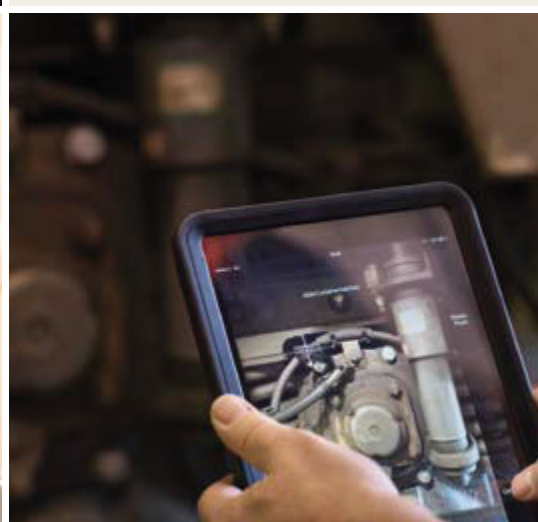




# A world of reliable rotation

Annual Report 2018



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## • Administration Report


The **Administration Report** has undergone reasonable assurance engagement by SKF's auditors. See the Auditor's Report on pages 148–151.

**Sustainability disclosures** in the Annual Report have undergone limited assurance engagement by SKF's auditors. See the **independent Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report** on page 147.

The definition of the statutory sustainability report is presented on page 120.

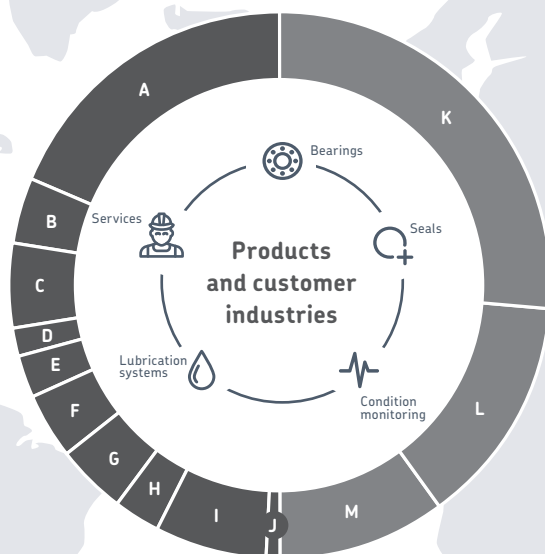
The **Corporate Governance Report examined by the auditors** can be found on pages 152–158. The Auditor's report on the Corporate Governance Report can be found on page 159.



An aerial photograph of a city at sunset. The foreground is a dense, dark green forest. The middle ground shows a sprawling city with many buildings, mostly with red-tiled roofs. The background consists of rolling hills under a sky with soft, wispy clouds. The sun is low on the horizon, creating a warm, golden glow over the entire scene.

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

# A world of reliable rotation



## Industrial customers

- (A) Industrial distribution 37%**  
Sales through industrial distributors.
- (B) Other industrial 8%**  
Manufacturers and providers within automation, medical and health care.
- (C) Heavy industries 10%**  
Machinery in the metals, mining and cement, pulp and paper industries.
- (D) Marine 3%**  
Special machinery in the marine sector.
- (E) Agriculture, food and beverage 5%**  
Special machinery in the agriculture, forestry and food and beverage sector.
- (F) Aerospace 8%**  
Aircraft and helicopter builders, aero-engine, gearbox and other aircraft systems manufacturers.
- (G) Energy 8%**  
Energy providers, renewable and traditional.

- (H) Railway 6%**  
Manufacturers and operators of passenger, locomotive and freight cars.
- (I) Industrial drives 13%**  
Machine tool, fluid machinery, industrial electrical motors, material handling, industrial transmission and driveline services.
- (J) Electrical 2%**  
Manufacturers of home appliances, portable power tools and electric motors.

## Automotive customers

- (K) Light vehicles 53%**  
Cars, light trucks and two-wheeler manufacturers and their sub-suppliers.
- (L) Vehicle aftermarket 27%**  
Spare-part products for cars, trucks and two-wheelers.
- (M) Trucks 20%**  
Truck, trailer and bus manufacturers and their sub-suppliers.



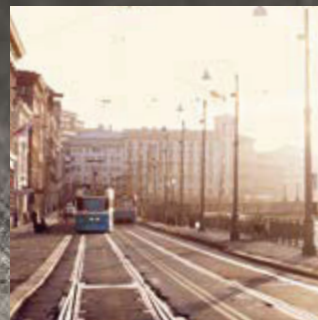
SKF provides reliable rotation by combining hands-on experience in over 40 industries with in-depth knowledge across the SKF technology areas: bearings and units, seals, services and lubrication systems.

The strength lies in the ability to keep developing new technologies that are used to create value-adding solutions offering competitive advantages to customers and, at the same time, contributing to a sustainable global society.



**09:42**  
**Bogotá**

The weekly Ciclovía is the largest mass recreation event in the world.  
Read more on page 10.



**16:03**  
**Gothenburg**

Keeping noise from all trams to a minimum is part of the city's Noise Action Plan.  
Read more on page 18.



**17:56**  
**Hong Kong**

Electric vehicles of all sizes play a major role in cleaning up Chinese cities.  
Read more on page 32.



**19:35**  
**Palm Springs**

Most of the 2,300 turbines in the San Geronio Pass were built in the 1980s.  
Read more on page 48.

# The SKF Group



## Industrial



71% of SKF's  
net sales

Market value<sup>1)</sup>  
**SEK 240–250  
billion**

1) Total value of accessible bearings market

**Bearings market  
development 2018**  
**+7 to +9%**



### Offering

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



### SKF's position

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



### Drivers

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



### Market characteristics

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

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



## Automotive



### Offering

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



### SKF's position

SKF is a market leader in wheel-end solutions and has a strong position in application-driven powertrain solutions. SKF is leading the development of components for automotive electrification. In the aftermarket, SKF has built up a strong global position with its extensive distribution network.



### Drivers

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



### Market characteristics

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

**Competitors:** Schaeffler Group, Timken, NSK, NTN, JTEKT, Ijjin, C&U, Wanxiang Qianchao, and Luoyang.

29% of SKF's  
net sales



Market value<sup>1)</sup>  
**SEK 145–155  
billion**

1) Total value of accessible bearings market

**Bearings market  
development 2018**  
**0 to +2% growth**







CEO Alrik Danielson

# “Let me tell you why SKF is such a fantastic company”

When I reflect over the year that has passed, I am thrilled and proud of our achievements. Business has been good, we have been growing and making record results in all markets and all segments. We make our customers more successful and increasingly contribute to a better environment.

**There are so many opportunities for SKF** to be successful with the fantastic resources we possess: the technologies, the people, the drive and the ambition to make a difference for our customers. SKF is present in almost every business and industry all over the world. Wherever something rotates we are involved with our products and services. What we deliver has a central role in the functionality of our customers' products and the performance of their operations.

These strengths gave impressive financial results in 2018. We saw stronger organic growth, improved margins, a stronger balance sheet, improved automotive business, and increased investments. The strong balance sheet is providing the funding for further investments, as well as for potential acquisitions. Furthermore, four of five financial targets have been reached. The one that remains, net working capital/sales 25%, is within reach.

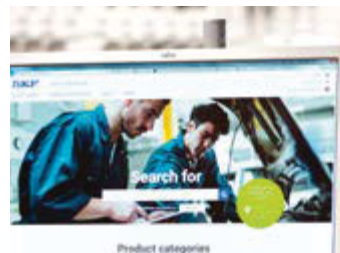
## **Towards a circular economy**

Looking at the bigger picture and our contribution to a better environment, we are on a clear path towards a circular economy. We create systems where all mechanical resources are used as efficiently as technically possible. A system where nothing goes to waste and where parts are increasingly being reused.

This trajectory will gain momentum because of the financial rewards for both customers and SKF. We increase the lifetime of the whole system, lower the consumption of parts, reduce energy consumption, lower the need for lubricants, etc. We monitor, analyse and fix. We redesign applications to reduce

“

There are so many opportunities for SKF to be successful with the fantastic resources we possess: the technologies, the people, the drive and the ambition to make a difference for our customers.



cost and increase "meantime before failure". We reduce the cost for our customers from day one and, at the same time, we, SKF, capture a fair part of the value that we create. Everyone's a winner—the environment, customers and SKF.

In 2018, we reduced our CO<sub>2</sub> emissions relative to the size of the business with more than 20%. The efforts to increase energy efficiency in our own operations will continue. Through our ambitious SKF Care agenda, we continue to support the UN Global Compact and the Global Goals for 2030.

### Performance is key

Bearings are an essential part of rotating machinery. SKF has unique competence not only to detect potential problems, but to analyse the root-cause, fix it and make sure it doesn't recur. One of the fastest growing areas within SKF is the fee-based Rotating Equipment Performance (REP) business. The offering includes performance-based contracts, implying that it is the performance of the machinery that determines our remuneration. The growth is accelerated by the scalability in digitalisation and condition monitoring. Digitalisation makes it inexpensive to monitor and survey all kinds of vehicles, machines and equipment, thus increasing our ability to improve the reliability and efficiency of all rotating parts. Early detection and diagnostics enable remanufacturing opportunities with all the positive effects mentioned earlier, i.e. lower costs and shorter lead-times for customers, extended product life cycles, lesser environmental impacts, etc.

Currently, we are monitoring about 4 million measuring points, of which about 1.5 million are connected to our REP Centres. Let me give you some examples. In Brazil, revenues from our customer, the pulp producer Fibria, have increased six times since 2000 over the course of four performance contracts, each with a more comprehensive REP offering. With the U.S. customer Big River Steel, we have set up a monthly fee arrangement for bearings and seals with benefits to the customer in terms of improved reliability, reduced unplanned downtime and reduced costs. SKF Insight Rail is a programme to which more than ten train operators have

signed up, so far. It is a fully wireless condition monitoring system that identifies which bearing has an issue and how severe it is, and then recommends what action to take.

To support this exciting development, we have opened new REP Centres in Europe; one in Gothenburg and one in Schweinfurt. They act as hubs for monitoring connected customer machines, as well as for developing new logistic solutions for spare parts and remanufacturing services.

### World-class

Developing and improving the manufacturing processes start with the customer; what do they need and what can they do without. Our current footprint allows us to compete effectively in each region or on a global scale. Our world-class initiatives incorporate all aspects of the value chain: the right quality, the right cost and the right time.

At our Capital Markets Day, we displayed our automation and simulation capabilities in Schweinfurt. This included our investments in two new world-class automation projects: a highly automated manufacturing plant for mid-sized bearings and a brand-new production line for large-sized bearings for applications in the wind and steel industries. The cost benefits are substantial, and the output quality will increase, as well as the volumes. Fewer people will be required to carry out



**Our world-class initiatives incorporate all aspects of the value chain: the right quality, the right cost and the right time.**

## 2018 in brief

- REP Centres were opened in Gothenburg (Sweden) and in Schweinfurt (Germany).
- The Linear and Actuation Technology business was divested.
- Continued investments in automation in Schweinfurt (Germany) and Saint-Cyr (France).
- Investment in new manufacturing facility in Changshan (China).
- Upgrading and modernising the logistics and bearing remanufacturing centre in Saint-Cyr (France).
- Reduced CO<sub>2</sub> emissions through operational efficiency and more renewable energy sourced.



monotonous, heavy and risky tasks, whereas demand for skills in other areas will increase.

The investments are similar to our highly automated, world-class manufacturing plant already up and running in Gothenburg. They demonstrate that we are continually improving the quality of the production platform. Similar projects have been initiated in the U.S. and in France.

In addition, we continue to address the overall manufacturing footprint. In 2018, we have initiated the closing and moving of plants in China and the UK. These steps underline our determination to work for a steady improvement in profitability over the coming years, even in a low-growth market.

### On a roll with electric vehicles

In our automotive business we remain focused on technology development and reducing costs. We have increased margins significantly since 2014 from 4.4% to 6.4% in 2018, thanks to market share gains and significant savings in our OEM business. In the last two years, the business has grown significantly more than vehicle production.

We have a strong position in electric and hybrid vehicles, with a customer base in Europe, North America and in Asia. NIO, SAIC Motor, BYD and Changan Auto Group are all Chinese manufacturers of New Energy Vehicles (NEV), with whom we have signed new deals during 2018. These are four out of a total of more than 20 NEV deals, most of them in China, which is the leading region when it comes to electrification.

Electric vehicle gearboxes may have fewer speeds but they place higher demands on the bearings. In fact, we have a higher value per vehicle on a Tesla than on a traditional car.

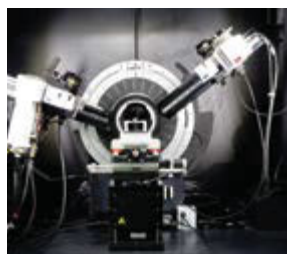
### Strong financials

Last but not least, I'd like to reassure you that cash flow remains our top priority. In 2018, we generated SEK 8.3 billion, an improvement of SEK 3.6 billion compared to the previous year.

We divested the linear and actuation business for a total of SEK 2.75 billion. In the past three years we have made a total of eight divestments, thereby strengthening our financial

“

**Our strong financials give us great opportunities to strengthen our market position.**



position and focusing our business portfolio. Our net debt to equity ratio is now well below our target of 80%.

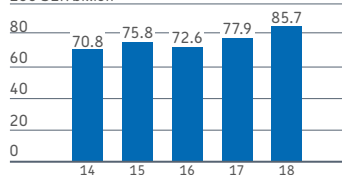
Entering 2019, our strong financials give us great opportunities to strengthen our market position and to fully capitalise on the digital revolution.

Believe me, SKF is a fantastic company today, but we are just at the beginning of our new journey where we make things run even faster, cleaner, more safely and for much longer in a sustainable way – a virtuous circle of reliable rotation. What a great place to be!

Alrik Danielson,  
President and Chief Executive Officer

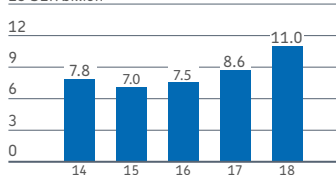
### Net sales

100 SEK billion



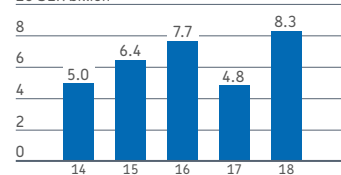
### Operating profit

15 SEK billion



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

10 SEK billion



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







09:42

## Bogotá, Colombia

Every Sunday, some two million people turn out for the weekly Ciclovía. Ciclovía is a city-sponsored event with 110 km of car-free streets packed with cyclists, runners, and walkers. This is the largest mass recreation event in the world, and it has inspired car-free initiatives in cities all over the globe.

Bogotá is one of the fastest growing cities in Latin America. The current population of eight million people is expected to become eleven million by 2030. This growth will lead to a sharp increase in the need for new housing and consumption of energy and water.

In contrast to its less sustainable past, Bogotá of today is considered one of the greenest cities in Latin America and an inspiration to cities working towards sustainability. Bogotá is one of 30 BEA

(UN's Building Efficiency Accelerator program) cities in the world and is drafting its new master plan for the next twelve years to improve energy efficiency in buildings and quality of life for its residents. Local construction companies play a key role in managing the rapid future growth in a sustainable manner. Their investments in sustainable production methods and materials are crucial to meet the need of new buildings, transportation systems and infrastructure in the fast-growing capital of Colombia.

