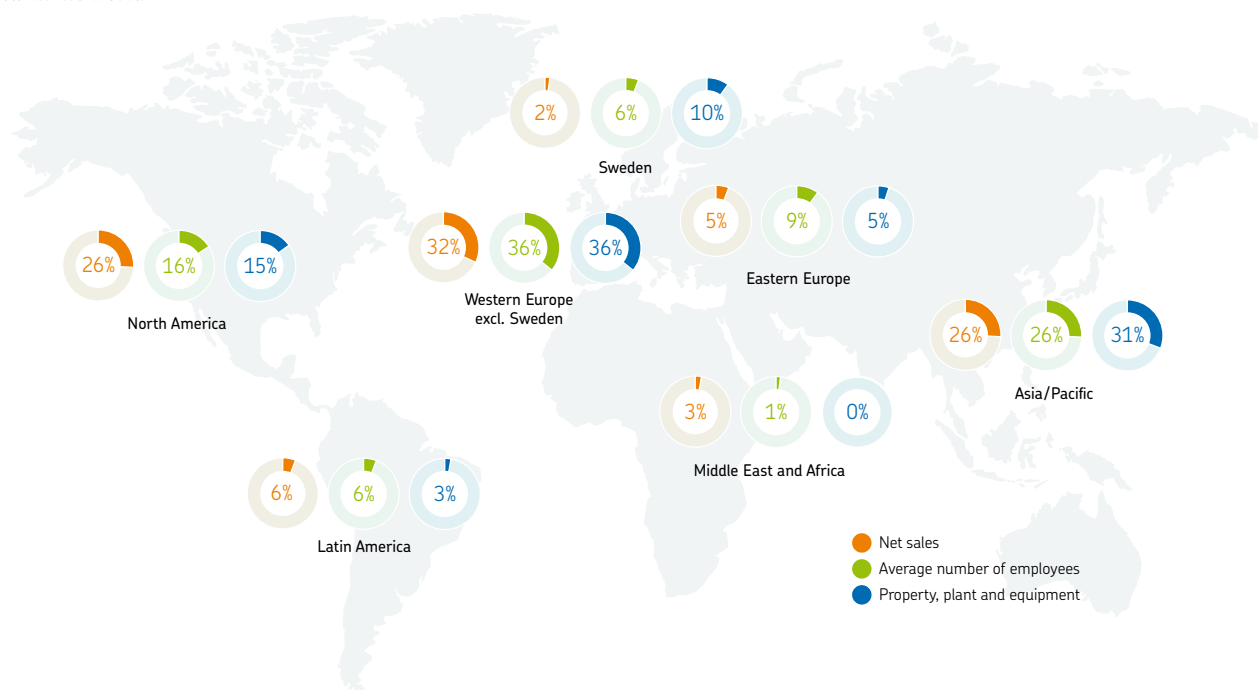
Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 13 and liabilities in Note 19. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, net investment hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e. a component of a hybrid instrument that contains a non-derivative host contract).

26 | Financial risk management (cont.)

Derivative assets and liabilities, net (SEKm)	Category	2015	2014
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	-1,317	-389
Net investment hedges	Hedge accounting	–	-318
Economic hedges	Trading	-464	–
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	–	-23
Net investment hedges	Hedge accounting	13	3
Economic hedges	Trading	-262	-515
Electricity forwards			
Cash flow hedges	Hedge accounting	-19	-7
Embedded derivatives	Trading	-2	3
		-2,051	-1,246

SKF in the world



Parent Company income statements

SEKm	Note	Years ended 31 December	
		2015	2014
Revenue	2	6,006	5,621
Cost of revenue	2	-5,317	-5,389
General management and administrative expenses	2	-1,699	-1,248
Other operating income and expenses, net	2	-5	182
Operating loss		-1,015	-834
Financial income and expenses, net	3	2,707	2,537
Profit after financial items		1,692	1,703
Appropriations	4	1,125	2,063
Profit before tax		2,817	3,766
Income taxes	5	587	-189
Net profit		3,404	3,577

Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2015	2014
Net profit		3,404	3,577
Items that may be reclassified to the income statement			
Change in fair value of available-for-sale assets	9	216	83
Other comprehensive income, net of tax		216	83
Total comprehensive income		3,620	3,660

Parent Company balance sheets

SEKm	Note	As of 31 December	
		2015	2014
ASSETS			
Non-current assets			
Intangible assets	6	1,757	1,850
Property, plant and equipment	7	76	63
Investments in subsidiaries	8	21,317	37,010
Long-term receivables from subsidiaries		19,637	21,386
Investments in associated companies		1	1
Investments in equity securities	9	664	506
Deferred tax assets	5	716	64
		44,168	60,880
Current assets			
Short-term receivables from subsidiaries		3,589	2,906
Other short-term receivables		47	56
Prepaid expenses		72	54
Cash and cash equivalents		–	–
		3,708	3,016
Total assets		47,876	63,896
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		494	278
Retained earnings		10,873	9,786
Net profit		3,404	3,577
		14,771	13,641
		16,827	15,697
Untaxed reserves	4	179	280
Provisions			
Provisions for post-employment benefits	10	296	253
Other provisions	2	83	145
		379	398
Non-current liabilities			
Long-term loans	11	19,634	21,382
Long-term liabilities to subsidiaries		127	1,742
		19,761	23,124
Current liabilities			
Short-term loans	11	914	952
Trade payables		114	272
Short-term liabilities to subsidiaries		9,126	22,706
Other short-term liabilities		13	20
Accrued expenses and deferred income		563	447
		10,730	24,397
Total shareholders' equity, provisions and liabilities		47,876	63,896
Assets pledged		–	–
Contingent liabilities		17	17

Parent Company statements of cash flow

SEKm	Years ended 31 December	
	2015	2014
Operating activities		
Operating loss	-1,015	-834
<i>Adjustments for</i>		
Depreciation and amortization	323	114
Other non-cash items	108	24
Income taxes received/paid	-65	3
Payments under post-employment defined benefit plans	-29	-27
Exercise of Performance Share Programmes	-	-33
<i>Changes in working capital</i>		
Trade payables	-158	178
Other operating assets and liabilities, net	-13,892	4,459
Interest received	505	523
Interest paid	-1,181	-1,037
Other financial items	-66	-99
Net cash flow from operating activities	-15,470	3,271
Investment activities		
Additions to intangible assets	-227	-755
Additions to property, plant and equipment	-16	-
Dividends received from subsidiaries	7,051	3,193
Capital repayments from subsidiaries	16,843	-
Investments in subsidiaries	-5,152	-4,095
Sales of shares in subsidiaries	320	-
Investments in equity securities	-11	-8
Sales of equity securities	131	7
Net cash flow used in investing activities	18,939	-1,658
Net cash flow after investments before financing	3,469	1,613
Financing activities		
Proceeds from medium- and long-term loans	4,583	1,771
Repayment of medium- and long-term loans	-5,548	-886
Cash dividends to AB SKF's shareholders	-2,504	-2,504
Net cash flow used in financing activities	-3,469	-1,619
Increase(+)/decrease(-) in cash and cash equivalents	-	-6
Cash and cash equivalents at 1 January	-	6
Cash and cash equivalents at 31 December	-	-

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 1/1/2014	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
Net profit	–	–	–	3,404	3,404
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	216	–	216
Transactions with shareholders					
Cost under Performance Share Programmes ²⁾	–	–	–	14	14
Dividends	–	–	–	-2,504	-2,504
Closing balance 31/12/2015	1,138	918	494	14,277	16,827

¹⁾ The distribution of share capital between share types is shown in Note 15 to the Consolidated financial statements.

²⁾ See Note 23 to Consolidated financial statements for information about Performance Share Programmes.

Restricted equity includes share capital and statutory reserves which are not available for dividend payments.

Unrestricted equity includes retained earnings which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets.

Notes to the financial statements of the Parent Company

1 | Accounting policies

Basis of presentation

The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities" as well as their interpretation (UFR). In accordance with RFR 2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the Consolidated financial statements.

Post-employment benefits

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

subsidiaries. Cost of revenue include research and development expenses totalling SEK 2,101m (1,816).

Of the total operating expenses, SEK 3,836 m (3,313) was invoiced from subsidiaries.

3 | Financial income and financial expenses

SEKm	2015	2014
Income from participations in Group companies		
Dividends from subsidiaries	7,051	3,193
Other financial income from investments in subsidiaries	1,384	-1
Impairment of investments in subsidiaries	-4,966	-43
	3,469	3,149
Financial income		
Interest income from subsidiaries	505	523
Other financial income	1	4
	506	527
Financial expenses		
Interest expenses to subsidiaries	-328	-518
Interest expenses to external parties	-853	-519
Other financial expense	-87	-102
	-1,268	-1,139

4 | Appropriations

Appropriations (SEKm)	2015	2014
Paid/received group contribution	1,024	2,063
Untaxed reserves		
Change in accelerated depreciation reserve	101	-
	1,125	2,063
Untaxed reserves in the balance sheet (SEKm)		
Accelerated depreciation reserve	179	280

5 | Taxes

Taxes on profit before taxes (SEKm)	2015	2014
Current taxes	-65	-96
Deferred taxes	652	-93
	587	-189
Net deferred asset per type (SEKm)		
Provisions for post-employment benefits	75	47
Tax loss carry-forwards	638	14
Other	3	3
Deferred tax assets	716	64
Reconciliation of the statutory tax in Sweden and the current tax (SEKm)		
Tax calculated using the statutory tax rate in Sweden	-620	-780
Non-taxable dividends and other financial income	1,551	703
Other non-deductible and non-taxable profit items, net	-344	-112
Actual tax	587	-189

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

6 | Intangible assets

SEKm	2015 Closing balance	Additions	Impairment	2015 Opening balance
<i>Acquisition cost</i>				
Technology and similar items	921	35	–	886
Internally developed software	1,489	192	–	1,297
	2,410	227	–	2,183

SEKm	2015 Closing balance	Depreciation	Impairment	2015 Opening balance
<i>Accumulated depreciation</i>				
Technology and similar items	443	110	–	333
Internally developed software	210	–	210	
	653	110	210	333

Net book value	1,757			1,850
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See Note 10 of the Consolidated financial statements for information on the internally developed software including impairment. Technology and similar items are amortized over eight years.

7 | Property, plant and equipment

SEKm	2015 Closing balance	Additions	2015 Opening balance
<i>Acquisition cost</i>			
Buildings	4	–	4
Machine toolings and factory fittings	58	5	53
Construction in process including advances	42	11	31
	104	16	88

SEKm	2015 Closing balance	Depreciation	2015 Opening balance
<i>Accumulated depreciation</i>			
Buildings	1	–	1
Machine toolings and factory fittings	27	3	24
	28	3	25
Net book value	76		63

8 | Investments in subsidiaries

Investments in subsidiaries held by the Parent company on December 31 (SEKm)	2015	Additions	Impairment	Disposals and capital repayments	2014	Additions	Impairment	Disposals and capital repayments	2013
Investments in subsidiaries	21,317	5,152	-4,966	-15,879	37,010	4,096	-43	-7	32,964

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*
					2015	2014	
SKF Argentina S.A.	Argentina	-	14,677,299	29.2% ¹⁾	75	75	M,S
SKF Australia Pty. Ltd.	Australia	-	96,500	100.0%	-	-	S
SKF Österreich AG	Austria	-	200	100.0%	176	176	M,S
SKF Belgium NV/SA	Belgium	-	1,778,642	99.9% ¹⁾	109	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	58	M,S
SKF Chilena S.A.I.C.	Chile	-	88,191	99.9% ¹⁾	-	-	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 Holding France S.A.R.L.	France	-	1	100.0%	3,371	0	O
SKF GmbH	Germany	-	1,000	100.0%	1,573	0	M,S
SKF Maintenance service GmbH	Germany	-	1	100.0%	6	6	S
SKF Hellas S.A.	Greece	-	2,000	100.0%	-	-	S
SKF Svéd Golyóscsapágy Zrt	Hungary	-	20	100.0%	-	-	S
SKF Technologies (India) Private Ltd.	India	-	2,426,500,101	93.3% ¹⁾	652	560	M,S
SKF India Ltd.	India	-	24,639,048	46.7% ²⁾	94	94	M,S
PT. SKF Indonesia	Indonesia	-	53,411	60.0%	24	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	225	S
SKF Holding Mexicana, S.A. de C.V.	Mexico	-	-	0.0%	-	239	O
SKF de México, S.A. de C.V.	Mexico	-	375,630,290	99.9% ¹⁾	303	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%	-	-	S
SKF del Peru S.A.	Peru	-	2,564,903	99.9% ¹⁾	-	-	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%	-	-	S
Barseco (PTY) Ltd.	South Africa	-	1,422,480	100.0%	157	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	3,395	O
SKF International AB	Sweden	556036-8671	20,000	100.0%	1,320	1,320	O
SKF Coupling Systems AB	Sweden	556019-4150	-	0% ¹⁾	-	259	M,S
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100.0%	125	125	O
Bagaregården 16:7 KB	Sweden	916622-8529	-	99.9% ¹⁾	59	57	O
Gloi AB	Sweden	556782-9717	1	100.0%	37	37	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*
					2015	2014	
Carried Forward					15,712	19,625	
SKF Condition Monitoring Center (Luleå) AB	Sweden	556236-9263	–	0% ¹⁾	–	10	M,S
SKF Lubrication Competence Center Nordic Region AB	Sweden	556124-6082	–	0% ¹⁾	–	8	S
Monitoring Control Center MCC AB	Sweden	556644-8295	–	0% ¹⁾	–	2	S
SKF Lager AB	Sweden	556219-5288	2,000	100.0%	–	–	0
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100.0%	–	–	0
SKF Verwaltungs AG	Switzerland	–	500	100.0%	502	502	0
SKF Actuation System (Liestal) AG	Switzerland	–	1	100.0%	165	165	M,S
SKF Taiwan Co. Ltd.	Taiwan	–	169,475,000	100.0%	171	171	S
SKF (Thailand) Ltd.	Thailand	–	1,847,000	92.4% ¹⁾	37	37	S
SKF Holding Maatschappij Holland B.V	The Netherlands	–	60,002	100.0%	76	5,042	0
Wynwards (U.K.) Ltd.	UK	–	–	0%	–	6,794	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%	–	–	S
					21,317	37,010	

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
Lincoln Lubrication Equipment (Changshu) Co. Ltd	China	100	USA	M,S
SKF Latin Trade S.A.	Chile	100	Spain	S
SKF Lubrication Systems 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.S	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 Stossdaempfer GmbH	Germany	100	Germany	M,S
Hahn-Gasfedern GmbH	Germany	100	Germany	M,S
SKF Sealing Solutions GmbH	Germany	100	Germany	M,S
SKF Lubrication Systems Germany GmbH	Germany	100	Germany	M,S
SKF Marine 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 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
Cooper Roller Bearings Co. Ltd	UK	100	Netherlands	M,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 Corporation	USA	100	USA	M,S,0
General Bearing Corporation	USA	100	USA	M,S
Reelcraft Industries Inc	USA	100	USA	M,S
Alemite LLC	USA	100	USA	M,S
Kaydon Europa B.V.	USA	100	Netherlands	M,S
Ace Controls Inc.	USA	100	USA	M,S
Venture Aerobearings LLC.	USA	51	USA	M,S

9 | Investments in equity securities

Name and location	Holding in percent	Number of shares	Currency	2015 Book value, SEKm	2014 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	663	385
NN, Inc., USA	–	–	USD	–	113
Other			SEK	1	8
				664	506

10 | Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally, the Company sponsors a complementary defined contribution (DC) scheme for

a limited group of managers. This DC scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

Amount recognized in the balance sheet (SEKm)	2015	2014
Present value of funded pension obligations	322	293
Less: Fair value of plan assets	-226	-235
Net obligation	96	58
Present value of unfunded pension obligations	200	195
Net provisions	296	253
Change in net provision for the year (SEKm)	2015	2014
Opening balance 1 January	253	259
Defined benefit expense	72	21
Pension payments	-29	-27
Closing balance 31 December	296	253
Components of expense (SEKm)		
Pension cost	59	34
Interest expense	4	5
Return on plan assets	9	-18
Defined benefit expense	72	21
Defined contribution expense	96	86
Total post-employment benefit expense	168	107

The calculation of defined benefit pension obligations has been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan was 3.84% (3.84%) and for the other defined benefit plan it was 3.4% (2.6%). Expected cash outflows for 2016 were SEK 34 m.

11 | Loans

			2015		2014	
SEKm	Maturity	Interest rate	Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
EUR 100 m	2015	–	–	–	952	978
SEK 1,000 m	2017	0.28	1,000	1,000	1,000	1,001
EUR 500 m (Outstanding 234 m)	2018	3.88	2,130	2,345	4,747	5,335
EUR 500 m (Outstanding 266 m)	2019	1.87	2,419	2,542	4,736	4,991
EUR 750 m	2020	2.38	6,813	7,294	7,091	7,637
EUR 200 m	2021	0.56	1,828	1,830	1,905	1,907
EUR 500 m	2022	1,63	4,531	4,891	–	–
Long-term loans						
EUR 100 m	2016	0.44	914	913	952	953
EUR 100 m	2020	0.77	913	941	951	991
			20,548	21,756	22,334	23,793

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

SEKm	2015	2014
Salaries, wages and other remuneration	661	639
Social charges (whereof post-employment benefit expense)	311(168)	348 (107)

See Note 23 to the Consolidated financial statements for information on remuneration to the Board and president as well as men and women in management and the board. Refer to Note 25 to the

Consolidated financial statements for the average number of employees and to Note 24 to the Consolidated financial statements for fees to the auditors.

Proposed distribution of surplus

Fair value reserve	SEK	493,719,341
Retained earnings	SEK	10,873,413,723
Net profit for the year	SEK	3,403,731,336
Total surplus	SEK	14,770,864,400

The Board of Directors and the President recommend to the shareholders, a dividend of SEK 5,50 per share¹⁾ to be carried forward:

Fair value reserve	SEK	493,719,341
Retained earnings	SEK	11,772,714,185
	SEK	14,770,864,400

¹⁾ Suggested record day for right to dividend, 4 April, 2016.

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 2015 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, 7 March, 2016

Leif Östling, *Chairman*
 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*
 Alrik Danielson, *President and CEO, Board member*
 Nancy Gougarty, *Board member*
 Jonny Hilbert, *Board member*
 Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 7 March, 2016.

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized public accountant
Auditor in charge

Bo Karlsson
Authorized public accountant

Sustainability Statements

– as defined by GRI G4

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

With reference to the GRI G4 Application Level Criteria, the 2015 Annual Report is self-declared as being in accordance with the Core application level, which is confirmed by the Group's external auditors PwC.

The Annual Report – SKF Group 2015 covers the reporting period January to December 2015. This report includes indicators on general standard disclosures, and specific standard disclosures where relevant. As part of the report's content definition and the reflection of its materiality, all aspects have been carefully evaluated from internal and external stakeholder perspectives. Those aspects that are considered of significant materiality are included in the specific standard disclosures below.

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

Sustainability related disclosures in the SKF Annual Report 2015 has been subject to limited assurance in accordance with FAR (the Institute for the Accounting Profession in Sweden) recommendation RevR 6 "Assurance of sustainability reports".

The Assurance Report on the review of the sustainability disclosures in the Annual Report is found on page 167.

Topics related to Annual Report

In addition to the information provided in this Annual Report, topics related to the Annual Report is found at skf.com/ar2015.

The documents referred to in these statements are:

- Carbon dioxide emission data*
- Environmental performance data*
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2016

* Documents reviewed by SKF's auditors.

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Direct economic performance	EC1, EC2, EC3	149
Environmental category		
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GRI G4 categories and aspects	Indicators	Page
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General standard disclosures

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G4-4	Primary brands, products, and services	15, 48, 36-43	G4-30	Reporting cycle	183
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G4-6	Countries where the organization operates	skf.com/ar2015	G4-32	'In accordance' option chosen. GRI Content Index for chosen Reference to the External Assurance Report	147
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Specific standard disclosures

– Economic Category

Economic performance

Boundaries

SKF Group and its subsidiaries.

Disclosure on management approach

SKF is a profit driven organization. The financial performance is the overall indicator on the economic impact SKF has on society. All SKF's entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS.

Scope and basis of consolidation

The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control. Please refer to page 101 for more information about SKF's financial accounting principles.