That is where SKF's expertise comes into play. SKF provides companies in the Latin American construction industry with products and services that contribute to improved productivity, reliability, reduced environmental impact and improved health and safety.

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30

Bogotá is one of  
30 BEA cities in the world

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2030

Bogotá's population is expected  
to become 11 million by 2030

# How SKF creates value







## Strong customer offering



### Right product, right cost, right time

**The product proposition** meets performance requirements of specific parameters such as speed, load, noise or physical environment. Read more on page 21.



### Total cost of ownership

**The Rotating Equipment Performance proposition** meets the needs of customers who operate critical machinery by maximising performance. Read more on page 21.



## Objectives and results

More on page 30.



## Value created

### Financial value

- Operating profit: SEK 11.0 billion
- Cash flow after investments before financing: SEK 8.3 billion
- Corporate income taxes: SEK 2.6 billion
- Dividends: SEK 2.6 billion
- Yield: 4.5%
- Value reinvested in SKF: SEK 4.9 billion<sup>1)</sup>

### Social value

- Approved customer savings: SEK 1.6 billion
- Safe workplaces focused on health and wellbeing
- Employee benefit expenses including social charges: SEK 24.7 billion

### Physical value

- Enable sustainable development through customer solutions
- 240 invention disclosures
- 202 first filings of patents
- 13 new products and solutions

1) Net profit less proposed dividends.

# Trends and drivers

SKF's business and strategy is based on a deep understanding of the trends and drivers that impact, or have the potential to impact, all markets, regions and industries in which the Group operates.

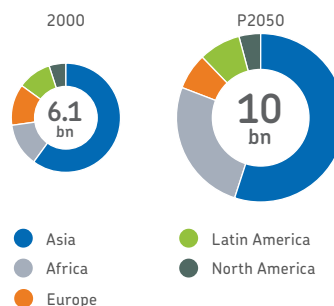


## Five megatrends shaping the world

### 1 Population growth and increased wealth

The global population is growing, especially in Asia and Africa, and wealth is increasing in all regions. This puts pressure on scarce or finite resources such as materials, minerals, food, land, energy and water; thereby generating strong demand for efficiency and productivity.

Global population, development and forecasts<sup>1)</sup>



1) Source: United Nations

### 2 Rapid urbanisation

Today, more than half the world's population lives in cities and 1.5 million people are added to the global urban population every week. Over 90% of this growth is taking place in Asia and Africa. The rapid urbanisation places huge demands on infrastructure, services, job creation, climate and the environment.

**3.5**  
billion people  
in the world's three most  
populated countries in 2050<sup>1)</sup>  
(India, China and Nigeria)

1) Source: United Nations





### 3 Digitalisation is everywhere

Digital transformation affects all parts of the value chain, from digital twins in design and manufacturing, through integrated planning, purchasing and customer use, to maintenance and condition monitoring. It also changes the way companies go to market. This means shorter lead times, faster development cycles, smaller inventories, and significant opportunity for resource efficiency. This highlights the need for continuous individual skill development.



### 4 Environmental concerns lead to new business models

Increasing concern about the negative impacts of climate change and environmental degradation calls for action to reduce or avoid these impacts, through legal or other means. This calls for industries to adopt new efficient business models less dependent on physical resources—circular business models enabled by digital technology.



### 5 Globalisation calls for close-to-customer approach

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



## Change drivers in the bearing industry



**All the global megatrends** are impacting SKF's industries to varying degrees, but the two trends involving environmental challenges and digitalisation will have a particularly strong impact.

The challenge to reduce environmental impacts has a multitude of implications for SKF's diversified customer industries. The Group's leading expertise and in-depth knowledge of customers' goals and ambitions put SKF in a strong position to bring about sustainable solutions that help customers meet their goals. Read more about creating and capturing customer value on page 21.

Digitalisation and connectivity enable new ways of interacting with customers throughout the value chain. New digital manufacturing technologies and automation are contributing to revolutionise the speed and flexibility of manufacturing. Additionally, the growing market of electric and connected vehicles is opening up new opportunities as the bearings play an important role in their applications.

## Global Goals – action is urgent!

**In 2015, world leaders from 193 countries** agreed to the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs or Global Goals) and 169 targets. The SDGs build on the progress of the Millennium Development Goals in the years 2000–2015 and continue to fight extreme poverty. They also include challenges of equitable development and environmental sustainability – notably the key goal of curbing the dangers of human-induced climate change.



**THE GLOBAL GOALS**

The IPCC Special Report on Global Warming of 1.5°C, released in October 2018, underlines the urgency and states that limiting global warming to 1.5°C above pre-industrial levels requires rapid, far-reaching and unprecedented changes in all aspects of society. Regardless if the target is 1.5, 2 or even 3°C, climate change mitigation and adaption will imply significant changes to all aspects of life and business.

### **SKF's actions**

SKF acts to deliver sustainable results via its business and its business conduct. The globally recognised agenda for 2030 energises SKF to do more and deliver more value for business partners, employees and surrounding communities.

### Renewed energy for the automotive industry

Electrification is a strong trend in many industries, especially in the automotive industry. This is driven by battery technology development and by the multiple benefits electric vehicles can bring to societies, for example, energy security, urban air quality, greenhouse gas reductions and noise mitigation.

The International Energy Agency (IEA) predicts a global fleet of 125 million electric vehicles by 2030. However, the IEA also sees a pathway to 220 million electric vehicles, provided the world takes a more aggressive approach to fighting climate change and cutting emissions. Currently, China is the country leading the world in this way.

Irrespective of the exact growth forecast, the electrification will have a significant and positive impact on SKF's automotive business. Today, SKF has a portfolio of innovative solutions that enable robust and efficient E-powertrain drive, and in 2018 several new deals were signed. Keeping an open-mind and working with all kinds of customers are the most important factors to remain at the forefront. In an evolving and fast growing area such as electrification, small players and start-ups of today could be the industry giants of tomorrow.

### Gearing up for industry 4.0

Industrial Internet of Things (IIoT) is typically viewed as part of Industry 4.0, the fourth wave of industrialisation to sweep the globe since the Industrial Revolution of the 18th century. While the second wave centred on production lines and globalisation, and the third on the Internet and the robots, the fourth, IIoT, centres on the use of big data, connected sensors, autonomous machines and artificial intelligence.

SKF has long recognised the important role digitalisation will play within the industry, including meeting more ambitious sustainability goals. The company began pioneering some of the elements that form the IIoT many years ago and has been monitoring equipment remotely for 15 years. By using SKF technologies to connect, collect and analyse critical data from customers' machines, events can be predicted and performance optimised. SKF is gearing up for a future in which smart products predict upcoming failures and automatically order the replacements needed, all the way back through the supply chain. This creates opportunity for new circular business models with remanufacturing and extends the "just-in-time" manufacturing concept down to the individual component – which could bring stock and waste levels close to zero in the future.

All of the seventeen Global Goals include elements that are relevant for the Group, including themes such as health, safety, climate, equality, education, development, environmental management, clean air, anti-corruption and compliance. These are – and have been – managed systematically for many years under the framework of SKF Care. Read more on page 29 and the full Sustainability Report on pages 120–146.

Three goals that stick out with broader and more direct connections in terms of both risk and opportunities for the Group:


**#8 Decent work and economic growth**

**#9 Industry innovation and infrastructure**

**#12 Responsible production and consumption**

Read more on [skf.com/globalgoals](https://www.skf.com/globalgoals)





16:03

## Gothenburg, Sweden

As traffic continues to grow in urban areas, more and more cities have realised that investment priority should be given to modes of public transport, instead of personal vehicles.

In Gothenburg, the city aims to increase the number of journeys made by public transport. This will partly be achieved by improving accessibility and running more frequent services. Densification of the city in combination with the planned extension of public transport imply in the short-term conflicting goals that must be united. One of these is noise. The disturbance from squealing noise is significant, and curve squeal is the loud, tonal noise emitted by trams operating in tight radius curves. The tram system in the city is the largest in the Nordics, consisting of 161 km single rails, twelve tram lines

and 263 trams. Keeping noise from trams to a minimum is essential if Gothenburg is to be a pleasant city for residents and visitors. An action plan for noise from buses and trams was therefore developed in 2014 as part of the city's Noise Action Plan.

SKF offers a complete portfolio of products for wear and noise reduction applications for the rail industry. SKF EasyRail Airless systems are used on tramway or light rail vehicle systems and metros, where compressed air supply is not available. Instead, it operates through output of the lubricant via electromagnetic pumps. In Gothenburg, this solution, together with a condition monitoring system for early fault detection, has eliminated the squealing, disturbing noise from trams.

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161 km

The tram system in Gothenburg consists of 161 km single rails

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2014

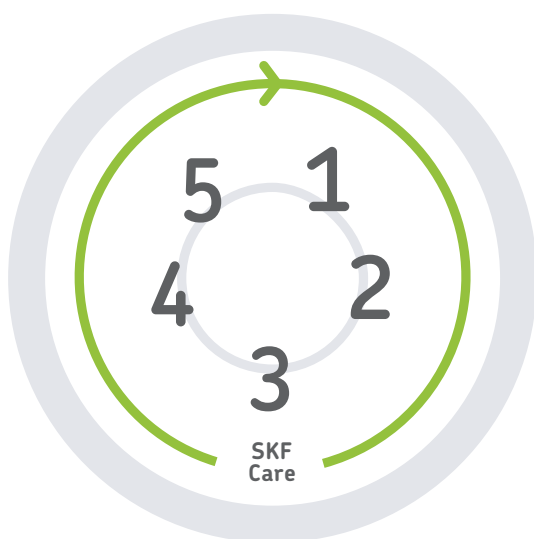
An action plan for noise from trams was developed in 2014





# Strategic priorities

Driven by the vision of “A world of reliable rotation,” SKF strives to create value for its customers, shareholders and other stakeholders by focusing on five strategic priorities. Sustainability is an integral part of the strategy, through the SKF Care framework.



**1 Create and capture customer value**  
Read more on page 21

**2 Application-driven innovation**  
Read more on page 24

**3 World-class manufacturing**  
Read more on page 25

**4 Cost competitiveness**  
Read more on page 26

**5 Maximise cash flow over time**  
Read more on page 27

**SKF Care Sustainable business and operations**  
Read more on page 28

By combining technical knowledge with extensive experience from multiple customer industries, SKF meets customers' changing preferences and helps them overcome specific challenges. SKF has five strategic priorities that act as drivers for the future development of SKF, sustainability is one of them. SKF Care defines what sustainability means to the Group and its employees. The framework comprises

four perspectives for value creation and integrating sustainability: Business Care, Environmental Care, Employee Care and Community Care. Challenges, opportunities and results are highlighted with the strategic priorities on pages 21–29.

Financial details and sustainability performance are presented in notes at the back of the report.



## Create and capture customer value

**Globalisation, climate change concerns** and digitalisation are putting pressure on industrial companies to achieve greater productivity and efficiency along the value chain. Customers seek to maximise equipment performance. Within SKF's industries, demand is growing for customer-specific value propositions, that give reliability and uptime.

This development fits well with SKF's existing engineering skills and asset management approach. With focus on new technology to provide best value for money and activities to digitalise the entire value chain, SKF offers two strategic value propositions: Products and Rotating Equipment Performance.



### Two strategic value propositions

#### Products

The Products value proposition meets customers' product application needs, based on parameters such as speed, load and physical environment. This leads to a more segmented market and SKF sees great potential to increase its market share by offering solutions and components that are fit-for-application. Product cost can be reduced by designing for what matters.

#### Rotating Equipment Performance

The Rotating Equipment Performance (REP) value proposition meets the needs of customers who seek trouble-free machinery operation while cutting overall operating costs. Functionality and machine availability are more important to these customers than component price.

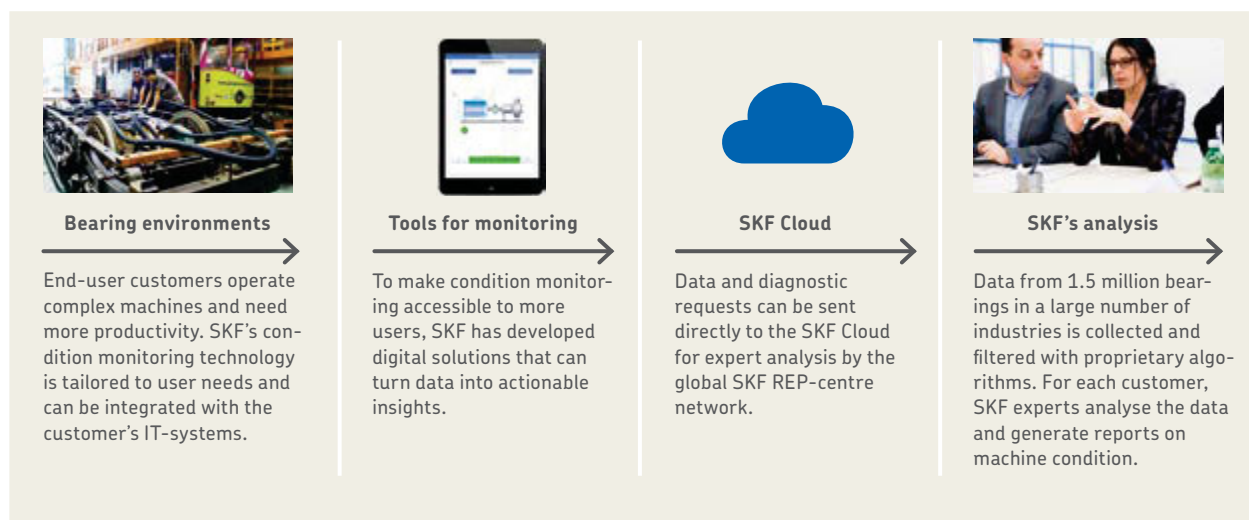
SKF sees significant potential to grow the size of the market for the Rotating Equipment Performance offering across most of the industries in which the Group operates.





## Digitalising SKF's business

The SKF digital platform enables SKF to connect all the relevant data needed to provide the right knowledge at the right time, for the right users. By doing this, SKF helps its customers improve their efficiency, output, and performance with clear benefits for the environment.



### Increased customer value

SKF gives customers early warnings to prevent machine failures, as well as recommendations to perform timely maintenance to avoid production downtime.

### New business models and products

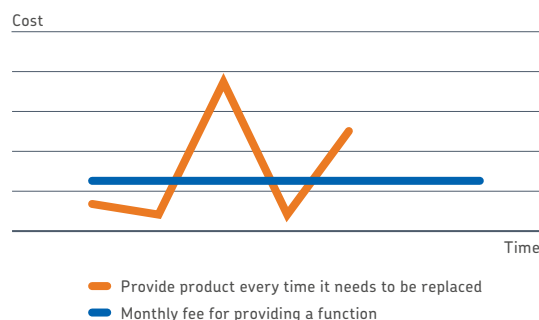
SKF assumes responsibility for operational efficiency and receives long-term, performance-based remuneration. Analysis allows for faster and more accurate development of new products.