G4-EC1 Direct economic value generated and distributed

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

Economic value generated, SEKm	2015	2014
Net sales	75,997	70,975
Revenue from financial investments and other operating income	5,547	2,720
Economic value distributed, SEKm		
Operating costs	-44,069	-40,416
Employee wages and benefits	-23,920	-21,881
Payments to providers of capital	-8,070	-3,519
Payments to government	-2,320	-2,090
Community investments	-32	-37
Economic value retained	3,133	5,752

G4-EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change

SKF is organized to be diversified in terms of products and markets, manufacturing and currencies. In general, this diversification reduces SKF's overall exposure to business risks and positions the Group's overall risk profile as moderate. On climate change in particular, it is likely that cost associated with energy and related emissions will increase in the medium to long term. SKF takes an active approach to energy efficiency at its own facilities and suppliers - reducing energy demand and related risks.

Considering SKF's customers the general trend to internalise carbon costs and incentivise efficiency is a major driver in many of the industrial segments which the Group serves. This presents both opportunities for growth and some risks in certain segments which may be negatively impacted by this trend. Please refer to pages 36–37 for an overview of SKF customer industries. The drivers in these segments create significant opportunities for SKF to contribute to climate change mitigation through the products and solutions it provides, and thereby create considerable value for customers and investors.

The motivation for SKF's continued commitment in addressing climate change can be summarized in three points:

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it may have catastrophic long-term consequences for both.
- Energy prices are likely to increase in the medium to long-term. SKF's ability to run its business activities in a highly energy and carbon-efficient way will increasingly affect a long-term competitive advantage.
- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solutions it provides, and in doing so create considerable value for customers and investors.

Please refer to page 69 for a detailed explanation of SKF BeyondZero and SKF's climate strategy.

G4-EC3 Coverage of the organization's defined benefit plan obligations

SKF reports the coverage of its provisions of post-employment benefit in the financial statements on pages 120–122.

Specific standard disclosures

– Environmental Category

Energy and emission

Boundaries

The Group's climate strategy addresses energy and emissions over the full value chain. Targets have been established for suppliers, logistics operations, SKF's operations and customer solutions – the areas where SKF can significantly contribute.

Disclosure on management approach

The most relevant emissions to the air from SKF are direct and indirect CO₂ emissions. These are related to the energy used when processing raw material, processes at SKF's operations, transporting goods and during the use-phase of SKF's products. Continued global emissions of greenhouse gases will cause further warming and increase the likelihood of severe, pervasive and irreversible impacts for people and the natural environment. Limiting emissions is a critical challenge for business, governments and society. At SKF, all relevant functions are included in the work along with specific responsibilities.

SKF is developing and deploying technology that enables improved energy efficiency for its customers and increased renewable energy generation. SKF's products and solutions help enable resource efficiency, energy and fuel savings for customers in numerous industrial segments, and SKF's solutions help make the wind industry more commercially viable. These solutions are defined by the SKF BeyondZero portfolio. Revenues and avoided emissions from the portfolio are reported on page 152.

SKF works to influence all energy-intensive suppliers to implement energy management systems certified according to ISO 50001. The current status is reported on page 52 in this report. SKF has deployed an energy management system according to ISO 50001 at its own operations, which covers all energy-intensive operations – about 90% of the Group's total energy use. The deployment and maintenance of systematic

energy management is the foundation of long-term improvement. Please refer to page 62 for more information about SKF's management systems.

Detailed data on SKF's energy and emissions are reported in this section. Ozone depleting substances are reported in kilograms used on page 154 under Chemicals and substances in production.

Scope and data compilation

All energy and CO₂ data reported in the SKF Annual Report 2015 (except goods transportation data and business travel data) was compiled either quarterly or annually using the Group's main reporting and consolidation tool. Data includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

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

For site by site data, please refer to the Environmental performance data available at skf.com/ar2015.

G4-EN6 Reduction of energy use – Performance

Energy use compared to 2006 reduced in absolute terms by 17% (16%) and the Group continues to be well ahead of the targeted 5% reduction by 2016. Energy efficiency (per output) worsened slightly in 2015 compared to 2014, this was mainly due to a somewhat lower production volume.

Energy use and associated CO₂ emissions from SKF's own facilities (Scope 1 and 2)

Targets: 5% reduction in absolute energy use in 2016 vs. 2006 and reduce the energy use per production output by 5% year-on-year (measured as energy use/output)

Energy	2015	2014	2013	2012	2011	2006
G4-EN3 Energy in GWh scope 1	284	294	323	314	326	407
G4-EN3 Energy in GWh scope 2	1,336	1,347	1,379	1,362	1,432	1,550
Total energy use (GWh)	1,620	1,641	1,702	1,676	1,758	1,957
G4-EN5 Indexed energy efficiency (GWh/output)*	102	100	105			
G4-EN5 Energy use per net sales (GWh/SEKm x 100)	2.13	2.31	2.67	2.59	2.65	3.68

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

CO ₂ (tonnes)	2015	2014	2013	2012	2011	2006
Direct combustion (scope 1*)						
LPG	4,046	4,025	4,775	4,708	4,369	4,234
Fuel oil	2,689	3,221	3,069	3,750	5,868	11,891
Natural gas	51,363	53,035	58,207	56,178	57,116	69,165
G4-EN15 Total scope 1	58,098	60,281	66,051	64,636	67,353	85,290
Supplied energy (scope 2*)						
Electricity	415,814	403,871	401,108	389,938	427,785	445,462
Heating energy	28,126	30,188	36,473	35,684	33,562	45,911
G4-EN16 Total scope 2	443,940	434,059	437,581	425,622	461,347	491,373
Total CO ₂ emissions Scope 1 and 2	502,038	494,340	503,632	490,258	528,700	576,663
G4-EN18 CO ₂ per net sales (tonnes/SEKm)	6.61	6.96	7.92	7.59	7.98	10.86

* SKF reports greenhouse gas emissions in accordance with the Greenhouse Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, business travel etc.). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2015 are adjusted according to the GHG-protocol for acquisitions and divestments. SKF sources energy locally for all sites and the level of detail in each contract differs, SKF can therefore not report the source of energy on scope 2 emissions on an aggregated level.

Goods transportation data and related CO₂ emissions (Scope 3)

Target: 30% reduction of CO₂/tonne-kilometre for goods transport by 2016 compared to 2011.

NOTE: A new baseline has been established for the remaining target period (2015-2016). The method now contains more absolute data and fewer assumptions, reflecting the market situation more transparently. The new baseline is based on Q3-Q4 2014. The total CO₂ emissions for 2014 are calculated by multiplying Q3 and Q4 by 2.

SKF 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 transport works (shipped volumes and distances) 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.

The monitoring includes emissions of carbon dioxide (CO₂), carbon monoxide (CO), nitrogen dioxide (NO₂), sulphur dioxide (SO₂), particles (PM) and hydrocarbons (HC).

	2015	2014*	2013	2012	2011
G4-EN17 , Total CO ₂ emissions (Tonnes) scope 3	106,112	101,926*	–	–	–
Transport works (million tonne-kilometres)	2,374	2,146*	–	–	–
Indexed CO ₂ emission per tonne kilometre (Index 2014)*	97	100	95	119	118
G4-EN19 Change from 2011 (%)	-18%	-15%	-19%	+1%	–
Fill rate for trucks** (% of available truck space utilized)	70%	79%	80%	79%	81%
Shipped volumes and emissions per transport mode 2015	Road	Sea	Air		
Transport works, tonnekilometre % of total	22.3	76.3	1.4		
CO ₂ emissions, % of total	47	29	24		

* Between 2012 and 2014 SKF reduced the total CO₂ per tonne-kilometre by 15% according to baseline 2011. Then in 2014, a new baseline was established for the remaining target period (2015–2016). Therefore, SKF reports CO₂ per tonne-kilometre indexed based on 2014.

** The fill rate indicator covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

Business travel

SKF monitors CO₂ emissions from its air travel in Europe, the US and China. China was added to the scope in 2014. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult.

Tonnes	2015	2014	2013	2012	2011	2010
G4-EN17 CO ₂ emissions from air travel	21,703	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 for 2014 would be 18,569 tonnes.

The SKF BeyondZero portfolio

Total SKF BeyondZero portfolio revenues, SEKm

Target: to reach total revenues of the SKF BeyondZero portfolio solutions of SEK 10 billion in 2016.

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 industries. The growth 2015 is based on sales development of solutions included in previous years and the inclusion of new solutions in 2015.

SEKm	2015	2014	2013	2012	2011
Total SKF BeyondZero portfolio revenues	5,930	5,493	3,324	2,972	2,500*

* The result for 2011 is estimated. From 2012 the SKF BeyondZero portfolio has been reviewed or audited annually by external auditors.

Avoided greenhouse gas emissions enabled by specific SKF solutions**

Tonnes CO ₂ e	2015	2014	2013	2012
Avoided greenhouse gas emissions, specific SKF solutions** G4-EN7, G4-EN27	410,000	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 made during the course of 2016.

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

Tonnes CO ₂ e	2015	2014	2013	2012
Avoided greenhouse gas emissions*** G4-EN7, G4-EN27	2,350,000	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 impact, visit: www.beyondzero.com.

Material use in SKF's production

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favourable material properties and is widely available.

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

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

Tonnes	2015	2014	2013	2012	2011	2010	2009
Metal as raw material from external suppliers	431,523	446,978	405,235	368,401	413,945	412,068	297,950
Rubber as raw material from external suppliers	5,485	4,553	4,226	4,247	4,354	3,915	2,961

Effluents and Waste, Water, Compliance

Boundaries

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

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

Water is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due to its close correlation to energy generation.

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

Disclosure on management approach

SKF has deployed an environmental management system certified according to ISO 14001. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. The overall coordination of the work is managed by a central staff function and the responsibility to drive improvements is with SKF's functional areas in the line organization.

Roles and responsibilities have been established in accordance to the demands of SKF's environmental management system. The management system refers to SKF's minimum requirements and local legislation, whichever is the more stringent. Country managers are responsible for ensuring compliance with local laws. The local line organization manager is responsible for ensuring compliance with SKF's standards. The SKF Group function provides the overall structure and follow-up. Potential spills, incidents and fines are publically reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to skf.com/ar2015.

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including waste-water handling. SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). Downstream, SKF can provide solutions to reduce the water footprint for customers. The most important dimension of water for SKF is that of the water needed to generate energy for use over the value chain.

Scope and data compilation

All data was compiled either quarterly or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/business area, and Group level. For site by site data, please refer to the Environmental performance data available at skf.com/ar2015.

Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

G4-EN23 Residual products and recycling

SKF measures and reports waste types and disposal methods in another way than GRI suggests, the amounts of residual material and recycling rate are disclosed below and in more detail in Environmental Data spreadsheet available at skf.com/AR2015. SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. All of SKF's units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 83,734 tonnes in 2015.

	2015	2014	2013	2012	2011	2010	2009	2008
Grinding swarf (tonnes)	20,110	20,706	20,466	20,297	23,221	20,899	15,740	24,324
Grinding swarf Recycled (%)	80	83	80	76	68	67	70	64

Grinding swarf is a common waste product from SKF's manufacturing processes. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2016. This target was achieved in 2013 (80% recycling). In 2015, the rate was 80% (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 year-end 2016.

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

Chemicals and substances in production

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

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

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. After a successful 25% reduction of solvents in 2002-2007, SKF set new a target in 2007 to reduce the use of solvents by 50% by 2012. Despite a significant improvement – over 40% in 2012 compared to 2007, this target has not been reached, and so it has been extended until 2016. In 2015, the amount used was 902 tonnes (882), a reduction of 44% from 2007.

	2015	2014	2013	2012	2011	2010	2009
Alcohols (tonnes)	1,890	1,865	1,636	1,500	1,542	1,514	1,293
Hydraulic Oil (tonnes)	1,885	2,214	2,386	2,435	2,515	2,501	1,932
Grease (tonnes)	1,876	1,718	1,717	1,615	1,515	1,416	1,175
PCB (Sites with)	0	0	0	0	1	1	1
Other oils (tonnes)	2,242	2,642	2,862	3,246	3,843	3,114	3,160
Lubrication Oils (tonnes)	707	825	703	793	986	880	649
Cutting Oils (tonnes)	2,412	2,102	2,492	2,271	2,456	2,656	1,971

G4-EN20 Ozone-depleting substances (ODS)

SKF has been monitoring its consumption of ODS, referring to the Montreal Protocol, for many years. Consumption has steadily fallen over the years, supported by a number of local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been totally eliminated due to process changes in manufacturing.

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

G4-EN8 Water use

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

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

G4-EN24 Total number and volume of significant spills

No significant spills has occurred during 2015. SKF reports minor spills on page 66 and the monetary value of fines in the detailed Environmental performance data in Topics related to Annual Report on skf.com/ar2015.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

No significant fines or sanctions 2015.

Specific standard disclosures

– Social category

Occupational health and safety

Boundaries

Health and safety is a material issue in different aspects of SKF's direct operations as well as activities occurring along the value chain. SKF employs around 25,000 people in manufacturing and the focus here is on physical health and safety. This is also relevant upstream as part of SKF's responsible sourcing approaches, as well as for work carried out by sub-contractors. Downstream, the main relevant health and safety aspects relate to products and customer solutions. For SKF's white-collar workers and staff, health is mostly related to stress or psycho-social health.

Disclosure on management approach

SKF deploys a Group-wide health and safety management system according to OHSAS 18001. The high level requirements on health and safety are defined in the Group's EHS policy and the detailed instructions and procedures are integrated within the environmental health and safety management system. SKF's management system is further described on page 62. Please refer to page 72 for more information on Zero accidents.

Scope and data compilation

Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool. SKF adopts

the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates. The scope of accident reporting covers all significant SKF sites. Together these sites cover over 90% of SKF's employees. Recently acquired companies are given a timeframe for implementing the management systems and reporting. The accident rate data also includes contractors and agency workers on SKF's sites.

SKF Group People data presented below and on pages 156–157, 159 and in the Employees section on page 74 is collected annually. All figures reflect the situation on 31 December each year and the scope includes the SKF Group and all subsidiaries included in the financial reporting.

Performance

Significant improvement has been made since the launch of Zero Accidents programme in 2000. In recent years the trend is still going in the right direction, but it requires more work to get closer to eliminating work related accidents and illness. SKF is increasingly taking a more proactive approach by reporting and following up on near-misses. At the same time efforts have focused on reducing the severity rate of accidents, with positive results.

G4-LA6 Accident rate for the Group

Data per region and gender cannot be reported. Lost days and severity rate is tracked and documented locally but is not aggregated on Group level.

	2015	2014*	2013	2012	2011	2010	2009
Accident rate for the Group	0.99	1.13	0.99	1.06	1.05	1.18	1.29

*SKF changed the system for reporting accidents and worked hours in 2014, which may affect the comparability somewhat to previous years' figures.

Other health indicators

SKF measures health index and attendance rates on Group level.

Health and attendance	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
Attendance rate 2015 (% of expected worked time)	96	99	93	98	99	94	95
Attendance rate 2014 (%)	95	99	99	98	99	95	93
Health Index 2015 (%)	74	89	85	91	93	43	63

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. **Health index** is an internally developed indicator of overall long-term health. It is calculated by counting the number of employees who have five days or less total absence due to illness the last 12 months. These employees are considered to be long-term healthy. The index is the ratio of this figure and the total head count.

G4-LA8 Health and safety topics covered in formal agreements with trade union

SKF's global framework agreement with the World Union Council is based on the SKF Code of Conduct – including health and safety. These aspects are included in both global and local formal agreements, a percentage cannot be given.

SKF deploys joint health and safety committees with management and worker representative as part of the health and safety management system. Some units that have not yet fully implemented such a management system have still a joint health and safety committee. Typically, these committees operate at factory management level.

G4-LA5 SKF employees covered by joint health and safety committees with management and worker representatives, by region

%	2015	2014	2013	2012
Asia and Pacific	85	77	71	59
Middle East and Africa	93	100	100	59
North America	99	98	99	88
Latin America	96	86	99	88
Eastern and Central Europe	94	94	97	45
Western Europe	97	97	97	89
Group	94	91	91	77

SKF employees covered by formalized health and well-being policy/programme, by region

These programmes may include for example HIV/aids and other infectious diseases, health and fitness, stress, work-life balance or other issues relevant to the local context.

%	2015	2014	2013	2012
Asia and Pacific	78	92	71	69
Middle East and Africa	62**	100	100	82
North America	94	97	91	94
Latin America	71	84	98	98
Eastern and Central Europe	46	44	20	47
Western Europe	86	94	90	92
Group	81	90	81	83

** One recently acquired subsidiary started reporting as a separate legal unit in 2015. On December 31 the unit had no formal programme in place. The unit, located in South Africa has launched such programme co-funded by SWHAP (Swedish Workplace HIV/ Aids Programme) in February 2016.

Employment

Boundaries

The SKF Group and its subsidiaries.

Disclosure on management approach

SKF has a long established human resources function (Group People) that is integrated in the Group People, Communication and Quality management function. There are specific Human Resources personnel and responsibilities at Group, Business Area, Business Unit, Country and site level. Group People works to ensure that the company has the right people, in the right place at the right time and that these people are competent, motivated and able to create and capture value for our customers.

SKF has a global framework with the World Union Council which is based on the SKF Code of Conduct. Group People, manages Labour Affairs and heads up the official dialogue with

the SKF World Union Council. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local union and the World Union Council. During the recent restructuring programme referred to on page 71, extensive dialogues were held with employees and their representatives and strenuous efforts were made to minimise the negative impacts on those employees leaving the Group. These included the use of early retirement schemes as well as voluntary redundancy programs.

Scope and data compilation

SKF reports retention rate and turnover by gender and region, and not by age group. This is due to differences in human resource and salary systems which makes it challenging to aggregate this on Group level.

G4-LA1 Employee retention rate by region (excluding lay-offs)

%	Women	Men	2015 Total	2014	2013	2012
Asia and Pacific	89	90	90	89	87	88
Middle East and Africa	88	92	91	90	95	93
North America	89	90	90	93	91	91
Latin America	91	96	95	92	88	86
Eastern and Central Europe	93	94	94	95	95	96
Western Europe	94	96	96	96	95	97
Group	92	94	93	93	92	93

Voluntary retention rate is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

G4-LA1 Employee turnover and new hires by region

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and Central Europe	Western Europe
Employee turnover 2015, women %	10.7	13.3	18.3	12.6	27.6	7.6	7.5
Employee turnover 2015, men %	8.3	11.9	10.4	10.8	17.2	7.2	4.7
Employee turnover 2015, total %	8.9	12.2	12.3	11.3	18.6	7.4	5.2
Employee turnover 2014, total %	8.1	12.6	9.9	9.4	16.7	5.4	4.6
New hires 2015	2,997	739	63	764	508	332	591
Women (Number)	731	159	14	222	70	131	135
(Share of total)	24%	22%	22%	29%	14%	39%	23%
Men (Number)	2,266	580	49	542	438	201	456

Training and education

Boundaries

The SKF Group and its subsidiaries, SKF's distributor network and users of SKF's products and services.

Disclosure on management approach

SKF has established a wide range of training and educational programmes aimed at the Group's employees, distributors and customers. These are based on the Group's overall strategy and the specific competency and development needs of the various functions and job roles.

All SKF employees are entitled to an individual development plan (IDP) and this is where specific training or development needs are identified and agreed between the employee and his or her manager. The IDP is also used to follow up on the completion of training and development activities. Training defined within an IDP can range from mandatory e-learning, which all employees must complete (Code of Conduct e-learning for example) to very specific technical training on a wide range of subjects such as project management or application engineering. Please refer to pages 73-74 in the employee section for more information about how training and development for SKF employees is managed.

Downstream, SKF provides training for distributors and end-users of SKF's products and services. This includes training on mounting and servicing SKF's products for example. For distributors, SKF's training includes aspects such as technical specifications of SKF's products, value selling, SKF's Code of Conduct and profitable business management. More information on distributor training is available on skf.com.

Scope and data compilation

SKF follows up on performance reviews in the Working Climate Process (WCP) survey, which is deployed every 18–24 months. The data on development plans provided below is from the most recent survey carried out in 2014, which covered responses from 37,000 employees. The next WCP survey is planned for 2016.

What could externally be referred to as Programmes for skills management and lifelong learning are defined at SKF as individual development plans.

The percentage of employees receiving regular performance and career development is defined at SKF as people receiving formal documented performance reviews. In addition, SKF's general approach to providing on-going performance feedback helps to shape the training and development needs for employees.

Development plans and performance reviews

%	2015	2014	2013	2012
G4-LA10 Individual development plans	–	60	–	60
Men / Women	–	59/60*	–	–
G4-LA11 Performance reviews	–	69	–	65
Men / Women	–	69/70*	–	–

* SKF asks all employees from their perspective if they have had a performance review. In total, 69% said they have – men 69% women 70%. It is however optional to provide gender, therefore the male/female split is approximate. Breakdown on employee categories cannot be disclosed.

Diversity and equal opportunities

Boundaries

The SKF Group and its subsidiaries.