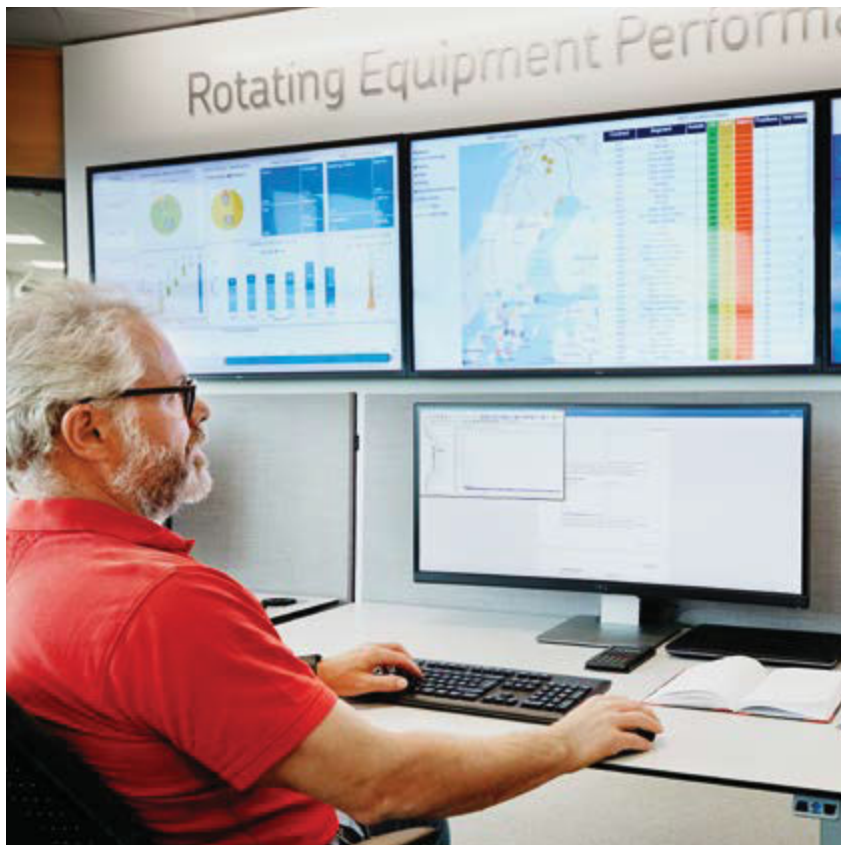
### Environmental benefits

Higher operational machinery efficiency means lower material and energy use, and efficient condition monitoring enables a higher degree of remanufacturing.

## Fee-based performance

SKF offers innovative maintenance service packages that help manufacturers and users of rotating equipment to excel in their sectors and integrate technologies to enhance their business success. The SKF Premium programme helps customers identify their maintenance and operational needs with a view to reduce expenditure. SKF Rotation For Life (RFL) guarantees the reliability and availability of selected critical rotating machinery assets, reducing the total cost of ownership over an agreed contractual period. Fee-based revenue models allow SKF to be remunerated for the value its solutions create. Customers pay for productivity, rather than products. Industrial Internet of Things (IIoT) and digital tech enable these new ways of providing productivity.





## REP Centre in Gothenburg

In 2018, SKF opened a REP Centre in Gothenburg (Sweden). The centre's team of specialists act as a Nordic hub for the monitoring of connected customer machines. They also play an important role in developing new logistic solutions for spare parts and remanufacturing services.

### Global distributor network with fast reach

Timely and reliable deliveries, easy access to a wide range of products and advanced technical expertise and services, 24/7, are essential parts of SKF's means to create and capture customer value. SKF's distributor network is the largest in the industry, reaching over 50,000 customer facilities with short lead times. SKF's distributors and large OEMs can purchase SKF's products through Electronic Data Interchange or web shops, which increases the speed and accuracy of business communication and improves overall efficiency.

### Measurable value proves the concept

It is important to show the financial benefits that SKF solutions bring, and to estimate and measure the actual total savings

for the customer. SKF has collected around 80,000 approved cases that show proven, quantifiable value in over 25 industries. Since 2013, SKF has contributed with SEK 20 billion in savings approved by customers. For 2018, the savings amounted to SEK 1.6 billion.

As part of the Group's climate objectives, SKF creates and captures the customer value from climate change mitigation. The Group provides yearly aggregated revenue data from the following key areas: renewable energy generation; electric vehicles; recycling industry; and bearings remanufacturing. This provides an indicator on how the Group is harnessing clean technology opportunities. Read more on page 31.



## Application-driven innovation

**SKF provides products** and solutions that are used in different applications all over the world. Most customers want products that perform according to what is expected of them, no more, and no less. To deliver such products, innovation and development must start from the application and a deep understanding of what, exactly, is needed of the product and what can be taken away. This requires excellent application engineering and access to substantial amounts of field data, as well as cutting-edge engineering design tools. Furthermore, the collaboration with KISSsoft AG allows the customers to design with direct access to SKF digital twins. These are typical areas where SKF is ahead of the competition.

### Large-size bearings in full-scale tests

SKF's test centre for large-size bearings in Schweinfurt, Germany is key to accelerated, application-driven innovation. It is the first in the world to test large-size bearings under actual operating conditions. Real, full-scale application tests are conducted for customers in the wind and heavy process industries. In addition to verifying product performance, the centre is also used to validate SKF's engineering simulation software, besides testing sensors and algorithms for data analysis.

### Partnerships stimulate leading-edge development

To stay ahead, SKF develops partnerships with leading players in different fields. In collaboration with Honeywell Process

Solutions, SKF is participating in a pilot project aimed at developing solutions within the IIoT. SKF and Siemens have signed a partnership agreement to improve train operators' efficiency and to investigate how to connect the digital solutions. The goal is to help customers schedule maintenance only when needed, using one single monitoring system. With the U.S. Department of Energy's National Renewable Energy Laboratory, SKF has entered a three-year collaboration. The main purpose is to investigate the failure modes of wind turbine bearings, with the aim of developing new, improved designs for better reliability.

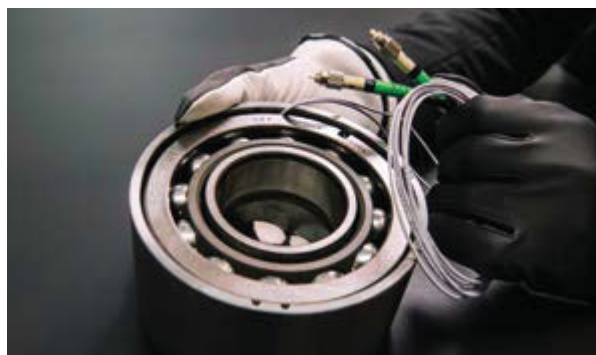
SKF also participates in networks to speed up the development of new technologies. Combient is a collaboration involving a group of 24 global enterprises with a shared vision – to bring digitalised industrial innovation to the industry. Another example is AMEXCI, which was founded in 2017 by SKF and ten other Nordic industrial companies. It aims to accelerate the industrial adoption of additive manufacturing and to help develop a new generation of innovative engineers.

### Strategic partnership for fibre optic sensing systems

In 2018, SKF signed a strategic partnership with Proximion, a wholly-owned subsidiary of Swedish Hexatronic Group. SKF and Proximion will work together to speed up the industrialisation of fibre optic sensing systems. The technology enables bearings to become process and quality control instruments, which unlocks new ways to optimise production.



Engineers can create digital twins of machinery using SKF bearing data. This is possible through a new partnership with Swiss gearbox design software provider, KISSsoft AG.



Different machinery has different requirements; a lightly-loaded, fast-turning electric motor needs a different bearing than a highly-loaded industrial gearbox.





## World-class manufacturing

**The large majority** of SKF's assets in property, plant and equipment are directly deployed in manufacturing and operations. To strengthen customer value, SKF has manufacturing at the top of its agenda, developing the latest manufacturing technologies and ensuring a global manufacturing footprint.

For SKF, world-class operations mean having the leanest, safest, most flexible and most cost-efficient manufacturing and logistics processes. The Group is moving towards an integrated system, capable of performing real-time analyses and assessments of future needs. This means that products are developed, produced and delivered exactly according to what, when, how and where the customer needs it. Diversification and flexibility define the leader in the business. This continuous striving for world-class operations can be described in four main areas.

### 1. SKF Production System (how SKF works)

SKF Production System consists of a process and culture of continuous improvements. This involves every employee across all operational units, based on the lean principles for a cost-effective flow. Safety, quality, delivery, cost, working climate and the environment have been set out as lean priorities to maximise customer value and minimise waste.

### 2. Input cost reduction (smart costs savings)

Optimising the cost of direct material is a key criterion for world-class manufacturing. Integrated cost reduction is about setting the right specifications for the design of SKF products and processes. It involves careful consideration of customer and application needs, optimising the sourcing of components



## Safety always comes first

SKF works to ensure safe and healthy workplaces by following the requirements set out in its management system. Unit managers and their teams are accountable for overall health and safety in their operations. This has been further reinforced in 2018 by the introduction of environment, health and safety managers into the cluster and business unit management teams.

0.81

Accident rate per 200,000  
hours worked 2018

and materials, including developing alternative and innovative materials and supplier processes.

### 3. Technology step-up (how the machines work)

Technology step-up is about having the right equipment and processes to enable higher efficiency with flexible output in a trouble-free operation. A paperless environment, with the highest quality thanks to real-time performance monitoring, full traceability from suppliers to finished goods delivery, and a high level of robotisation, is becoming SKF's new standard.

### 4. Manufacturing and logistics footprint (where and what)

By constantly optimising the manufacturing and the logistics footprint, customers are served in the most effective way.

The strategic direction is a region-by-region approach, with manufacturing and suppliers closer to customers, enabling a lean, responsive, cost efficient supply chain with continuously reduced environmental impact. As the customer base is constantly shifting, the ambition to reach for world-class relies on continuous improvements.

Examples of significant technology upgrades, investments and consolidations are presented below.

#### Examples of activities for world-class manufacturing

- In Europe, production facilities upgraded for super-precision, aerospace, roller bearings, ball bearings and components.
- In China, component capacity increased and consolidation of three production facilities into one high capacity production hub in Changshan.
- In the U.S., ongoing upgrade of roller and ball bearings manufacturing operations in Hanover and Flowery Branch, and closures of Hobart and Seneca with production consolidated to other units.
- In the U.S. and in China, ongoing move into new facilities for seals manufacturing and development in Salt Lake City and Wuhu.
- Announced the consolidation of two lubrication units in Germany to one larger.
- Investments in remanufacturing capabilities globally and upgraded remanufacturing centre announced in France.
- Consolidation of warehouse operations in North and South America. Ongoing modernisation of distribution centres across Europe. Investment in a new modern distribution centre in India.

#### SKF is globally certified according to ISO 50001:2018

The certification covers 50 production facilities, which make up around 80% of the Group's total energy demand. In 2018, SKF announced a new energy demand target to cut 3% of the electricity required in manufacturing. The new target will help reduce costs and contribute to the Group's climate objectives.



In 2018, SKF carried out 126 full, on-site audits to ensure suppliers share the SKF Care commitment to sustainable and responsible business growth. This can have a significant impact as the Group sources material-equivalent to over SEK 40 billion every year.



SKF Machine Centres of Excellence (MCE) interface between manufacturing development and the factories to ensure fast and cost-effective industrialisation of innovative technologies. The existing units are located in Europe and China.



## Cost competitiveness

**Value for money** and reliable processes are crucial factors for SKF's customers as they encounter increased competition and new needs in a changing market. Naturally, SKF ensures that its own processes meet the highest possible standards and continuously invests in measures to reduce costs and increase productivity. These investments encompass the entire value chain, from innovation, sourcing, manufacturing to sales and distribution, with the aim to create an optimum structure for each individual region.

### Innovation to find the right match

By knowing conditions and performance through live data analysis, as well as by optimising sourcing and challenging product specifications, SKF is able to find the right solution for the customer at the right cost without over-engineering.

### Strategic sourcing to meet stringent requirements

SKF works strategically with its suppliers to optimise the full value chain and they must fulfil SKF's Quality, Cost, Delivery,

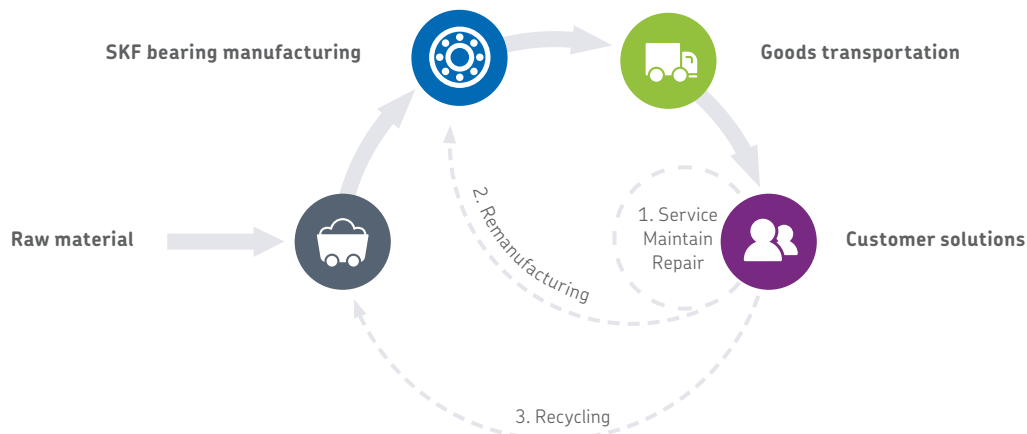
Innovation and Management (QCDIM) requirements. SKF drives initiatives in close cooperation with key suppliers to ensure that the products are well suited for the applications and the environment in which they are used.

### Lean and flexible manufacturing

SKF has increased its manufacturing investments to reduce costs and increase flexibility. These efforts include upgrading critical manufacturing technology, optimising capacity utilisation and continuing the digitalisation of production processes.

### Investing in global logistics

SKF is investing significantly in its logistics structure around the world, with the primary goal of improving the customer delivery service, while enhancing capacity and cost efficiency.



SKF works to improve efficiency over the value chain. Sustainability improvements are important to reduce the total cost. Read about the Group's climate objectives on page 31.

1. Service, maintenance and repairs on-site at customers increase productivity and improve reliability in customers' operations. It also increases operating life of products and makes better use of already processed materials.

2. SKF remanufactures products and ships them back to customers for another useful life. This saves time and cost for customers and improves efficiency in the value chain.

3. Bearing steel is made mainly from scrap steel. When it is re-melted, alloying elements are lost. As such, it is important to optimise operating life and increase remanufacturing of bearings and units. Read more at [skf.com/environment](https://skf.com/environment)





## Maximising cash flow over time

**A key aim of SKF's strategic priorities** is to contribute to a strong balance sheet and the ability to generate a high cash flow over time. This will allow SKF to continue to reinvest in the core business and future growth, as well as delivering good returns to shareholders. In 2018, cash flow after investments before financing, which is the primary cash flow measure used in the Group, amounted to SEK 8.3 billion (4.7), or 9.7% of sales. Adjusted for acquisitions and divestments of businesses, the cash flow amounted to SEK 5.9 billion (4.2).

### Working capital scrutiny

To create a strong underlying cash flow, it is important to manage inventories, trade receivables and trade payables efficiently. SKF's target is to improve net working capital to a maximum of 25% of sales.

### Investments for higher efficiency

Increased efficiency in the manufacturing and logistic processes contribute to strong cash flows. In 2018, 43% of SKF's total approved investments related to increased efficiency and automation, aiming to reduce production costs and increase capacity while improving safety.

### Cash-generating divestments of non-core operations

In 2018, SKF made four divestments. The linear and actuation technology business was sold, generating a total positive cash flow of SEK 2.4 billion after tax. The divestments are part of

the Group's efforts to focus on its core business and value propositions around the rotating equipment. Since 2015, these divestments have raised around SEK 6.6 billion.