Disclosure on management approach

SKF works to increase diversity in various aspects to reflect and support the Group's diverse customer and manufacturing base and create sustained competitive advantage. The objective is to gain this advantage by utilizing diverse ways of thinking to cover as many aspects as possible. The work focuses on gender, national origin, background and other indicators of diversity.

The SKF Group is responsible for setting standards and providing tools that can help the business as a whole to increase diversity, and the operational parts of the business are responsible

for addressing diversity effectively and appropriately. The assurance of equal opportunity for all employees is mandated in SKF's Code of Conduct. All SKF's units are accountable for ensuring the effective deployment of SKF's Code of Conduct and this is coordinated and followed up at Group level, see page 73.

Scope and data

SKF measures the ratio of women in management positions. The data covers all of SKF's units. Local management is defined as a management group for an SKF legal entity with at least two members. The proportion of women in the Group's total workforce was 22%. SKF does not categorize employees or management by age group or minority.

G4-LA12 Local management with at least one woman, by region

%	2015	2014	2013	2012
Asia and Pacific	91	95	86	73
Middle East and Africa	50	67	67	50
North America	85	82	77	85
Latin America	67	67	67	64
Eastern and Central Europe	55	63	86	60
Western Europe	81	90	68	69
Group	80	83	76	70

For the detailed information on the Board of Directors and executive management, please refer to pages 170-171 and 176-177.

G4-LA12 Total percentage rate of women in local management, by region

%	2015	2014	2013	2012
Asia and Pacific	22	17	20	16
Middle East and Africa	14	17	15	16
North America	16	19	18	16
Latin America	17	23	19	18
Eastern and Central Europe	30	27	30	29
Western Europe	19	19	16	16
Group	20	18	18	17

Equal remuneration for men and women

Boundaries

The SKF Group and subsidiaries.

Disclosure on management approach

The SKF Code of Conduct stipulates that all employees are to be treated equally, fairly and with respect. Therefore SKF strives to assure that all remuneration is based on individual performance without any bias from a gender (or other) perspective.

Scope and data compilation

SKF is implementing common systems and job roles in the countries where SKF has significant operations. The ambition is to be able to report this accurately 2017 at the latest.

G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

This cannot currently be fully disclosed. SKF does not have the data consolidated centrally due to differences in salary systems. A qualitative approach is explained on page 73 in the Employee Care section. SKF is working to implement systems in countries where the Group has significant operations.

Labour management relations

Boundaries

SKF Group and its subsidiaries.

Disclosure on management approach

Issues relating to significant changes at SKF, for example in acquiring or divesting operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council. The precise approach must be adapted to the specific conditions of each acquisition. SKF makes it clear in its Code of Conduct that all employees have

the right to join a union and to bargain collectively. The Code of Conduct is the basis of the framework agreement between SKF and the World Union Council, and continual dialogue is on-going to ensure that it works for both SKF and the Union members.

Scope and data compilation

The data covers all SKF's entities all across the world. Data is collected using SKF's main consolidation system and reviewed by the controller and human resource office before sent to the SKF Group.

G4-LA4 Minimum notice periods

Notice regarding operational changes is always defined on a case-by-case basis with the local unions, and/or reviewed at the World Works Council. SKF reports employees covered by trade union agreements.

SKF employees covered by independent trade union agreement, by region

%	2015	2014	2013	2012
Asia and Pacific	81	77	70	70
Middle East and Africa	41	23	21	23
North America	88	83	88	91
Latin America	76	76	77	88
Eastern and Central Europe	92	81	86	85
Western Europe	95	91	92	94
Group	89	84	84	86

Local communities

Boundaries

SKF reports activities and plans that are aimed at supporting and improving communities close to SKF's local operations.

Disclosure on management approach

SKF's Social Policy aims to promote employees' involvement in commendable local social projects. As part of this, the country management team is asked to prepare and submit an annual Community Care plan. To support the appropriate development of these plans, the SKF Group provides instructions for sponsoring and charitable activities. As a basis for the Community Care plan, local management assesses and defines the support that best caters for the local society's needs and contributes to the community's development. Simplified impact assessments are carried out on high level with reference to SKF's Social policy, however the Group works to improve impact assessments on local level by continuous dialogues with country management.

Scope and data compilation

SKF has 70 country organizations (with a country manager). The focus is on operations that are significant, in terms of number of employees, customers or revenues. SKF mainly engages in community care activities through volunteer work, donations, in-kind giving and sponsorship.

- Volunteer work: Paid-working hours to employees for volunteering at approved projects by the local management.
- Donations: One-off or non-repetitive monetary contribution such as fund raising.
- In-kind giving: Contribution with products or services, such as free bearings or free technical services.
- Sponsorship: Periodical monetary contribution to an institution, organization or project/activity.

G4-S01 Percentage of operations with implemented local community engagement, impact assessments, and development programmes

34 SKF country organizations reported Community Care activities in 2015 and these countries make up over 95% of the Group's global operations in terms of employees. Out of a total quantifiable contribution of SEK 32 million, SEK 26 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Close to SEK 6 million was donated to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving. In addition, SKF employees have spent time on volunteer work related to tutoring, construction, other charity work and by donating blood.

Human rights

This includes the aspects non-discrimination, freedom of association and collective bargaining, child labour, forced or compulsory labour, assessment and human rights grievance mechanism

Boundaries

The requirement to protect salient human rights for people working in the SKF Group and its subsidiaries as well as for suppliers, subcontractors and distributors is defined in SKF's Code of Conduct, and related policies.

Disclosure on management approach

Relevant human rights and related aspects for SKF includes health and safety, non-discrimination, freedom of association and collective bargaining, avoidance of child, forced or compulsory labour and the provision of effective grievance mechanisms. The protection of these rights is managed by the deployment and follow-up processes and procedures of SKF's Code of Conduct. This is a Group policy to which all other policies are subordinate and owned by Group People, Communication and Quality. This function carries out risk-based internal audits on subsidiaries responsible for implementation and performance. All SKF employees are provided with training in the SKF Code of

Conduct in ways such as e-learning, introduction and awareness training and classroom training. Ethics is also included in management training programmes at all levels.

SKF's 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, SKF's Code of Conduct is the basis of the above-mentioned global framework agreement and has been used as a reference for establishing other documents such as SKF's Code of Conduct for Suppliers and Sub-contractors, and SKF's Code of Conduct for Distributors, demanding similar high levels of commitment from business partners.

SKF has taken steps to address the specific requirements set out in the UN Guiding Principles on Business and Human rights. The Code of Conduct was updated in 2014 in light of the Guiding Principles. Further work is on-going to update and improve the overall due diligence process around human rights as encouraged by the Guiding Principles.

G4-HR3 Total number of incidents of discrimination and corrective actions taken

Two serious cases of discrimination or harassment led to one contractor and one employee had their contracts terminated. Six cases of harassment between employees were substantiated leading to formal warnings. In addition, a number of harassment or discriminatory cases were reported which led to training, counseling or coaching on the SKF Code of Conduct. Please refer to SKF's Ethics and compliance programme on page 79.

G4-HR4 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights

The overall approach from the state towards union membership, and level of independence of trade unions, in certain countries where SKF has operations creates challenges in this aspect. SKF works pragmatically with the World Union Council and the appointed Union representatives to try and address these challenges.

G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour

Child labour is included in both SKF's internal and supplier audits. In 2015, SKF has found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible Sourcing Programme, as explained on page 52 in the Annual Report.

G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour

Forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2015, no cases of forced or bonded labour have been identified.

G4-HR9 Total number and percentage of operations that have been subject to human rights assessments

SKF's units are subject to human rights assessment and due diligence as part of the internal policy audit programme (including the Code of Conduct, Environment, Health and Safety). All SKF's units are subject to audit within a three-year interval using a risk-based approach.

Ethics and compliance

This includes the aspects corruption, fraud, anti-competitive behaviour and compliance.

Boundaries

SKF addresses corruption, fraud, anti-competitive behaviour, export control and other compliance, across the full value chain. Clearly the strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship. However, SKF works to find practical ways to ensure that the issue is addressed further upstream and downstream.

Disclosure on management approach

SKF's work to prevent corruption, fraud, anti-competitive behaviour, and to adhere to export control and other compliance issues is managed under SKF's Ethics and Compliance programme. Please refer to page 79 for a detailed explanation of this programme.

G4-S04 Communication and training on anti-corruption policies and procedures

All (100%) of SKF's employees have been communicated SKF's Anti-fraud and Anti-Corruption policy.

SKF has used the e-learning "The Fight Against Corruption" developed by the UN. All employees who interact with external parties such as all managers, all employees in sales and purchasing are in scope to undergo anticorruption training. In total, 75% (13,621) of these employees have completed their training. Completion rate broken down by region, employee category and governance body members cannot be provided.

G4-S05 Confirmed incidents of corruption and actions taken

Please refer to page 79 and to the reported cases on S011 below. Ten investigations on fraud or corruption have in 2015 led to the people under investigation leaving the company or that they received verbal or written warnings.

G4-S07 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes

For on-going investigations, please refer to page 91.

G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

No significant fines have been paid and no non-monetary sanctions have occurred during the year.

Social grievance mechanisms

Boundaries

This section covers all social grievance mechanisms as SKF works to resolve potential and actual grievances under the SKF Ethics and compliance programme.

Disclosure on management approach

The SKF Ethics and compliance programme covers all topics in SKF's Code of Conduct. Please refer to page 79 for an overview. The SKF Code of Conduct is available in Topics related to Annual Report at skf.com/ar2015.

SKF employees are requested to report behaviour that is not in line with SKF's Code of Conduct to their manager, local human resources or escalate to the country management. SKF employees can also raise concerns to a Group-level reporting mechanism. As part of this mechanism, SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Locally reported grievances are often managed at local level with the local human resource department or country management. The new reporting line has been recently launched and as awareness of this channel is heightened, it is likely that reported cases will increase.

LA16, HR12, S011 Number of grievances about labour practices, human rights and impacts on society filed, addressed, and resolved through formal grievance mechanisms

As reported on page 79, SKF has received 160 cases from its Ethics and compliance reporting line, all of which have been addressed, 40 of these have been substantiated and closed during 2015, 51 were still under investigation at year end, the rest were unsubstantiated. Substantiated and closed cases:

- Two were related to overtime procedures which have resulted in revised and documented procedures at the SKF units.
- Six were related to fraud or serious misconduct which resulted in employees or contractors leaving SKF.
- The rest were related to grievances between employees or employee and supervisor. Most cases were resolved by counseling, coaching or training. A smaller number of cases resulted in verbal or written formal warnings and in one case led to demotion and transfer.