### Sustainable investments

To stay ahead of the competition, SKF continues to invest in future growth areas such as sales and R&D. In 2018, R&D expenditure, excluding the development of IT solutions, amounted to SEK 2.6 billion, corresponding to 3% of sales. SKF customers generally focus on operating life, noise, friction and cost. As such, SKF focuses its R&D activities on delivering optimal ways to fulfil these diverse demands, and thereby serving SKF's cash flow, by allocating resources in the most sustainable way.

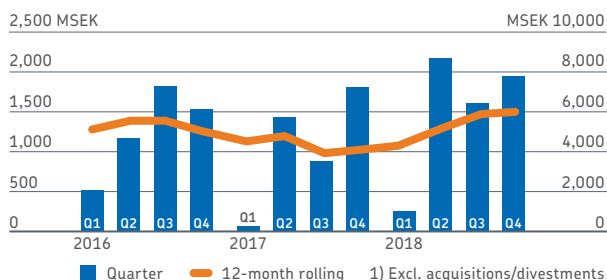
### Strengthened financial position

Some of the cash flow generated is used to reduce outstanding loans, thereby strengthening SKF's financial position. Net loans totalling SEK 2.1 billion were repaid in 2018, resulting in a net debt/equity ratio of 49.1% (71.3) at year-end, which meets the target of a net debt/equity ratio not exceeding 80%.

### Dividend

The Annual General Meeting 2018 adopted a dividend of SEK 5.50 per share and a total of SEK 2.6 billion was distributed to shareholders in April 2018, corresponding to 43% of net income for 2017.

### Cash flow after investments before financing\*



Cash flow 2018  
**SEK 8.3**  
 billion



## SKF Care for future success

**SKF Care is SKF's framework for sustainability**, focused on with four perspectives. For long-term success, these perspectives need to be carefully balanced and integrated into the decision-making process.

For detailed information on material topics, boundaries and management approach, SKF's sustainability statements can be found on pages 120–146. The Sustainability Report has been prepared in accordance with the GRI Standards: core option.

### Sustainability focus with business impact

#### SKF's business—examples and more information

- Enable reliable, efficient, clean and safe industrial operations, see pages 22 and 45.
- Developing and providing technology for the solutions we all need, see page 11.
- Developing sustainable business models, see pages 23 and 43.
- Supporting customers to address industry-specific sustainability challenges, see pages 18, 33 and 130.

#### SKF's conduct—examples and more information

- Safe workplaces for health and wellbeing, see page 138.
- Ethics and anti-corruption, supporting justice and strong institutions, see page 129.
- Energy, environment and emissions to soil, water and air, see pages 131–135.
- Diversity and equal opportunities, see page 141.
- Training and education for continuous development, see page 140.
- Responsible sourcing, SKF Care in the supply chain, see page 145.
- Human rights, UN Guiding Principles reporting framework, see page 143.

### SKF Care works as the foundation

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

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



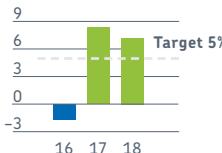

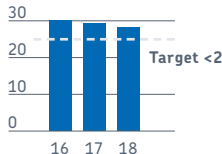
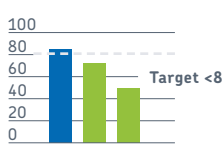
**Employee Care perspective** is about ensuring a safe working environment and promoting health, personal development and well-being of employees at SKF as well as in the supply chain.

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

# Objectives and results

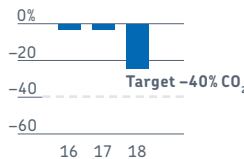
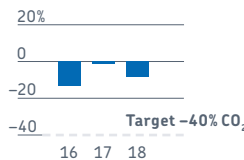
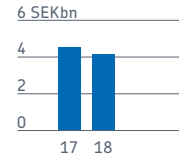
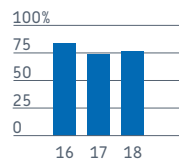
SKF's financial targets were introduced in 2016 and are to be achieved over a business cycle. SKF's climate targets for 2025 started in 2017 and are based on life-cycle thinking – to reduce impact over the entire value chain.

## Financial targets

<b>Organic growth</b>	 <table><caption>Organic growth data</caption><thead><tr><th>Year</th><th>Growth (%)</th></tr></thead><tbody><tr><td>16</td><td>-1.5</td></tr><tr><td>17</td><td>7.1</td></tr><tr><td>18</td><td>6.4</td></tr></tbody></table>	Year	Growth (%)	16	-1.5	17	7.1	18	6.4	Demonstrates competitiveness in the market. It shows the business' ability to leverage on its existing strengths and competence and the attractiveness of the offer towards customers.	<ul style="list-style-type: none"><li>Organic sales increased by 7.1% compared to 2017.</li><li>Sales increased in all markets.</li><li>Strongest development in North America and Asia.</li></ul>
Year	Growth (%)										
16	-1.5										
17	7.1										
18	6.4										
<b>Operating margin</b>	 <table><caption>Operating margin data</caption><thead><tr><th>Year</th><th>Margin (%)</th></tr></thead><tbody><tr><td>16</td><td>10.5</td></tr><tr><td>17</td><td>11.5</td></tr><tr><td>18</td><td>12.9</td></tr></tbody></table>	Year	Margin (%)	16	10.5	17	11.5	18	12.9	Measures the business' ability to cover operational costs and generate profit to create value for shareholders.	<ul style="list-style-type: none"><li>The operating margin improved to 12.9%.</li><li>Positively affected by higher sales volumes.</li><li>General cost inflation had a negative effect.</li></ul>
Year	Margin (%)										
16	10.5										
17	11.5										
18	12.9										
<b>Return on capital employed</b>	 <table><caption>Return on capital employed data</caption><thead><tr><th>Year</th><th>ROCE (%)</th></tr></thead><tbody><tr><td>16</td><td>10.5</td></tr><tr><td>17</td><td>13.5</td></tr><tr><td>18</td><td>17.6</td></tr></tbody></table>	Year	ROCE (%)	16	10.5	17	13.5	18	17.6	An important indicator of performance over time and how efficiently a company can generate profit from its capital. It is a more comprehensive evaluation of profitability.	<ul style="list-style-type: none"><li>Return on capital employed was 17.6%.</li><li>Improvement of 3.4 percentage points since 2017.</li></ul>
Year	ROCE (%)										
16	10.5										
17	13.5										
18	17.6										
<b>Net working capital</b>	 <table><caption>Net working capital data</caption><thead><tr><th>Year</th><th>Net working capital (%)</th></tr></thead><tbody><tr><td>16</td><td>28.8</td></tr><tr><td>17</td><td>27.8</td></tr><tr><td>18</td><td>27.8</td></tr></tbody></table>	Year	Net working capital (%)	16	28.8	17	27.8	18	27.8	Efficient management of the net working capital is important for short-term liquidity and for the financial health of the business.	<ul style="list-style-type: none"><li>Net working capital was 27.8% of sales at year-end.</li><li>Higher inventories had a negative effect.</li><li>Fewer payment days and a lower share of late customer payments had a positive effect.</li></ul>
Year	Net working capital (%)										
16	28.8										
17	27.8										
18	27.8										
<b>Net debt /equity</b>	 <table><caption>Net debt /equity data</caption><thead><tr><th>Year</th><th>Ratio (%)</th></tr></thead><tbody><tr><td>16</td><td>80.1</td></tr><tr><td>17</td><td>65.1</td></tr><tr><td>18</td><td>49.1</td></tr></tbody></table>	Year	Ratio (%)	16	80.1	17	65.1	18	49.1	Measures the dependency on external funding and the ability to meet financial obligations on a long-term basis.	<ul style="list-style-type: none"><li>The net debt/equity ratio was 49.1% at year-end.</li><li>Some of the cash flow has been used for loan repayments.</li></ul>
Year	Ratio (%)										
16	80.1										
17	65.1										
18	49.1										



## Climate objectives 2025

<b>Bearing manufacturing</b>  % reduction of CO <sub>2</sub> emissions from manufacturing per tonne of sold products.	 <table><caption>% reduction of CO<sub>2</sub> emissions from manufacturing per tonne of sold products</caption><thead><tr><th>Year</th><th>% reduction</th></tr></thead><tbody><tr><td>16</td><td>-10</td></tr><tr><td>17</td><td>-10</td></tr><tr><td>18</td><td>-20</td></tr></tbody></table>	Year	% reduction	16	-10	17	-10	18	-20	Energy use and related emissions are among the most significant and direct ways that SKF can reduce its environmental impact.	<ul style="list-style-type: none"><li>• CO<sub>2</sub> emissions per tonne of bearings sold decreased by 24% compared to the 2015 baseline.</li><li>• Increased energy efficiency, high volumes compared with energy use.</li><li>• The main impact on this KPI was due to more renewable energy sourced.</li></ul>
Year	% reduction										
16	-10										
17	-10										
18	-20										
<b>Goods transport</b>  % reduction of CO <sub>2</sub> emissions from goods transportation per tonne of shipped products.	 <table><caption>% reduction of CO<sub>2</sub> emissions from goods transportation per tonne of shipped products</caption><thead><tr><th>Year</th><th>% reduction</th></tr></thead><tbody><tr><td>16</td><td>-15</td></tr><tr><td>17</td><td>-10</td></tr><tr><td>18</td><td>-15</td></tr></tbody></table>	Year	% reduction	16	-15	17	-10	18	-15	There is significant potential to reduce emissions from SKF's goods transport, while at the same time improving cost efficiency.	<ul style="list-style-type: none"><li>• CO<sub>2</sub> emission per tonne of shipped goods decreased by 8% compared to the 2015 baseline.</li><li>• Shorter transports, higher fill rates and more CO<sub>2</sub> effective transport modes.</li></ul>
Year	% reduction										
16	-15										
17	-10										
18	-15										
<b>Customer solutions</b>  Revenues from re-newable energy, electric vehicles, the recycling industry and bearings remanufacturing.	 <table><caption>Revenues from renewable energy, electric vehicles, the recycling industry and bearings remanufacturing (SEKbn)</caption><thead><tr><th>Year</th><th>Revenue</th></tr></thead><tbody><tr><td>17</td><td>4.1</td></tr><tr><td>18</td><td>3.8</td></tr></tbody></table>	Year	Revenue	17	4.1	18	3.8	Life cycle studies show that the greatest impact is within the use phase of SKF's solutions, when they are installed and used in customer applications.	<ul style="list-style-type: none"><li>• The objective is to support and enable CO<sub>2</sub> emission reductions for the Group's customers.</li><li>• Revenues from renewable energy, electric vehicles, the recycling industry and bearings remanufacturing amounted to SEK 4.1 billion.</li></ul>		
Year	Revenue										
17	4.1										
18	3.8										
<b>Raw materials and components</b>  % of major energy intensive suppliers certified according to ISO 50001.	 <table><caption>% of major energy intensive suppliers certified according to ISO 50001</caption><thead><tr><th>Year</th><th>% certified</th></tr></thead><tbody><tr><td>16</td><td>75</td></tr><tr><td>17</td><td>70</td></tr><tr><td>18</td><td>70</td></tr></tbody></table>	Year	% certified	16	75	17	70	18	70	Raw materials have a significant impact from a lifecycle perspective. Systematic energy management has proved to be a pragmatic way of reducing scope 3 emissions from the supply chain.	<ul style="list-style-type: none"><li>• 76% of the energy intensive major suppliers have been certified by third parties according to the ISO 50001 energy management standard.</li><li>• 41 global suppliers are in scope.</li></ul>
Year	% certified										
16	75										
17	70										
18	70										

## Social objectives

### Safety

Accident rate per 200,000 worked hours.



Year	Accident rate
16	0.81
17	0.78
18	0.75

SKF is convinced that all work-related accidents can be prevented. This is why the zero accidents ambition remains.

- The accident rate per 200,000 hours worked was 0.81.
- This is a slight improvement from the year before
- The actual number of recordable accidents were 319.

### Personal development

% of employees with individual goals and development plans.




Year	% employees
16	45
17	55
18	65

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

- Always develop.
- In the most recent survey, covering employees active in the Group's learning management system, 65% had individual goals and development plans.





## 17:56 Hong Kong

Air pollution levels remain dangerously high in many parts of the world. New data from the World Health Organisation (WHO) shows that nine out of ten people breathe air containing high levels of pollutants. In China, air pollution kills an estimated 1.1 million people a year. The city with the world's highest traffic density, Hong Kong, has pollutants in the city air three times higher than New York and double that of London.

While the best option would be to direct people onto public transport, electric vehicles (EV) of all sizes are playing a major role in cleaning up Chinese cities. National, regional and municipal policies are all driving the EV market forward. From 2019, automakers are forced into EVs through the New Energy Vehicle' credit system. The trend of electrification is irreversible. This includes "low-tech" transport options such as low-speed electric

vehicles (LSEVs) and electric two-wheelers, which are the most popular alternative fuel vehicles in China today. Plug-in battery electric vehicles (BEVs), the only true all-electric vehicles, dominate among cars. The challenge for BEVs is range, but China is leading the way in this area too. It has pioneered the mass development of public charging piles and plans to have 500,000 piles in place by the end of 2020. This is key to transform entire regions to BEV-only car ecosystems.

One by one, China's big cities will soon become places where people can breathe fresh air 24 hours a day.

SKF is an important part of this transition through offering a range of advanced bearing solutions that meet the BEVs' electric traction motor requirements and help increase power density and operating speeds, while controlling temperatures and production costs.

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# 9/10

Nine out of ten people breathe air containing high level of pollutants

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# 2020

China plans to have half a million public charging piles in 2020



# SKF's global presence

**SKF is the world leader in the bearings market. The company has reached this position by providing first-class products and solutions for customers in 40 different industries across the globe.**

**SKF was founded in 1907** and rapidly grew to become a global company. As early as the 1920s, the company was well-established on all five continents.

Adapting its business and offering to an ever-changing environment has been a key success factor to SKF's long-lasting profitable growth. In 2018, SKF expanded its presence across all geographical markets and major customer industries. The Group launched a long line of products and solutions adapted to global and regional demands, furthering its development of solutions that improve efficiency and reduce energy losses.

Reducing environmental impact both in its own operations and for its customers is a strong commitment and part of SKF's contribution towards global sustainability goals.

SKF operates in a global industry. The trend is towards fewer, larger and more international manufacturers and distributors, meaning that global brands and products are ever-more important. SKF is one of the most trusted and well-known global industrial brands; a strong advantage in the bearing industry. To maintain competitiveness, SKF is focused on leveraging both global and regional economies of scale. The strategic direction is a region-by-region approach.



## The bearing market

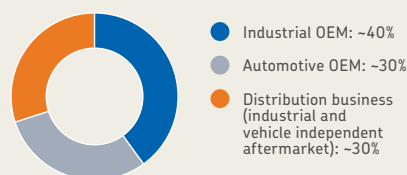
**The global bearing market is generally defined as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs. SKF estimates that the global bearing market grew by +4 to +6% and reached a value of between SEK 385 and 405 billion in 2018. The growth was spread across all regions and end-user industries, with the strongest growth in Asia and industries like off-highway, heavy industries and railway.**

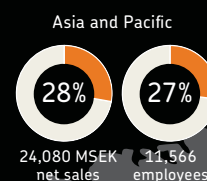
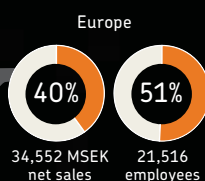
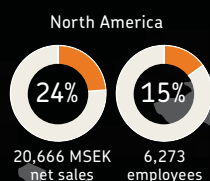


### Customer industries

In 2018, the industrial original equipment bearing markets accounted for almost 40% of world demand and included manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) accounted for around 30% of world bearings demand. The automotive original equipment bearing markets accounted for around 30%.

### Market value by customer industries

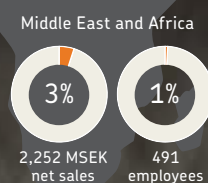
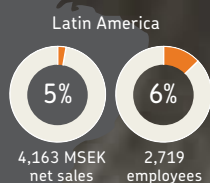




130  
countries

94  
manufacturing  
units

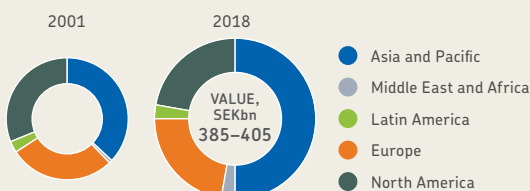
15  
technology  
centres



## Regional demand

Europe accounts for 22% of the total world market with Germany alone accounting for around one third. North America represents just over 22% of global demand. In South America, Brazil is the major market with more than 50% of regional demand, and the region accounts for 3% of global demand. Asia's share of the world bearing market has continued to grow rapidly and now accounts for around 50%, compared with less than 40% fifteen years ago. China is leading this trend, and the country's share of the total world bearing market is about 30%.

## Market value by region and growth



## Global competition

Like most global industries, SKF's industry is exposed to fierce competition. SKF is the world leader in the bearing market with other major international companies including the Schaeffler Group, Timken, NSK, NTN, and JTEKT. SKF estimates that the top six world bearing manufacturers represent about 60% of the global rolling bearing market. The group of Chinese bearing companies, including small and larger ones, represents around 20%, with the main part of their sales in Asia. The remaining 20% includes many smaller regional and niche bearing competitors.

## Europe

# Mature, yet still growing

SKF maintains its strong exposure in all industrial segments, and is growing faster than the market thanks to a strong focus on innovation and digitalisation.



### Europe<sup>1)</sup>

Population **742 million**  
Degree of urbanisation **74%**  
GDP growth **2%**  
GDP/capita **30,100 USD**



### Largest markets

Germany, France, Italy



### Largest customer industries

Light vehicles, industrial distribution, vehicle aftermarket, industrial drives



### Bearing market development

Moderate growth 2018



# 85–95

### Bearing market value

SEK 85–95 billion 2018



### Competitors

Schaeffler Group, NTN, NSK, Timken, Rothe Erde

### Market characteristics

The mature markets in Western Europe are dominating the region by size and are still growing albeit at a slow pace. Eastern Europe has showed the highest growth in this region over recent years. Most customer industries are represented in the region, except for two-wheelers.

### SKF's position

SKF has a leading position with strong presence in all industry segments, especially in industrial distribution, railway, off-highway, industrial drives, heavy industries, light vehicles, trucks and vehicle aftermarket.

### Important activities in 2018

Examples from the several performance-based contracts that were signed: RFL contract for slow rotating equipment where unexpected failures can lead to production loss and delivery delays; and a two-year premium contract, combining direct bearing deliveries and paid vibration measurements analyses.

The roll-out of SKF web continued and added more industrial customers, enabling automatised/digitalised transactions.

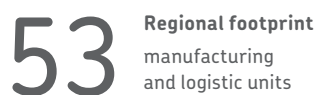
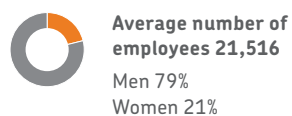
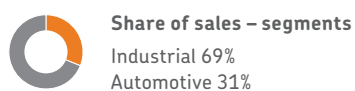
SKF Lubrication Systems factory in Chodov, Czech Republic started running predictive maintenance on its key machinery. As from 2018, the factory is using new SKF smart tools such as online remote condition monitoring IMx8, SKF QuickCollect and SKF DataCollect. As a result, it is an excellent reference case used by SKF Sales units with full transparency towards external customers.

SKF's contributions to the maintenance digitalisation of a critical hot strip mill line for a major aluminium producer in Eastern Europe continued. The customer started a journey of maintenance improvements a few years ago. After implementing a predictive maintenance system, based on SKF technology and consultancy services, they have continued to invest in on-line systems for critical equipment.

<sup>1)</sup> Source: United Nations and IMF, World Economic Outlook Oct 2018



In 2018, BP and SKF signed a three year, multi-million Euro contract for the supply of condition monitoring services to BP's UK offshore assets. As well as collecting data from a range of rotating equipment – including fans, motors and generators – SKF will provide analytics, reports and recommendations to provide better support for BP's decision-making on the efficient and effective use of its equipment. While the agreement between BP and SKF covers a defined equipment list, SKF can also supply non-routine services to BP on demand, such as electric motor monitoring and dynamic balancing of rotating equipment.



**Net sales by customer location**  
In 2018, net sales in Europe grew by 10%.

## North America

# Advanced and important

With a strong focus on developing new solutions for large industries such as energy, light vehicles and aerospace, SKF continues to gain market share despite increasing competition.



### North America<sup>1)</sup>

Population 455 million  
Degree of urbanisation 82%  
GDP growth 2.5%  
GDP/capita 49,620 USD



**Largest markets**  
USA



**Largest customer industries**  
Light vehicles, industrial distribution,  
vehicle aftermarket, off-highway



**Bearing market development**  
Moderate growth 2018



**80–90**

**Bearing market value**  
SEK 80–90 billion 2018



**Competitors**  
Timken, Schaeffler Group,  
NTN, Iijin, NSK, JTEKT

### Market characteristics

The North American markets are important for the global bearing industry. The region relies on key industries, including light vehicles, off-highway and industrial distribution.

### SKF's position

SKF has a strong position in most industry segments, including industrial distribution, vehicle aftermarket, industrial drives, aerospace, renewable energy, and off-highway.

### Important activities in 2018

With a focus on machine health, SKF signed a recent contract with Big River Steel in Arkansas to deliver not only condition monitoring, seals and lubrications systems, but also unique knowledge and application expertise to drive plant efficiency.

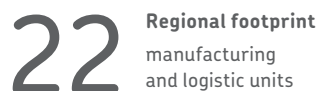
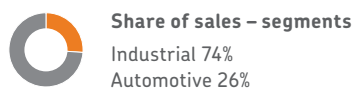
Several new products were successfully launched for applications in the automotive industry, such as wheel bearings for a new crossover SUV. SKF also delivered motor chassis and suspension components to a major U.S. automotive manufacturer for its SUVs and passenger wagons.

SKF offers a wide variety of solutions to the energy industry in North America. In the renewable sector, SKF has a long-standing collaboration with OEM companies and offers services and products to cut the total cost of ownership for wind farms. Within the traditional energy sector, reducing the cost of energy production is a key driver. SKF has developed a more robust design of support equipment with increased safety and operational reliability, longer service life and higher production capacity. SKF also partnered with leading manufacturers of cement and well stimulation pumps to design and commercialise both bearing and fluid seal products that achieve these new operational and service life objectives.

1) Source: United Nations and IMF, World Economic Outlook Oct 2018



SKF is advancing its leading position in the fast-growing U.S. aerospace industry. In 2018, SKF secured several new contracts, notably to supply an integrated bearing for the new engine design for the most-ordered aircraft in the history of commercial aviation. The contract spans over twelve years with a total value of SEK 1.1 billion. The bearings will operate under severe conditions, including vibrations, high dynamic loads and extremely high temperatures with no re-greasing.



**Net sales by customer location**  
In 2018, net sales in North America grew by 11%.



## Asia and Pacific

# A fast-growing market

SKF's significant and growing position in the region's most important markets, China and India, notably in new electric vehicles, create long-term growth opportunities for the Group.



### Asia and Pacific<sup>1)</sup>

Population **4,275 million**  
Degree of urbanisation **50%**  
GDP growth **5.2%**  
GDP/capita **7,360 USD**



### Largest markets

China, Japan, India



### Largest customer industries

Light vehicles, industrial distribution, industrial drives, electrical



### Bearing market development

High growth 2018



# 190–200

### Bearing market value

SEK 190–200 billion 2018



### Competitors

NSK, Schaeffler Group, NTN, JTEKT, C&U, Wafangdian, Timken

### Market characteristics

Asia is a high growth market, mainly driven by the development in China and India. Asia is the single most important regional market for electrical (China) and two-wheeler (India, Japan) segments, as well as for deep groove ball bearing (DGBB) demand. Asia accounts for the majority of the global two-wheeler market. Cars and industrial distribution are two very large customer industries in the region. There is a strong presence of Chinese suppliers, especially in the local Chinese market.

### SKF's position

SKF has a leading position in the region with a strong presence in most industry segments, especially in industrial distribution, off-highway, renewable energy, railway, heavy industries, trucks and two-wheelers. In India, SKF's footprint with six factories makes the company well-positioned to meet growing local demand. India and China are the markets where SKF has its strongest position.

### Important activities in 2018

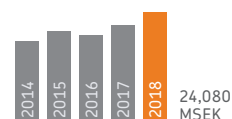
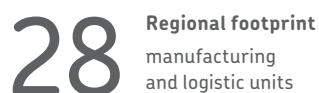
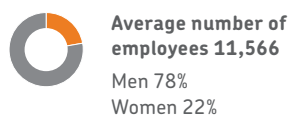
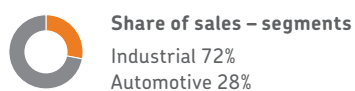
The Industrial Sales China Distributor Development Conference was held in Shanghai with around 260 participants. With the theme Value, Survival, the aim of the conference was to motivate Chinese dealers to transform their business model to rotating equipment performance and digitalisation.

In Thailand, SKF has developed, for the first time, a machine-learning platform integrating maintenance data, historical plant data, as well as dynamic machine vibration data, for a major cement company in the country. This project is part of Thailand 4.0, a government initiative to support Thai industrial end users on their journey towards IIoT and digital transformation. SKF's project will be a key element of the customer's digitally-connected plant and will also help to establish SKF as a major player in industrial digitalisation in the region.

<sup>1)</sup> Source: United Nations and IMF, World Economic Outlook Oct 2018

SAIC Motor and Changan Auto Group are two of the largest car manufacturers in the Chinese market, with leading positions in the new electric vehicle (NEV) segment. In 2018, both companies indirectly nominated SKF as the bearing supplier for their strategically important new powertrains for future NEVs.

The nominations confirm SKF's leadership as a high-speed bearings supplier to NEVs and strengthens its relationship with SAIC and Changan as their preferred bearings supplier. SKF will deliver an estimated 200,000 units per year to SAIC, commencing in 2020. The estimated delivery to Changan, which started in 2018, is also 200,000 units per year.



**Net sales by customer location**  
In 2018, net sales in Asia and Pacific grew by 13%.

## Latin America

# Growth at varying rates

The successful strategy in Latin America within rotating equipment performance and remanufacturing contribute significantly to the Group's growth and profitability.

### Latin America<sup>1)</sup>

Population 420 million  
Degree of urbanisation 81%  
GDP growth 1.9%  
GDP/capita 8,430 USD



#### Largest markets

Brazil, Argentina, Peru



#### Largest customer industries

Industrial distribution, vehicle aftermarket, light vehicles, renewable and heavy industries



#### Bearing market development

Low growth 2018



# 10–15

#### Bearing market value

SEK 10–15 billion 2018



#### Competitors

Schaeffler Group, NTN, Timken, NSK, Rothe Erde, JTEKT

### Market characteristics

The region is growing, but at strongly differing rates between the countries. Brazil is the major market and makes up more than 50% of regional demand. There is a large dependency on the industrial and automotive aftermarket since, there are relatively few large, global OEMs present in the region.

### SKF's position

SKF has built up a leading position in the larger industry segments in the region, especially in industrial distribution, renewable energy, heavy industries, off-highway, light vehicles, vehicle aftermarket and trucks.

### Important activities in 2018

At SKF's factory in Cajamar in Brazil, investments have been made to meet the Brazilian automotive market's demand for more local content in the vehicles and for the latest solutions for wheel-end applications in cars and trucks. Reaching full speed in 2018, six new products for automotive customers were launched during the year.

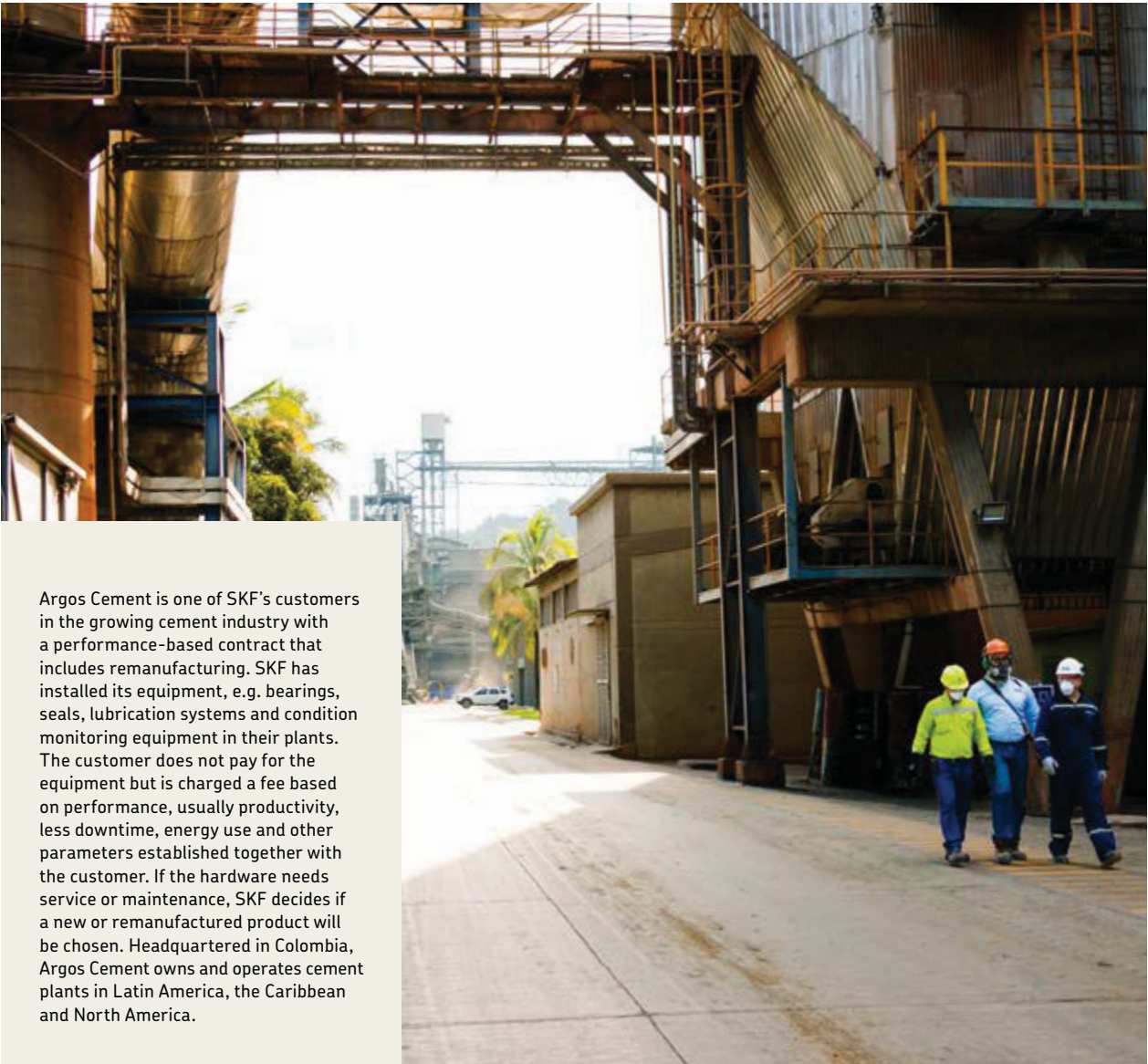
The REP offering has encountered growing success in the region. At the end of the year, around 500,000 assets and 1,500,000 bearings from customers in industries such as pulp and paper, food and beverages, mining, metals, energy and oil and gas were monitored.