In addition to above reported cases, SKF's internal audit function has investigated misconduct. On those related to impact on society, ten investigations including fraud and corruption have led to people receiving written warnings or left the company, please refer to cases reported under indicator G4-S05 and on page 79.

Suppliers

Boundaries

SKF addresses supplier impact on the environment, human rights, labour practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers and uses a risk based approach to focus auditing and other efforts.

Disclosure on management approach

The day to day management of SKF's responsible sourcing programme is carried out by the supplier development function within Group Purchasing. Please refer to page 50–52 in the purchasing section for a detailed explanation of SKF's supply chain management. SKF's Responsible sourcing activities take

a risk based approach, which focuses on suppliers located in high risk regions, and which in these regions make up 90% of direct material spend.

Scope and data collection

Between 2012 and 2015, over 500 audits have been carried out. These include first audits, follow-up audits and third party audits. 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. The data reported in these statements are consolidating SKF's finding into GRI's designations.

EN32, LA14, HR10, S09 Percentage of new suppliers that were screened using environmental, human rights, labour and society impact

All new suppliers are screened using these criteria.

EN33 Significant actual and potential negative environmental impacts in the supply chain and actions taken

Between 2012 and 2015, no case of significant environmental deviations has been identified. 19 cases of medium urgency has been found and actions are on-going to resolve these.

LA15, HR 11 Significant actual and potential negative labour and human rights impacts in the supply chain and actions taken

Between 2012 and 2015, 207 deviations in this category have been identified. All cases are prioritized and addressed according to their urgency. The most common deviations related to occupational health and safety, compensation and employment contracts procedures.

In order to become a Code of Conduct certified supplier to SKF, the supplier needs to have no open significant deviation. So far, since 2012, SKF has certified 155 suppliers, 55 of these were certified in 2015. Since the suppliers included in the 90% spend scope changes over time, SKF does not report an actual percentage of certified suppliers. However, the 155 suppliers represent a significant proportion of suppliers in scope and the rate of supplier certification is progressing well.

S010 Significant actual and potential negative impacts on society in the supply chain and actions taken Supplier code of conducts audits

Between 2012 and 2015, no case of significant deviations with negative societal impact has been identified. Six cases of falsified records has been found. These cases have been resolved and closed.

Materiality analysis and Stakeholder dialogue

SKF defines key stakeholder groups as customers, investors, suppliers, employee representatives and representatives from society in general. The Group works in different ways to interact with these and other stakeholders as part of the materiality assessment along with input from academic research and industry collaboration.

This allows SKF to better understand various perspectives and concerns, and address them quickly.

Customers

Customer input is sought and received via the sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers plus extensive customer perception surveys carried out on a regular basis 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 168–174. In addition, SKF carries out an employee feedback survey in the SKF Working Climate Process (WCP), around every 18–24 months. The findings from the WCP are used to implement improvements in the working climate and performance at all levels within the company – from local teams to Group Management.

Communities

The communities in which SKF operates are important stakeholders for the company. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local network collaboration.

Non-governmental organizations

SKF is actively involved in various business organizations. SKF utilizes these networks to share experiences and ideas with other companies and 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 for assuring the Group's continued success. Local sourcing offices enable close communication on daily operations. On site audits provide feedback to SKF on suppliers' adherence to the Code of Conduct and on their performance, it also supports competence development of both suppliers and SKF.

Specific surveys and interviews for materiality assessment

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's stakeholders.

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 Group has not received any input from any stakeholders during 2015 that would question the material issues for SKF.

The result of this work is a list of eleven material issues presented on the next page, along with detailed input per stakeholder group.

Stakeholder dialogue – top material issues per stakeholder group

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	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.

A summary of these material issues and how they relate to the value chain can be found on page 6. A translation of SKF's material issues with reference to the GRI G4 reporting guidelines aspects can be found below.

SKF Material Issues	GRI aspects	SKF Material Issues	GRI aspects
Customer value creation	--	Energy and climate	Energy Emissions
Business Conduct	Anti-corruption Anti-competitive behaviour Compliance Grievance mechanism for impact on society	Systematic environmental protection	Effluents and waste Water Compliance
Financial performance	Economic performance	Local Community Relations	Local communities
Health and safety	Occupational Health and safety	Safe and respectful workplace - equality, human and labour rights	Equal remuneration for women and men Labour/Management relation Labour practice grievance mechanism Non-discrimination Freedom of association and collective bargaining Child labour Forced or compulsory labour Assessment Human rights grievance mechanism
Innovation	–		
Positive and engaging workplace	Employment Training and education Diversity and equal opportunities		
Responsible Sourcing	Supplier assessment for impact on environment Supplier human rights assessment		
	Supplier assessment for impact on society Supplier assessment for labour practices		

Organization of SKF's sustainability work

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship.

The Board of Directors is the highest governance body of the company. The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continually monitoring SKF's vision, mission, values and drivers.

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

The Annual General Meeting (AGM) is the main function for direct consultation between stakeholders and the highest governance body on economic, environmental and social topics. SKF also announces points of contact in its annual report. Operational stakeholder dialogue is delegated via the SKF Group Management. Stakeholder views on topics such as remuneration are taken into account via the AGM – proposals are sent out beforehand.

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board.

SKF primarily operates with three business areas: Industrial Market, Automotive Market and Specialty Business. 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.

SKF Corporate Sustainability reports to the Senior Vice President Group Legal and Sustainability and has the task to assure that the principles defined by SKF Care are addressed and integrated into all operations and activities throughout the Group. This means that sustainability performance is the responsibility of the operational parts of the company and this must be delivered in accordance with the strategic direction and fundamental requirements as set by Corporate Sustainability and the Group. This authority is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are acted upon accordingly. SKF Corporate Sustainability is responsible for outlining and shaping policies, strategies and targets related to SKF's overall sustainability performance and these in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

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

- SKF BeyondZero governance board which decides about inclusion and exclusion in the SKF BeyondZero portfolio.
- The Responsible Sourcing Committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the Code of Conduct are identified at our suppliers.
- The Environment, Health and Safety committee, which coordinates the deployment of the Group's related strategy.

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

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

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

The Remuneration Committee (sub-set of SKF Board) determines the remuneration for the CEO and Group Management. Consultants are typically not involved.

The Annual Report – SKF Group 2015 includes SKF's sustainability reporting and is signed by all members of the Board.

Auditor's Report

To the annual meeting of the shareholders of AB SKF (publ), corporate identity number 556007-3495

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 6–10, 12–37, 44–47 and 80–146.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

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.

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 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 opinions.

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 2015 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 2015 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.

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 2015.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

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 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.

Opinions

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

Gothenburg, 7 March 2016
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in Charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant

Independent Auditor's Limited Assurance Report on the Sustainability Report

To AB SKF (publ)

Introduction

We have been engaged by the Group Management of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2015 on pages 11, 52, 58–79, and 147–165, as well as documents on SKF's website in "Topics related to Annual Report 2015" marked with *. We refer to these disclosures collectively as the "Sustainability Report".

Responsibilities of the Board and Management for the Sustainability Report

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 147 in the Annual Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent

than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

Gothenburg, 7 March 2016
PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant

Fredrik Ljungdahl
Expert Member of FAR

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 3–4, are found at the following pages of the Administration Report for the Group in the Annual Report 2015:

- Annual Accounts Act Chapter 6, § 6, section 3 »see page 87.
- Annual Accounts Act Chapter 6, § 6, section 4 »see page 88.

Swedish Code of Corporate Governance

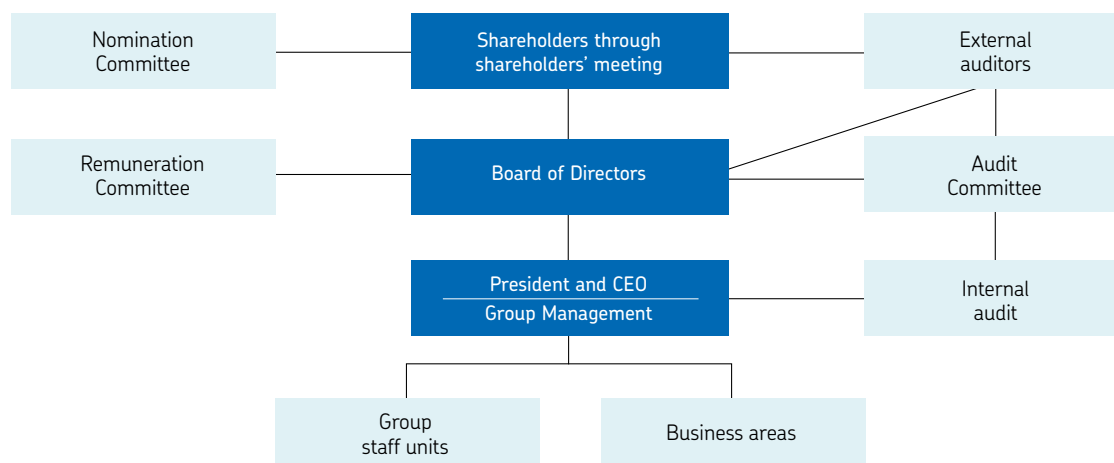
The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July 2005. The Code has been revised three times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2015 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 2015, 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 2015 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 2016. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 15 September 2015, 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 2016:

- Claes Dahlbäck, FAM AB
- Ramsay Brufer, Alecta
- Anders Algotsson, AFA Försäkring
- Anders Jonsson, Skandia

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2016:

- 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 2017

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2016.

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 accord-

ance 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's business is divided into three business areas: Industrial Market, Automotive Market and Specialty Business. Each area supports the total life cycle of the customer's assets and delivers a full range of products, services and solutions to both original manufacturers (OEMs) and end users.

Each business area is, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

Further, there are four Group staff units: Group Finance and Business Transformation, Group Technology Development, Group Legal and Sustainability and Group People, Communication and Quality. See pages 176–177 in the Annual Report 2015. 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 2015. 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 2015 can be found in the Annual Report 2015, Consolidated Financial Statements, Note 23.

Members of the Board of Directors as of 31 December 2015



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, Vice Chairman of Scania AB 2013–2015, member of the Board of Management of Volkswagen AG, responsible for Commercial Vehicles, 2012–2015.

Other assignments: Board member of EQT Holding AB and Supervisory Board of Volkswagen Truck/Bus GmbH.