Remanufacturing is a key strategic initiative, launched in 2016 with the goal of having bearing remanufacturing services available for every key customer industry in Latin America. In 2018, the goal was achieved, after implementing remanufacturing centres in Argentina, Brazil (one in São Paulo and one in the northern region), Colombia and Peru. These create a competitive offer in terms of logistics and capabilities for railway, mining, cement, metals and pulp and paper industries.

SKF in Latin America has led the global development of the remanufacturing service for Mining Truck End Hub Bearings, which has enabled SKF to produce these bearings.

1) Source: United Nations and IMF, World Economic Outlook Oct 2018





**5%**

Share of SKF's sales



**Share of sales – segments**

Industrial 52%  
Automotive 48%



**Average number of employees 2,719**

Men 89%  
Women 11%

**4**

**Regional footprint**  
manufacturing  
and logistic units



**Net sales by customer location**

In 2018, net sales in Latin America declined by 12%.

## Middle East and Africa

# Small, with large potential

With its strong product offering and increased focus on service, SKF continues to gain market share in a market with a large dependency on industrial and automotive aftermarket.



### Middle East and Africa<sup>1)</sup>

Population **1,557 million**

Degree of urbanisation **43%**

GDP growth **Middle East 1.9%**

**Africa 3.9%**

GDP/capita **Middle East 11,930 USD**

**Africa 1,990 USD**



### Largest markets

Turkey, South Africa



### Largest customer industries

Industrial distribution, vehicle aftermarket, heavy industries, light vehicles



### Bearing market development

Moderate growth 2018



# 10–15

**Bearing market value**

SEK 10–15 billion 2018



### Competitors

Schaeffler Group, NTN, Timken, NSK, Nachi, JTEKT

### Market characteristics

Overall growth but a very diverse and fluctuating market.

Turkey is the largest market in a region of fragmented markets with different kinds of demands. Turkey, the rest of Middle East and Africa each represent one third of the total regional demand. There is a large dependency on industrial and automotive aftermarket since there are relatively few large, global OEMs in the region.

### SKF's position

SKF has a leading and strong position in the industry segments in which it operates, especially in industrial distribution, heavy industries and vehicle aftermarket.

### Important activities in 2018

SKF opened a new warehouse in Dubai, contributing to significantly higher service and shorter lead times to regional customers.

In Saudi Arabia, SKF received an order for machinery protection and monitoring systems for a greenfield refinery and a hydrocarbon terminal facility. The systems consist of 160 IMx-M racks and spares and include a total of 30,000 integration service hours.

In Egypt, SKF's assistance with training and solutions to a customer suffering from fake bearings and unexpected breakdowns resulted in a considerable annual contract.

One of SKF's customers in Turkey added SKF's remanufactured bearings to its business model. SKF was chosen thanks to its logistic power, quality and technical support.

1) Source: United Nations and IMF, World Economic Outlook Oct 2018

For the port of Dubai, SKF offered an auto-lubrication system providing benefits to the customer in terms of increased safety, since the manual lubrication of very high lubrication points involves risks for accidents. Previously, some of the lubrication points were difficult to lubricate, which could lead to premature bearing failures. With SKF's system for auto-lubrication, all the lubrication points automatically receive the optimum quantity of grease in correct intervals. This means no more need for dangerous manoeuvres and low risk for bearing failures.



**3%**

Share of SKF's sales



**Share of sales – segments**

Industrial 88%  
Automotive 12%



**Average number of employees 491**

Men 77%  
Women 23%

**Regional footprint**

One warehouse in Dubai that's operated by SKF's distribution center in Belgium.



**Net sales by customer location**

In 2018, net sales in Middle East and Africa grew by 9%.



## We are SKF

# Our journey

At SKF, an employment can be seen as a journey. You have to start somewhere, and with increased focus on internal mobility, a solid foundation for future leaders and continuous learning – the possibilities are endless.

### **Rhonda Jones, USA** **Passionate about customer solutions**

Rhonda has been with SKF since 2007 and is now managing the Customer Solutions team in the USA.

Her passion is delivering an excellent customer experience and she believes this starts with happy employees. "As a leader, you must give your team respect, empower them and have an open communication. With these ingredients you will have great results in the end."



### **Elev Eks, Estonia** **Job rotation from Estonia to Zambia**

Elev has been Sales Manager for the Baltic region since 2014. In 2018, he was given the opportunity to do a job rotation at the sales office in Zambia. "Being a foreigner in a different culture, you have to invest time in building trust. It has been very rewarding to get to know all these interesting people and I will bring back a lot of learnings to my team back home."



### **Anita Zhong, China** **Quality and responsible sourcing expert**

Anita joined SKF in 2017 as a specialist in supplier development and has since worked as a responsible sourcing auditor within the Chinese purchasing office. "This is good for the local community, but also a very important element in seeing the total cost of the supplier development. In my humble opinion, quality is an ever-dynamic pursuit for perfection, it never stops."



### **Sikander Godke, India** **Inspirator and passionate about the natural environment**

Sikander started at SKF India 32 years ago, resetting machines in the workshop. In his free time, he teaches in schools and communities about the importance of clean water, air, soil and sound pollution in India. He is an inspiration to other employees at the SKF Pune plant. "I look forward to continuing my journey within SKF and to work collaboratively with my motivated colleagues so that SKF continues to be world-class. I firmly believe, that saving our planet and changing our world goes hand in hand."



### **Michael Hallmann, Poland/Germany** **From trainee to factory manager**

Michael started his career at SKF Germany as a trainee in 2008 and has been working in manufacturing ever since. When he became factory manager in Poznan (Poland), Michael needed to adapt to the new position and environment which required some energy. "For me it is rewarding to work hard, try to get better every day and seeing progress. To achieve results together, as a team. That is what gives me energy at work."



## Graduation for SKF global graduates

In 2017, five graduates embarked on their SKF journey. Almost 18 months later, a new chapter starts. During the programme, they faced different challenges in their various job rotations, whereof two abroad and one in their home country.

Sasan and Marco spent five months in Pune working on purchasing and manufacturing projects. Laura-Marie worked in China, Italy and Scotland with business development for the railway team. Henrik recently came back from his last job rotation in Elgin (USA), where he worked for SKF's vehicle aftermarket team. Valentin has, throughout his trainee period, worked with composite product development within the SKF automotive and aerospace units in Italy and United Kingdom. The graduates support SKF in the cultural transformation and with challenges related to digitalisation and Industry 4.0.

## International assignment, a job rotation that energises you

After six months, Philipp is finalising his last couple of weeks in Elgin (USA), ending his short term international assignment. Philipp is a global category manager in Group Purchasing and is normally based in Schweinfurt.

Philipp explains, "I joined SKF six years ago on a corporate training programme in Germany, combining university studies with work. I have, from the very start, tried to push and look for opportunities in new areas for shorter periods. This drive has taken me to different places around the globe and I have gained a lot of experience and competence during this journey.

My half-year in Elgin has been very rewarding. I have learned a lot from my colleagues and I believe I have succeeded in sharing my knowledge as well," says Philipp.







A photograph of several wind turbines in a desert landscape at sunset. The sky is a warm orange and yellow, and the turbines are silhouetted against it. The foreground shows a dirt road and some low-lying vegetation.

## 19:35 Palm Springs, USA

Global population growth together with increasing energy consumption per capita is raising questions over where the energy will come from in the future. In the U.S., the wind power industry has boomed after the first wind farms were built in California in the 1980s. There are now more than 58,000 turbines in the country, with some of the biggest clusters in Iowa, Oklahoma and Texas.

Most of the 2,300 turbines in the San Geronio Pass, known as one of the windiest places in California, were built in the 1980s. Many of those machines are still in good shape but need regular maintenance. There are many reasons for energy companies to repower aging wind farms in California, including a new law requiring the state to get all its electricity from climate-friendly sources by 2045.

With the right approach, operators can keep their wind farms running without the need for major overhaul or purchasing completely new machinery. This saves time and is cost-effective—benefitting both operators and renewable energy in general.

Working together with wind farm operators, SKF helps to optimise the efficiency of the wind turbine and implement technologies to reduce maintenance costs. SKF is designing and developing bearings, seals, condition monitoring systems and lubrication systems that enable more cost-effective wind energy generation. OEMs and spare part dealers are moving with the times too, supporting operators in breathing new life into old machinery. SKF is offering engineering support and supplying bearings—meaning old turbines remain functional for many years to come.

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# 2,300

There are 2,300 turbines  
in the San Geronio  
Pass in California

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# 2045

California will get all its  
electricity from climate-  
friendly sources by 2045

# Why invest in SKF

In a growing but rapidly changing market, driven by globalisation and digitalisation of the value chain, SKF is adapting its offering and business model to grow its market share. This will give SKF a strong platform for profitable and sustainable growth.

- Unique and complete offering around a business-critical product for a large number of global industries – the rotating shaft.
- Strong long-term underlying market potential with global trends and drivers supporting SKF's sustainable business model.
- Market leader with one of the strongest and most well-known industrial brands.
- Global presence with a region-by-region approach on all continents.
- Broad customer base—40 industries around the world, 17,000 distributor locations.
- Leading R&D with highly specialised and digitalised know-how.
- Future-ready—pioneer in Industry 4.0 with accelerated investments in world-class manufacturing.
- Strong balance sheet and able to maintain a high cash flow over time.

## 4.6%

Average organic sales growth  
2016–2018

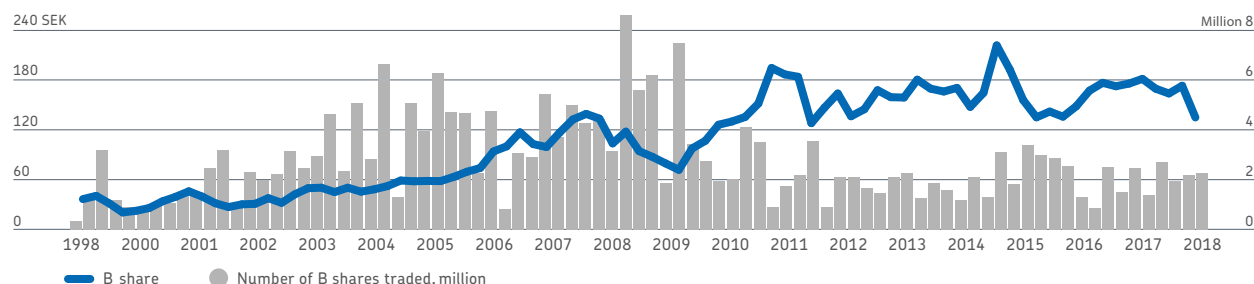
## 12.9%

Operating margin 2018

## 202

Number of patents 2018

### Share history



# The share

SKF's A and B shares are listed on the NASDAQ Stockholm, Large Cap stock exchange and are included in a large number of indexes. The total return for the SKF B share over the past three years was 8.4%.

In 2018, the share price for the SKF A share decreased by 25.9%, and the share price for the SKF B share decreased by 26.4%. The total number of SKF shares traded on Nasdaq Stockholm was 524,442,900. SKF's B shares are also traded on Chi-X Europe Limited, Cboe Europe Equities and Turquoise. The total number of shares traded on these three market places combined in 2018 was 352,503,620. SKF's American Depositary Receipts (ADRs) are traded on the OTC market.

## Share conversion

Owners of A shares have an option to convert these to B shares. In 2018, 1,700,000 shares were converted. A shares comprise 7.3% (7.7) of the total number of shares.

## Dividend and total return

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.00 per share be paid for 2018, which is in line with SKF's dividend policy. The total return from investing in the SKF A share over the past three years was 7.3% and for the SKF B share 8.4%.

## Ownership structure

SKF had 61,042 shareholders on 31 December 2018. Around 50% of the share capital was owned by foreign investors, around 42% by Swedish companies, institutions and mutual funds and around 8% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, which means that the actual shareholders are not officially registered.

FAM AB, which is wholly-owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing more than 10% of the voting rights in SKF.

## Information to shareholders

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

## Sustainability indexes

SKF is included in the FTSE4Good Index—one of the pioneering indices in responsible investment focusing on environmental, social and governance (ESG) topics. SKF is also included in Euronext Vigeo Index: Europe 120 – which includes Europe's 120 most advanced companies within ESG performance. In 2018, SKF was ranked as top performer in the Vigeo Eiris Mechanical Components & Equipment Sector Report. SKF leads the sector both globally and in Europe. The SKF B share is a constituent of the Ethibel Sustainability Index Excellence Europe since September 2017.

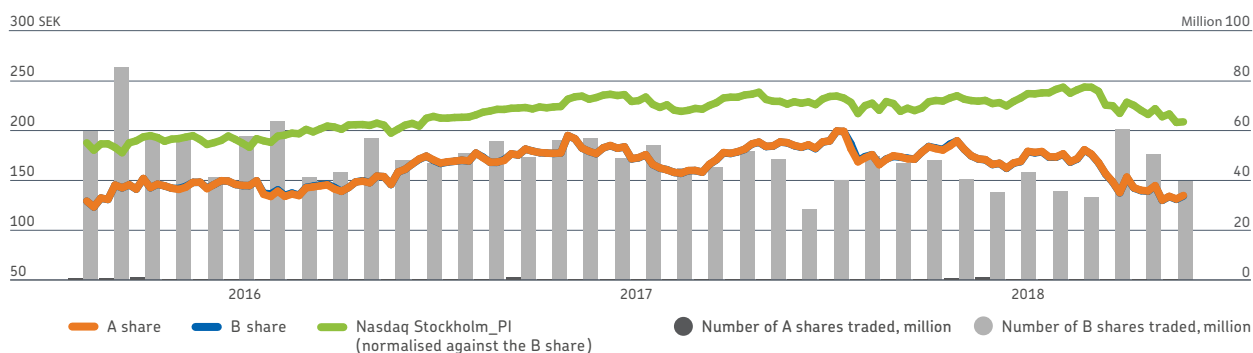


## Additional information

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



## Price trend of SKF's shares

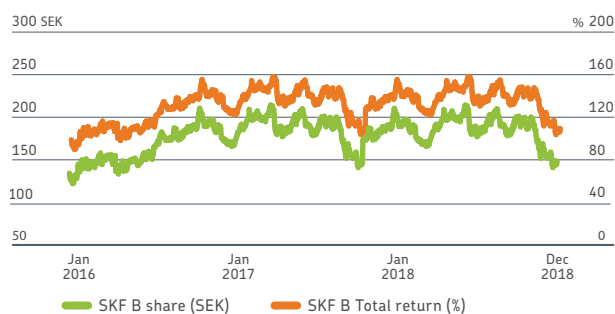


## Data per share

SEK per share unless otherwise stated	2018	2017
Earnings per share	16.00	12.02
Dividend per A and B share	6.00 <sup>1)</sup>	5.50
Total dividends, MSEK	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	134.5	182.2
Equity per share	74	62
Yield (B), %	4.5 <sup>1)</sup>	3.0
P/E ratio, B (share price/earnings per share)	8.4	15.2
Cash flow from operations, per share	18.3	14.1
Cash flow, after investments before financing, per share	18.3	10.4

1) According to the Board's proposal for the year 2018.