Shareholding (own and/or held by related parties): 500,000 SKF B



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. Vice President at Chalmers 1995–1998. Research Director of the Joint Research Centre, European Commission, Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of IVA 2009–2011. Chairman of the European Council of Academies of Applied Sciences and Engineering 2008–2012.

Other assignments: Board member of SAAB AB and Investor AB. Chairman of Chalmers University of Technology and of MISTRA, the Foundation for Strategic Environmental Research.

Shareholding (own and/or held by related parties): 5,000 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, President of the Board of Scania Schweiz AG and Chairman of Coperion GmbH.

Shareholding (own and/or held by related parties): 5,000 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 CEO of FAM AB, wholly owned by the Wallenberg Foundations, since 2007.

Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group Inc., Höganäs AB, Alecta, The Grand Group AB, Nefab AB and FAM AB.

Shareholding (own and/or held by related parties): 10,000 SKF A, 11,500 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. Member (previous chairman 2009–2012) of the Advisory Council of the College of Arts and Letters and Chair of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.

Shareholding (own and/or held by related parties): 10,000 SKF B



Jouko Karvinen

Board member since 2010
Born 1957

Education and job experience: Master of Science (Tampere University of Technology, Finland). Executive and managerial positions at ABB Group Limited from 1987–2002, Member of Group Executive Committee 2000–2002. CEO of Philips Medical Systems Division 2002–2006, Member of Board of Management of Royal Philips Electronics 2006 and Group Management Committee 2002–2006. CEO of Stora Enso Oyj 2007–2014.

Other assignments: Member of the Supervisory Board of Directors of Nokia Corporation since 2011, Vice Chairman since 2013, Chairman of the Audit Committee, Member of the Corporate Governance and Nomination Committee. Member of the Foundation Board and Supervisory Board of IMD (Institute of Management Development) business school in Lausanne Switzerland since November 2015.

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 companies in the Kalyani Group. Board member of number of companies in the Kalyani Group. Member of the World Economic Forum, the Confederation of Indian Industries and Founder Chairman of Pratham Pune Education Foundation, an NGO engaged in providing primary education to underprivileged children in the local community.

Shareholding (own and/or held by related parties): 0



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, Vesuvius PLC since 2015 and Harbour Energy since 2015.

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. CEO of Combitech AB 2006–2015. Experience from several board assignments within the SAAB-Group.

Other assignments: Vice President Business development and Financial control in Business Area Industrial Products and Services of the SAAB Group since 2015. Board member in Combitech AB and Mjärdevi Science Park AB.

Shareholding (own and/or held by related parties): 1,000 SKF B

**Alrik Danielson**

President and Chief Executive Officer of AB SKF.

For more details, see page 176.

**Nancy Gougarty**

Board member since 2015
Born 1955

Education and job experience: MBA from Case Western Reserve University and a Bachelor of Science in Industrial Management from the University of Cincinnati. Experience from several leading positions within TRW Automotive, 2005–2012, General Motors Corporation and Delphi Corporation from 1978 to 2005.

Other assignments: President and Chief Operating Officer for Westport Innovations since 2013. Board member of Trimas Corporation since 2013.

Shareholding (own and/or held by related parties): 0

Employee representatives

**Kennet Carlsson**

Deputy Board member from 2015
Born 1962

Education and job experience: Employed in the SKF Group since 1979. Board member 2008–2015 and deputy board member 2001–2008.

Other assignments: Chairman SKF World Union Committee.

Shareholding (own and/or held by related parties): 100 SKFA

**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. Board member in Higab, a property company within the City of Gothenburg.

Shareholding (own and/or held by related parties): 0

**Jonny Hilbert**

Board member since 2015
Born 1981

Education and job experience: Employed in the SKF Group since 2005.

Other assignments: Chairman Unionen, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0

**Zarko Djurovic**

Board member since 2015
Born 1977

Education and job experience: Employed in the SKF Group since 2006.

Other assignments: Chairman Metalworker's Union, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0

Auditors

Peter Clemedtson

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		
(resigned March 2015)	•	•
Tom Johnstone		
(resigned March 2015)		•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•
Alrik Danielson		
(elected March 2015)		•
Nancy Gougarty		
(elected March 2015)	•	•

Activities of the Board of Directors

The Board held nine meetings in 2015. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	9/9
Ulla Litzén (resigned March 2015)	2/9
Tom Johnstone (resigned March 2015)	1/9
Lena Treschow Torell	9/9
Peter Grafoner	9/9
Lars Wedenborn	9/9
Joe Loughrey	9/9
Jouko Karvinen	9/9
Baba Kalyani	7/9
Hock Goh	7/9
Marie Bredberg	9/9
Alrik Danielson (elected March 2015)	7/9
Nancy Gougarty (elected March 2015)	7/9
Jonny Hilbert (appointed March 2015)	5/9
Kennet Carlsson	9/9
Niklas Thoresson (left March 2015)	4/9
Martin Björkman (left December 2015)	7/9
Zarko Djurovic (appointed December 2015)	1/9
Virpi Ring	7/9

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 2015 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 three weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held three meetings in 2015. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	3/3
Peter Grafoner	3/3
Lars Wedenborn	3/3
Jouko Karvinen	3/3

Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Leif Östling and the Board member Marie Bredberg.

The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review and control of the financial reporting, and of the internal control, internal audit and risk management regarding the financial reporting.

The Audit Committee held seven meetings in 2015. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	6/7
Lars Wedenborn	7/7
Ulla Litzén (resigned March 2015)	2/7
Marie Bredberg (from May 2015)	5/7

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

President and Chief Executive Officer

Alrik Danielson

Board member of AB SKF's Board since 2015.

Born 1962

Education and job experience: Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Several leading positions within the SKF Group 1987–2005 and President and CEO of Höganäs AB 2005–2014.

Other assignments: President and CEO of AB SKF.

Shareholding (own and/or held by related parties): 20,000 SKF B
Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 0

The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2013, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2017. Peter Clemedtson is the auditor in charge and Bo Karlsson is co-signing auditor. Peter Clemedtson is the auditor in charge at a number of other listed companies, such as Nordea Bank AB (publ), AB Volvo and Ratos AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as ASSA ABLOY AB, Investment AB Latour and unlisted companies such as Scania AB. The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, 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 2015 been involved in matters besides the auditing for 2015. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2015 amount to SEK 12 million.

Financial reporting

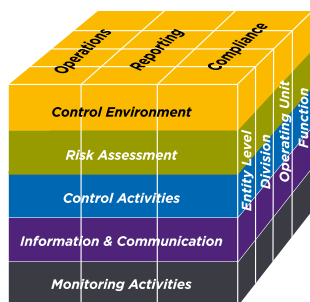
The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

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 2015 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with five Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. SKF has during 2015 reviewed the internal control framework to ensure that it is in line with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:



COSO website, © 2013 Internal Control-Integrated Framework Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these require-

ments as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year. These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 7 March 2016
The Board of Directors

Auditor's report of the Corporate Governance Report

To the annual meeting of the shareholders of AB SKF, corporate identity number 556007-3495

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2015 on pages 168–174 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 opinion.

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 Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 7 March, 2016
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant

Group Management



Alrik Danielson

2015 President and CEO and President, Industrial Market
2016 President and CEO, SKF Group

Born 1962. Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 2014 and 1987–2005.

Previous positions within SKF: President, SKF Industrial Division and several other positions.

Board member: Association of Swedish Engineering Industries

Shareholding in SKF: 20,000 SKF B



Christian Johansson

Chief Financial Officer and Senior Vice President

Born 1963. Bachelor of Science in Business Administration, Stockholm University INSEAD (Fontainebleau, France). Employed since 15 June 2015.

Shareholding in SKF: 3,000 SKF B



Stephane Le Mounier

2015 President, Automotive Market
2016 President, Automotive and Aerospace

Born 1965. Degree in Mechanical Engineering, Remiremont Technical College, France, Masters degree in International Sales and Marketing, ESV, University of Haute Alsace, France and Post-Graduate diploma in Finance and Controlling, ESSEC, Paris, France. Employed since 1988.

Previous positions within SKF: Director Business Unit Aerospace and several other positions.

Shareholding in SKF: 1,932 SKF B



John Schmidt

Member since 2016.
President, Industrial Sales Americas

Born 1969. Bachelor of Science, Mechanical Engineering from the Pennsylvania State University. Employed since 2001 and 1993–1998.

Previous positions within SKF: President and CEO SKF USA Inc and several other positions.

Shareholding in SKF: 0 SKF B



Erik Nelander

Member since 2016.
President, Industrial Sales Europe and Middle East and Africa

Born 1963 Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 1987.

Previous positions within SKF: Vice President, SKF Industrial Market, President SKF China, Business Unit Director SKF Aerospace and several other positions.

Shareholding in SKF: 3,114 SKF B



Patrick Tong

2015 President, Specialty Business and China
2016 President, Industrial Sales Asia

Born 1962. Executive Master Degree of Business Administration, Hong Kong University of Science and Technology. Employed since 1989.

Previous positions within SKF: President Specialty Business, President SKF Second Brands Bearings, as well as several other positions.

Shareholding in SKF: 2,361 SKF B



Luc Graux

Member since 2016.
President, Bearing Operations

Born 1963. Master of Business Administration, University of Houston, USA, Master of Science in Mechanical Engineering, University of Houston, USA and Bachelor of Science in Mechanical Engineering, University of Compiegne, France. Employed since 1991 and 1987–1989.

Previous positions within SKF: Director Manufacturing and Product Lines and several other positions.

Shareholding in SKF: 840 SKF B



Victoria van Camp

Member since 2016.
President, Business and Product Development

Born 1966. Master of Science in Mechanical Engineering, PhD in Machine Elements; Luleå University of Technology, Sweden. Employed since 1996.

Previous positions within SKF: Director Industrial Market Technology and Solutions, Director of Product Innovation Lubrication BU, as well as several other positions.

Board member: PREERA

Shareholding in SKF: 0 SKF B



Bernd Stephan

Senior Vice President, Technology

Born 1956. Bachelor of Engineering, Mechanical Engineering, (Dipl.-Ing., University of Essen). Employed since 1994.

Previous positions within SKF: Director Business Unit Renewable Energy and several other positions.

Shareholding in SKF: 1,746 SKF B



Carina Bergfelt

General Counsel and Senior Vice President, Legal and Sustainability

Born 1960. Master of Law, Lund University. Employed since 1990.

Previous positions within SKF: Legal Counsel, Secretary to the Board since 1996.

Board member: The Association of Exchange listed Companies

Shareholding in SKF: 3,868 SKF B



Kent Viitanen

Senior Vice President, People, Communication and Quality

Born 1965. Business and Economics, School of Business, Economics and Law, University of Gothenburg. Employed since 1988.