## Total return 2016–2018



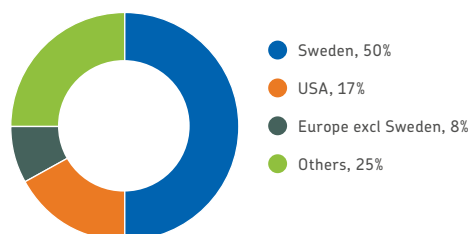
The total return, for a given period, is defined as share price performance including the value of all reinvested dividends. The dividend is calculated as reinvested from the ex dividend date. Total return is presented as a percentage.

## The ten largest shareholders sorted by voting rights

	Number of shares	Share capital, %	Voting rights, %
FAM AB	62,936,151	13.8	28.8
Harris Associates	32,046,400	7.0	4.2
Alecta Pensionsförsäkring	10,452,552	2.3	4.0
Didner & Gerge Fonder	16,907,912	3.7	2.2
Swedbank Robur Fonder	13,192,634	2.9	1.7
Vanguard	10,366,889	2.3	1.5
BlackRock	10,130,885	2.2	1.3
Fidelity International (FIL)	9,301,505	2.0	1.2
SEB Fonder	7,778,074	1.7	1.0
Baille Gifford & Co	7,671,167	1.7	1.0

Source: Monitor, Modular Finance as of 31 December 2018.

## Geographic ownership 2018





# Industrial

**The industrial business** continued its strong performance in 2018, with an operating margin of 15.6% (13.5) and organic growth of 9.4% (8.4). Organic growth was higher in all three regions: Europe 9%; Americas 7%; and Asia 15%. This was driven by continued broad-based investments and activities in most of the industries in which SKF operates.

In line with the strategy, the linear and actuation business was divested, for SEK 2.75 billion. The integration of research and product development into one organisation continued during the year, as well as the reshaping of SKF's R&D footprint. The global product development centre for deep groove ball bearings in Saint-Cyr (France), was transferred to Shanghai (China), and the move of key testing operations from the Netherlands to growth markets was initiated. Warehouse consolidations and optimisation have also progressed, with the Gothenburg and the PEER external warehouses transferred to the SKF warehouse in Airasca (Italy).

## Investments

In 2018, investments were made in an automated productline for the LEAP-engine and a new test centre for aerospace high-speed bearings at SKF's existing facility in Valenciennes (France). Also in Saint-Cyr (France), investments to upgrade the logistics and bearing remanufacturing centres commenced. The objective is to improve customer service levels and lead-times, and to expand the capacity to include remanufacturing of large-size slewing bearings. With a commitment to be closer to customers, the facilities in Hanover and Flowery Branch (USA) have been upgraded by installing cutting-edge machinery and improved manufacturing processes. This will enable SKF to offer customers access to world-class manufacturing capability, with a stronger, faster and more efficient manufacturing base. In Changshan (China), investments are being made in a new manufacturing facility to which the Group's existing small-size tapered roller bearings manufacturing in China will be

transferred. As a result, three existing sites will be closed. The new facility is expected to be operational in Q1 2019.

## Digitalisation and application-driven innovation

SKF's REP offering is a valued differentiator with customers. In South America, this type of performance-based business model has gained ground over the last two decades. In 2018, the Group made further progress in bringing lessons learned of this business model to other markets. The first two REP Centres were opened in Europe: in Gothenburg (Sweden) and in Schweinfurt (Germany). Several customers in the European marine industry signed REP contracts to improve performance of their fleet of vessels. The agreements include reliability engineering, high-tech condition monitoring and bearing supply.

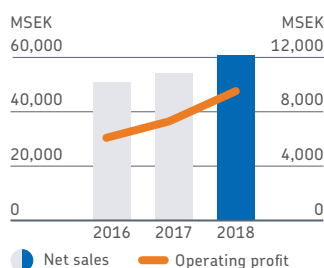
Several new market offerings were launched in 2018. A new solution for rail track assessment was added, allowing for monitoring of wheel bearings, motors, gear boxes and tracks while operating the trains. This was piloted at different metros during the year. With the new SKF Passenger bearing unit, SKF extends passenger train wheelset maintenance intervals, offering operators considerable efficiency gains. To meet the demands of leading top drive manufacturers in the oil and gas industry, SKF has developed a new generation of high-performance tapered roller thrust bearings, with higher load ratings and bearing life extended by up to 300 percent.

SKF has started a new collaboration with the Swiss developer of gearbox design software, KISSsoft AG. SKF's bearing calculation software will be incorporated within KISSsoft's software using SKF's cloud based services.

There was further progress in digitalised customer interaction through the expansion of digital product content to support industrial distributors' online sales. SKF's web shop for industrial customers (Web Customer Link, WCL) has been rolled out to numerous customers, thereby increasing the share of digital transactions.



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



<sup>1)</sup> Previously published figures have been restated according to the new segment information.

## Main achievements in 2018

- New REP contracts in the marine industry.
- Opening of REP centres in Gothenburg (Sweden) and Schweinfurt (Germany).
- New solution for rail track assessment added to the REP offering.
- New solutions for the oil and gas and agriculture, food and beverage industries.
- Cooperation on fibre-optic systems.





LEAP-engine



New REP-centre in Schweinfurt, Germany

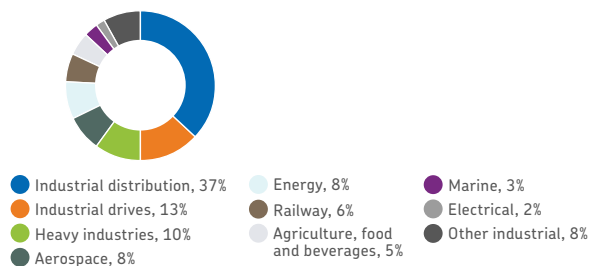


Tapered roller thrust bearings



Multilog IMx-Rail

#### Net sales by customer industry



#### Focus in 2019

- Continue the reshaping of the R&D footprint.
- Developing new products and solutions, where digitalisation and ease of use are key features.
- Expanding the REP offering and performance-based revenue models to more industries and customers.
- Continued focus on cost-competitiveness across the entire value chain.

# Automotive

**For the second consecutive year**, SKF outgrew the global automotive roller bearing market, with an organic growth of 2.1% (7.9). The strongest growth was recorded in Asia 6%, followed by North America 4%. Sales developed strongly despite a drop in European car sales at the end of the year, resulting from the implementation of new test cycles (WLTP) and despite a slow-down in Asian truck sales.

The operating margin improved to 6.4% (5.5) as a result of better pricing, fewer loss-making products and cost reductions. The Turn Around Plan, launched in 2015, outlined the priority areas for how the automotive business will reach an operating margin of 8%. It has guided the business area towards a leaner and more efficient way to capitalise on synergies from new working methods.

## Strengthening business and sharpening strategy

After the successful implementation of the Turn Around Plan, SKF has strengthened its automotive business focus in 2018 by establishing two new global Business Units. The Automotive Bearing Business Unit (ABBU) focuses on automotive original equipment manufacturers; and the VSM Business Unit focuses on the global independent automotive aftermarket. This organisational change will help SKF optimise the opportunities ahead in areas such as electric vehicles and online aftersales. At the same time, SKF has sharpened its overall strategy for the automotive business. SKF shall be a leading component expert for vehicle chassis and drive lines for bearings and seals. By designing solutions with the right performance, SKF will create customer value through quality, energy efficiency, comfort, optimised performance and safety.

## Helping customers gear up for the future

Nine SKF factories in China manufacture products for the automotive business. These factories supply the main part of sales in the region, with technical support through an engineering centre in Shanghai. This setup enables rapid response times and the possibility to meet local, customer-specific challenges. SKF's footprint in China and its superior technical skills have proven particularly valuable in supporting Chinese car manufacturers in their fast adoption of new energy vehicles (NEVs). SKF signed 23 new deals for application specific products and solutions with customers such as NIO, SAIC Motor, BYD and Changan Auto Group. Both SAIC Motor and Changan Auto Group have indirectly nominated SKF as the bearing supplier for their strategically important new powertrains for NEVs. Deliveries to Changan started in 2018, and to SAIC in 2020. SKF's total deliveries to the two companies are estimated at 400,000 units per year.

In Detroit (USA), SKF was named the 2018 Automotive News PACE Award winner. This prestigious award recognises superior innovation, technological advancement and business performance of OE vehicle suppliers. SKF was recognised for its Scotseal X-Treme wheel-end seal, which is the latest addition to SKF's well established line of wheel-end seals for drive, steer and trailer axles. It offers outstanding reliability and long life in the harshest of operating conditions to the vehicle service market, as well as to OE truck and trailer manufacturers.

At the Automechanika 2018 trade fair in September, SKF announced a new comprehensive range of steering and suspension parts for the vehicle aftermarket. The new product line complements SKF's existing range of bearings, top mounts, steering boots and upper suspension parts. It also reinforces SKF's position as a chassis corner expert.

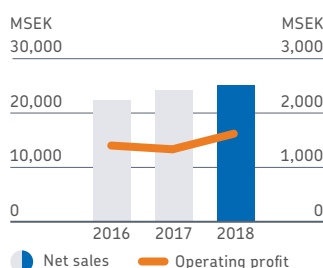


Share of net sales



Share of operating profit

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



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

## Main achievements in 2018

- Sales above market growth and further margin improvement.
- Two new global business units established to drive new business.
- Sharpened strategy to become a component expert for vehicle chassis and drive lines.
- Growth in the NEV applications business, with 23 new deals signed with Chinese manufacturers.



ROewe eRX5 from SAIC Motor



SKF aftermarket truck matched unit

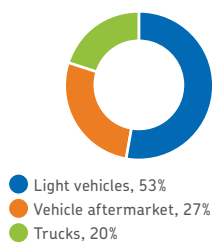


SKF complete hub



Scotseal X-Treme wheel-end seal

#### Net sales by customer industry



#### Focus in 2019

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



# Risk management

## Current risks and uncertainties in the business

The SKF Group operates in many different industrial, automotive and geographical areas that are at different stages of the economic cycle. A general economic downturn at global level, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets and natural disasters, could have a negative effect on the demand for the Group's products and services. There are also political and regulatory risks associated with the wide geographical presence.

Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group's operations. The SKF Group is subject to both transaction and translation of currency exposure. For commercial flows, the SKF Group is primarily exposed to EUR, USD and CNY. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profits and lower dividend income for the parent company, as well as a need for write downs of values of the shares in the subsidiaries.

SKF and other companies in the bearing industry are part of an investigation by the US Department of Justice regarding

a possible violation of antitrust rules. SKF is subject to two investigations in Brazil by the General Superintendence of the Administrative Council for Economic Defense, one investigation regarding an alleged violation of antitrust rules concerning bearing manufacturers, and another investigation regarding an alleged violation of antitrust rules by several companies active on the automotive aftermarket in Brazil. An enquiry has been initiated by the Competition Commission of India against several different companies, including SKF, regarding an alleged violation of antitrust rules in India. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the U.S. and may face additional follow-on civil actions by both direct and indirect purchasers.

## Risk management in SKF

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





## Strategic risks

SKF's core business is based on well-established technology and the company is organised 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 compared to companies that are more dependent on specific sectors and regions, or operating in faster moving technology areas.

Some of SKF's businesses is subject to transitional risks and opportunities related to trends such as increased digitalisation, electrification or pressure to decarbonise industry sectors. Such developments may be driven by regulatory requirements, taxes, tariffs or other governmental policies. These type of macro trends could have an effect on the SKF Group's operations generally and, in particular, some of the customer industries.

Read more about the main industries that SKF serves at [www.skf.com/group/industry-solutions](http://www.skf.com/group/industry-solutions).

Opportunities and risks related to the business are described in more detail in the trends and drivers section on pages 14–15.

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives set by the Group. SKF works with central recruitment processes, learning, leadership and talent management to proactively secure the right skills and capabilities for the future.

The new graduate programme, launched in 2017, is one way of injecting SKF with new perspectives and talent. The Group is also working continuously to build a strong culture and create motivating working environment where employees are empowered to be purposeful action takers.



## Operational risks

### Product functionality and market related risks

Competitors may find better and more cost-efficient ways to produce and distribute products and services. They may also find ways to produce better functioning products. SKF may suffer losses as a result of new and disruptive technologies becoming available from companies which are not currently seen as competitors. These risks are managed through SKF's first two strategic priorities: create and capture customer value; and application driven innovation, see pages 21–24.

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

Another risk is related to counterfeit SKF products, which are taking market share from SKF and whose unreliable performance may damage SKF's reputation. SKF works actively to reduce the negative impacts of counterfeit products through

awareness campaigns and by offering free authentication of suspected counterfeit goods. SKF also works on limiting the supply of counterfeit bearings through distributor stock audits and by providing expert on-site verification and advice to local authorities during raids.

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

### IT risks

The risk of unauthorised access to SKF information or computer systems could lead to a loss of data. The major trend to move data to the cloud and the digitalisation of business operations emphasise the importance for good IT security practices.

IT security risks are being addressed by a cyber security program, which includes an IT security awareness training for all employees. The SKF IT security management system is based on ISO 27000.

The risk of unplanned interruptions in SKF computer systems could lead to production losses or delays in deliveries to customers. SKF works with trusted IT partners that employ best practice procedures such as ITIL, ISO 20000 and ISO 9000.

### **Production risk**

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

Labour disputes could lead to disruption, which might affect SKF's ability to meet customer demands. SKF maintains an open and positive relationship with the trade unions, as exemplified by the Groups' global framework agreement with the World Union Council. The framework has been used for more than 45 years.

SKF has a globalised manufacturing operation with 94 production sites around the world, supported by 1,200 suppliers that account for about 80% of SKF's purchased volume. SKF's manufacturing strategy aims to ensure a high degree of flexibility, so that if one unit is taken out of action, others could provide production support. SKF has centrally purchased insurance lines and centrally managed loss prevention programmes. The aim is to protect SKF Group tangible and intangible assets through active risk management.

Operational environmental, health, safety and human rights risks are managed via SKF's group-wide management procedures covering virtually all significant sites. This work aims to assure compliance with relevant legal and other requirements, prevent major incidents from negatively impacting people or the environment, and drive continuous improvement in these aspects. The EHS system is certified in accordance with ISO 14001 and OHSAS 18001. SKF's Code of Conduct reflects relevant aspects from the SA8000 standard and the UN Guiding Principles on Business and Human Rights.

## Compliance risks

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

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

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

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

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

The Group's systems for internal control and risk management in relation to preparing 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 158. Building on the maturity of the Group's internal controls for financial reporting, SKF uses a similar approach to non-financial reported parameters, such as ethical, social and environmental data.

## Financial risks

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

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

### Sensitivity analysis

#### Costs

The annual cost of raw materials and components is around SEK 26 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 260 million. Steel scrap is a major ingredient in making bearing steel. An isolated 10% increase/decrease in market scrap prices would decrease/increase SKF's operating profit by around SEK 100 million. An increase of 1% in wages and salaries (including social security charges) would reduce the operating profit by around SEK 250 million.