Previous positions within SKF: Director Renewable Energy and several other positions.

Board member: Chalmers University of Technology and Gothenburg University School of Executive Education

Shareholding in SKF: 140 SKF A and 2,975 SKF B

Glossary

Accident rate

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

Carbon intensity

The amount of CO₂ 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.

Employee retention rate

$1 - (R)/(registered\ number\ of\ employees\ as\ of\ 31\ Dec - newly\ hired\ during\ the\ year + R)$
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.

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.

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, CO₂ emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

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, gearboxes 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

Activity aimed at correcting a deficiency or problem.

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

SKF's definition of sustainability.

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.

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.

Seven-year review – SKF Group

SEKm unless otherwise stated	2015	2014	2013	2012 ²⁾	2011	2010	2009
Income statements							
Net sales	75,997	70,975	63,597	64,575	66,216	61,029	56,227
Operating expenses incl. associated comp.	-69,029	-63,174	-59,904	-57,261	-56,604	-52,577	-53,024
Operating profit	6,968	7,801	3,693	7,314	9,612	8,452	3,203
Financial income and expense, net	-1,134	-1,133	-872	-906	-680	-903	-906
Profit before taxes	5,834	6,668	2,821	6,408	8,932	7,549	2,297
Taxes	-1,760	-1,918	-1,777	-1,592	-2,708	-2,253	-592
Net profit	4,074	4,750	1,044	4,816	6,224	5,296	1,705
Balance sheets							
Intangible assets	21,485	22,138	19,023	9,800	10,157	10,194	4,014
Deferred tax assets	3,185	3,350	2,015	1,835	1,299	1,151	1,665
Property, plant and equipment	15,303	15,482	14,095	13,086	13,076	12,922	13,933
Non-current financial and other assets	1,607	1,862	1,276	1,188	1,494	1,411	1,502
Inventories	14,519	15,066	13,700	12,856	14,191	12,879	11,771
Trade receivables	11,777	12,595	11,189	10,084	10,713	9,859	8,800
Other current assets	11,857	11,146	9,693	11,908	8,444	5,985	9,330
Total assets	79,733	81,639	70,991	60,757	59,374	54,401	51,015
Equity	26,282	24,404	21,152	22,468	22,455	19,894	18,280
Provisions for post employment benefits	13,062	13,978	9,902	9,881	8,634	7,093	7,020
Deferred tax provisions	1,373	1,717	2,207	481	938	1,309	754
Other provisions	2,095	2,083	5,011	1,676	1,836	2,162	2,849
Financial liabilities	23,825	26,105	21,344	15,675	13,613	12,175	11,005
Trade payables	5,671	5,938	4,740	4,189	4,698	4,476	3,989
Other liabilities	7,425	7,414	6,635	6,387	7,200	7,292	7,118
Total equity and liabilities	79,733	81,639	70,991	60,757	59,374	54,401	51,015
Key figures¹⁾ (in percentages unless otherwise stated)							
Operating margin	9.2	11.0	5.8	11.3	14.5	13.8	5.7
Operating margin excl. one-time items	11.4	11.7	11.9	12.0	14.7	14.2	8.0
EBITA	7,522	8,289	3,998	7,552	9,860	8,602	3,425
EBITDA	9,826	10,192	5,586	9,145	11,402	10,444	5,374
Return on capital employed	10.9	13.9	7.5	16.2	23.6	24.0	9.1
Return on equity	15.7	21.4	4.6	21.6	29.7	28.4	9.0
Net working capital, % of sales	27.1	30.6	31.7	29.0	30.5	29.9	29.5
Net debt/equity	99.9	126.6	117.3	72.5	72.3	80.2	68.8
Turnover of total assets, times	1.04	0.95	0.97	1.07	1.16	1.19	1.04
Gearing	56.7	60.5	59.2	52.8	48.9	48.6	49.3
Equity/assets	33.0	29.9	29.8	37.0	37.8	36.6	35.8
Net cash flow after investments before financing	6,416	2,137	-5,390	3,045	3,974	-2,782	5,752
Investments and employees							
Additions to property, plant and equipment	2,063	1,852	1,746	1,968	1,839	1,651	1,975
Research and development expenses	2,372	2,078	1,840	1,607	1,481	1,184	1,217
Patents – number of first filings	461	488	468	421	325	251	218
Average number of employees	44,305	46,509	45,220	44,168	42,886	40,206	38,530
Number of employees registered at 31 December	46,635	48,593	48,401	46,775	46,039	44,742	41,172

¹⁾ See page 182 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⁾

SEKm unless otherwise stated	2015	2014	2013
Industrial Market			
Net sales	45,279	42,768	39,440
Operating profit	5,401	6,010	5,199
Operating margin	11.9%	14.1%	13.2%
Assets and liabilities, net	25,709	26,679	24,529
Registered number of employees	21,399	22,617	22,265
Automotive Market			
Net sales	19,908	18,330	17,370
Operating profit	575	571	841
Operating margin	2.9%	3.1%	4.8%
Assets and liabilities, net	8,380	8,705	7,988
Registered number of employees	13,574	13,952	14,151
Specialty business			
Net sales	10,415	9,426	6,382
Operating profit	992	1,070	654
Operating margin	9.5%	11.4%	10.2%
Assets and liabilities, net	15,783	16,578	14,645
Registered number of employees	8,410	8,719	8,908

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.

Per-share data¹⁾

Swedish kronor per share unless otherwise stated	2015	2014	2013	2012 ³⁾	2011	2010	2009
Earnings per share	8.52	10.10	2.0	10.23	13.29	11.28	3.61
Dividend per A and B share	5.50 ²⁾	5.50	5.50	5.50	5.50	5.00	3.50
Total dividends, SEKm	2,504	2,504	2,504	2,504	2,277	1,594	1,594
Purchase price of B shares at year-end on NASDAQ OMX Stockholm	137.2	164.9	168.7	163.2	145.60	191.60	123.60
Equity per share	54	51	44	47	47	42	38
Yield in percent (B)	4.0 ²⁾	3.3	3.3	3.4	3.8	2.6	2.8
P/E ratio, B (share price/earnings per share)	16.1	16.3	84.2	16.0	11.0	17.0	34.2
Cash flow from operations, per share	17.0	10.5	11.6	12.5	12.4	12.3	17.6
Cash flow, after investments and before financing, per share	14.09	4.69	-11.84	6.69	8.73	-6.11	12.63

¹⁾ See page 182 for definitions.

²⁾ According to the Board's proposal for the year 2015.

³⁾ 2012 restated for amended IAS 19. All years prior to 2011 continue to use the old IAS 19 rules, see Note 1.

Definitions

Average number of employees

Total number of working hours of all employees, divided by the normal total working time over the year.

Basic earnings/loss per share in SEK

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

Currency impact on operating profit

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

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.

EBITA

(Earnings before interest, taxes and amortization) Operating profit before amortizations.

EBITDA

(Earnings before interest, taxes, depreciation and amortization) Operating profit before depreciations, amortizations, and impairments.

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

Loans and net provisions for post-employment benefits less short-term financial assets excluding derivatives.

Net debt/equity

Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year-end.

Net working capital

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.

Organic sales

Volume + price/mix

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.

Reporting approach

With this report, SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance.

Reporting period

Financial year 2015, 1 January to 31 December

Reporting cycle

Annual

Date of publication

8 March 2016.

The most previous Annual Report was published in 5 March 2015.

Document format

The main publication is available in printed version and PDF in English and Swedish. The PDF and additional documentation, referred to as Topics related to Annual Report, is available at skf.com/ar2015. These are:

- Carbon dioxide emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2016

Report structure and content

SKF takes an integrated approach to reporting valuable information to its stakeholders. This should reflect the value that is created by the Group for a wide range of stakeholders.

The first part of the report seeks to describe the context in which SKF operates, the Group's strategy and main value propositions, how the Group addresses challenges delivers value to customers and other stakeholders.

The following part seeks to describe how SKF operates in terms of internal processes that help to enable this value creation, such as new market offers, technology development, manufacturing, purchasing and logistics.

The management approach section seeks to describe SKF's overall approach to quality, environment, people, risk management and other relevant aspects via policies, principles and guidelines.

The last part of the report provides the detailed result of individual aspects of financial, environmental and social relevance, assurance and additional administrative information.

Standards used

The report is prepared in accordance with Swedish reporting legislation and the financial reporting follows the principles set out by IFRS. For the sustainability disclosures, SKF applies GRI G4 guidelines published by Global Reporting Initiative.

SKF's first environmental report was published in 1994, and with time, this turned into a sustainability report. In 2000, SKF started to apply the GRI reporting guidelines to its annual sustainability reporting and in 2002 SKF issued the first annual report which included a section referred to as sustainability report.

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

In 2015, sustainability disclosures are found integrated in all parts of the report. Detailed and consolidated information with reference to GRI G4 guidelines along with specific performance data can be found in the Sustainability statements, see pages 147–165.

SKF's Corporate Governance report is prepared in accordance with Swedish Code of Corporate Governance on page 168.

SKF's Annual Report also serves as the Group's communication on progress for its continued membership in the United Nations Global Compact.

External assurance

The Administration report has been subject to reasonable assurance by SKF's auditors, please refer to Auditor's report on page 166.

Sustainability disclosures in the Annual Report have been subject to limited assurance by SKF's auditors, please refer to Auditor's Limited Assurance Report on the Sustainability Report on page 167. The assurance has been carried out in accordance with FAR (the Institute for the Accounting Profession in Sweden) recommendation RevR 6 "Assurance of sustainability reports"

The Governance Report examined by the auditors can be found on pages 168–174. The Auditor's report of the Corporate Governance Report can be found on page 175.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Thursday, 31 March 2016. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Wednesday, 23 March 2016, and must notify the company at the latest by Wednesday, 23 March 2016 via the internet, www.skf.com, or by letter to:

AB SKF
c/o Computershare AB,
"AB SKF's årsstämma 2016"
Box 610
SE-182 16 Danderyd
Sweden
or by telephone +46 31 337 25 50
(between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and number of advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place so that the shareholder is recorded in the shareholders' register by Wednesday, 23 March 2016. 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 2015. 4 April 2016 is proposed as the record date for shareholders to be entitled to receive dividends for 2015. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 7 April 2016.

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Cautionary statement

This report contains forward-looking statements that are based on the current expectations of the management of SKF. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in the Administration Report in this Annual Report.

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