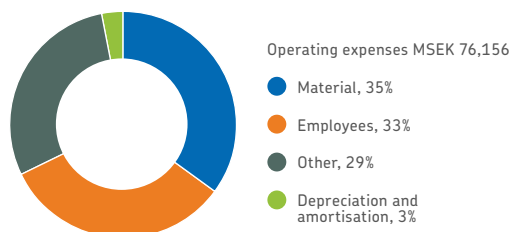
A decrease/increase of 1% in interest rates would have a positive/negative effect on the profit before tax of around SEK 150 million, based on the current position. The Group had a net debt of SEK 17,400 million on 31 December 2018.

### Currency impact

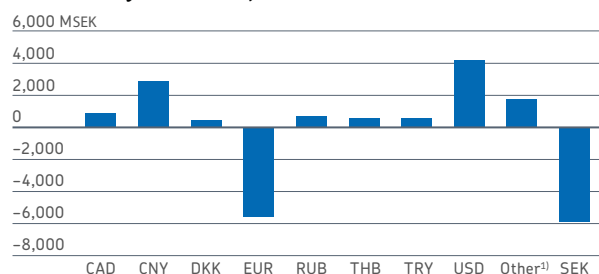
Translation effects: most of the operating profit is made outside Sweden, meaning that the Group is exposed to translation risks from all major currencies into the reporting currency SEK. Based on 2018 operating profits in local currencies, the graph below represents a sensitivity analysis that shows the effect of a 5% weaker SEK against all other currencies on the translation of operating profits into SEK.

Concerning the commercial foreign exchange exposure, the SKF Group is exposed to currencies shown in the graph below. Based on the assumption that the net currency flows will be the same as in 2018, the graph below represents a sensitivity analysis that shows the effect on operating profit of a 5% weaker SEK against all other currencies.

### Cost split 2018

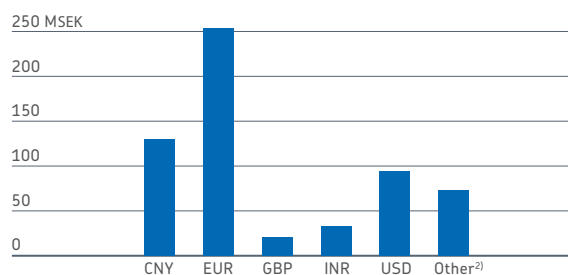


### Net currency flows 2018, MSEK



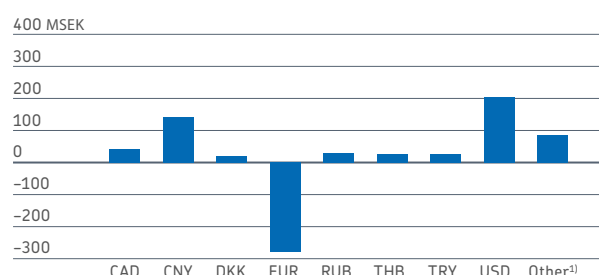
1) Other is a sum comprising 11 different currencies.

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



2) Other is a sum comprising 42 different currencies.

### Effect of transactional currency flows on operating profits of a 5% weaker SEK



1) Other is a sum comprising 11 different currencies.



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

## Introduction

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

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

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

## Fixed salary

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

## Variable salary

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

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

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

## Performance shares

Since 2008 SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees (SKF's Performance Share Programmes 2008–2018). The Board of Directors proposes that a decision should be taken at the Annual General Meeting on SKF's Performance Share Programme 2019.

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 2019–2021 compared to the financial year 2018. 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 of Directors 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 of Directors, reduce the number of shares to be awarded to the lower number of shares deemed appropriate by the Board of Directors.

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 2019 and a share price of SEK 153, the cost, including social security costs, is estimated at around SEK 184 million. On the basis of a share price of SEK 180, the cost, including social security costs, is estimated at around SEK 216 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 maximised 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 2008–2018 resolved on SKF's Performance Share Programmes 2008–2018.
- No allotment of shares was made under SKF's Performance Share Programme 2009 due to non-fulfilment of the TVA target for the financial year 2009. Allotment of shares under SKF's Performance Share Programme 2010 was made in the beginning of 2013. Allotment of shares under SKF's Performance Share Programme 2011 was made in the beginning of 2014. No allotment of shares was made under SKF's Performance Share Programme 2012–2013 due to non-fulfilment of the TVA target for the financial years 2012–2013. Allotment of shares under SKF's Performance Share Programme 2014 was made in the beginning of 2017. Allotment of shares under SKF's Performance Share Programme 2015 was made in the beginning of 2018. Allotment of shares under SKF's Performance Share Programme 2016 will be made beginning of February 2019. Any allotment of shares under SKF's Performance Share Programme 2017 and 2018 will be made during 2020 and 2021 respectively.
- The pension conditions of the President are described under Note 23 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- The normal retirement age for Group Management members is 65 years. One member of Group Management still has a retirement age of 62 years based on already existing agreement.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.

Principles of remuneration for Group Management 2018 and remuneration of Group Management 2018, see Consolidated Financial Statements Note 23.

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

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

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

## Financial position and dividend policy

### Financial performance management model

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

### Capital structure

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December, 2018, the gearing was 45.0% (49.9), the equity/assets ratio 40.7% (36.7) and the net debt/equity ratio 49.1% (71.3).

### Financing

SKF's policy is to have long-term financing of its operations. As of 31 December, 2018, the average maturity of SKF's loans was four years. SKF has four notes issued on the European bond market. EUR 192 million due 2019, EUR 257 million per 2020, EUR 500 million per 2022, and one with an outstanding amount of EUR 300 million, due 2025.

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 standardised loan documentation similar conditions also apply to other loan agreements. In addition to the bonds mentioned above, SKF also has two loans, one of EUR 200 million due in 2021 and one of USD 100 million due in 2027.

In addition to its own liquidity, AB SKF had two committed credit facilities, one of EUR 500 million with a due date in 2023 and one of EUR 250 million with a due date in 2020.

### Credit rating

On 31 December, 2018, the Group had a Baa1 rating from Moody's Investors Service and a BBB+ rating from Fitch Ratings, both with a stable outlook. 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 6.00 (5.50) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2019, see page 119, Proposed distribution of surplus.

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Amounts in MSEK unless otherwise stated. Amounts in parentheses refer to comparable figures for 2017.

The **Administration Report** comprises pages 12–30, 36–65, 108 and 119. It has undergone reasonable assurance engagement by SKF's auditors. See the **Auditor's Report** on pages 148–151. According to the Swedish accounting act chapter 6, §11, SKF's sustainability reporting is prepared as a separate report. The scope of this **Sustainability Report** is presented on page 120 in this publication.



## Consolidated income statements

MSEK	Note	January–December	
		2018	2017
Net sales	2	85,713	77,938
Cost of goods sold	5, 6	–64,829	–58,513
<b>Gross profit</b>		<b>20,884</b>	<b>19,425</b>
Selling expenses	6	–11,008	–10,398
Administrative expenses	6	–319	–414
Other operating income and expenses, net	7	1,492	–21
<b>Operating profit</b>		<b>11,049</b>	<b>8,592</b>
Financial income and expenses, net	8	–861	–934
<b>Profit before taxes</b>		<b>10,188</b>	<b>7,658</b>
Income tax	9	–2,603	–1,898
<b>Net profit</b>		<b>7,585</b>	<b>5,760</b>
<b>Net profit attributable to:</b>			
Shareholders of AB SKF		7,285	5,475
Non-controlling interests		300	285
Basic earnings per share (SEK)	16	16.00	12.02
Diluted earnings per share (SEK)	16	15.97	12.02

## Consolidated statements of comprehensive income

MSEK	Note	January–December	
		2018	2017
<b>Net profit</b>		<b>7,585</b>	<b>5,760</b>
<b>Items that will not be reclassified to the income statement</b>			
Remeasurements (actuarial gains and losses)	17	–529	359
Income tax	9	36	–512
		<b>–493</b>	<b>–153</b>
<b>Items that may be reclassified to the income statement</b>			
Currency translation adjustments		1,115	–876
Assets at fair value through other comprehensive income	13	–63	–101
Cash flow hedges	26	1	0
Income tax	9	56	35
		<b>1,109</b>	<b>–942</b>
<b>Other comprehensive income, net of tax</b>		<b>616</b>	<b>–1,095</b>
<b>Total comprehensive income</b>		<b>8,201</b>	<b>4,665</b>
<b>Total comprehensive income attributable to</b>			
Shareholders of AB SKF		7,881	4,446
Non-controlling interests		320	219

# Comments on the consolidated income statements

## General

The Group's income statement for 2018 included the result of the divested linear and actuation technology (L&AT) business 1 January–30 November.

## Net sales

In 2018, net sales amounted to MSEK 85,713 (77,938) corresponding to an increase of 10% compared to 2017. The change of the Swedish krona towards other currencies had a positive impact in 2018 of 3.5%. Structural changes accounted for –0.6%. Net sales in local currencies increased by 7.1% driven by higher sales volumes in all geographical areas except Latin America which was negative.

Sales development percent y-o-y, %	Q1	Q2	Q3	Q4	Full year
Organic	7.5	9.0	6.9	5.0	7.1
Structure	–0.7	–0.6	–0.1	–1.0	–0.6
Currency	–1.9	3.4	7.8	4.8	3.5
<b>Total</b>	<b>4.9</b>	<b>11.8</b>	<b>14.6</b>	<b>8.8</b>	<b>10.0</b>

## Operating profit

Operating profit for the year was MSEK 11,049 (8,592). It was positively impacted by the gain from the divestment of the L&AT business, increased sales and manufacturing volumes, sales price and customer mix. It was negatively impacted by general inflation, material cost increases, divested businesses, impairments and

restructuring costs. Operating profit in 2018 included MSEK 1,143 in result from divested/acquired companies, MSEK –369 (–328) related to the restructuring and cost reduction program and MSEK –283 net (–176) related to settlements, impairments, and gain/loss due to changed conditions in pension plans. The net of the above impacted positively by MSEK 946 compared to last year, adjusted for currency effects.

## Financial income and expenses, net

The financial income and expenses, net for 2018 was MSEK –861 (–934). For more information about the changes year-over-year, see Note 8.

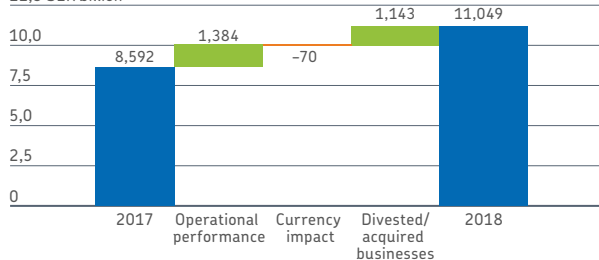
## Taxes

The effective tax rate for the year was 26% (25). It was positively impacted by divestments of businesses, adjusted for this the effective tax rate for the year was 28% (31). For more information see Note 9.

Values by quarter MSEK	Q1	Q2	Q3	Q4	Full year
Net sales	20,560	22,620	21,341	21,192	85,713
Operating profit	2,625	2,925	2,597	2,902	11,049
Profit before taxes	2,425	2,783	2,344	2,636	10,188
Basic earnings per share (SEK)	3.77	4.25	3.35	4.63	16.00

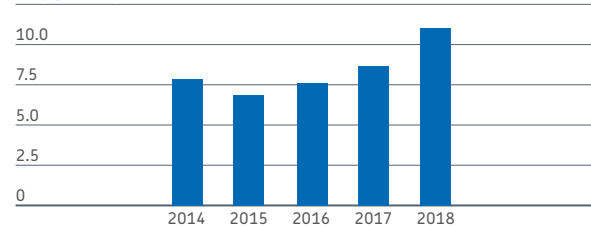
## Operating profit development y-o-y

12,5 SEK billion



## Operating profit

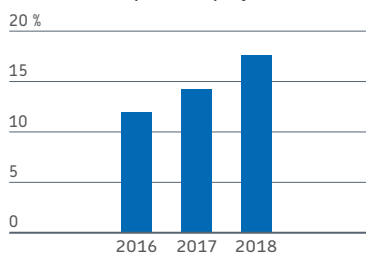
12.5 SEK billion



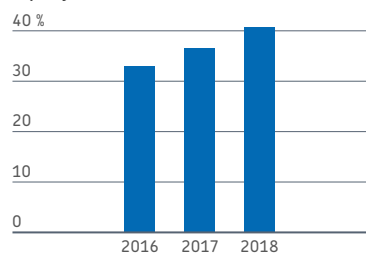
# Consolidated balance sheets

MSEK	Note	As of 31 December	
		2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	10	10,347	9,995
Other intangible assets	10	7,375	7,365
Property, plant and equipment	11	16,688	15,762
Long-term financial assets	13	1,155	1,187
Deferred tax assets	9	3,563	3,633
Other long-term assets		809	440
		<b>39,937</b>	<b>38,382</b>
<b>Current assets</b>			
Inventories	12	17,826	17,122
Trade receivables	13	13,842	13,416
Other short-term assets	14	3,912	3,664
Other short-term financial assets	13	1,266	1,507
Cash and cash equivalents	13	10,390	7,112
		<b>47,236</b>	<b>42,821</b>
<b>Total assets</b>		<b>87,173</b>	<b>81,203</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders of AB SKF		33,536	28,036
Equity attributable to non-controlling interests	27	1,916	1,787
		<b>35,452</b>	<b>29,823</b>
<b>Non-current liabilities</b>			
Long-term financial liabilities	19	14,850	15,790
Provisions for post-employment benefits	17	12,894	12,309
Deferred tax provisions	9	1,118	1,100
Other long-term provisions	18	1,878	1,551
Other long-term liabilities		94	111
		<b>30,834</b>	<b>30,861</b>
<b>Current liabilities</b>			
Trade payables	19	7,831	7,899
Short-term provisions	18	663	725
Other short-term financial liabilities	19	2,307	2,718
Other short-term liabilities	21	10,086	9,177
		<b>20,887</b>	<b>20,519</b>
<b>Total equity and liabilities</b>		<b>87,173</b>	<b>81,203</b>

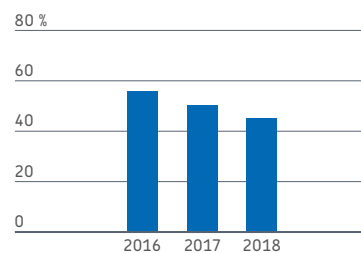
## Return on capital employed



## Equity/assets



## Gearing



# Comments on the consolidated balance sheets

## Net working capital

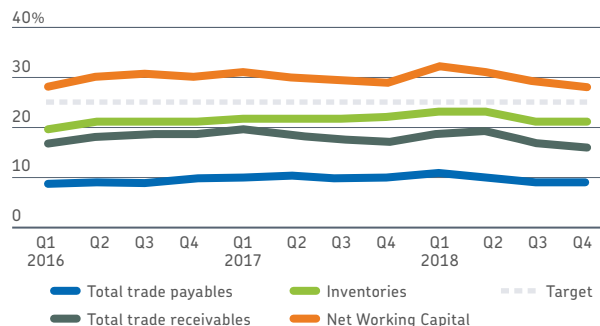
On 31 December 2018, net working capital as a percentage of sales was 27.8% (29.0) consisting of the following components:

- Inventories amounted to MSEK 17,826 (17,122) being 20.8% (21.9) of annual sales. The inventories increased by some MSEK 688 due to a weaker Swedish krona and increased due to volumes by MSEK 16 net of divestments.
- Trade receivables amounted to MSEK 13,842 (13,416) which is 16.1% (17.2) of annual sales. The change in trade receivables was attributable to currencies with MSEK 705 and to a volume decreases of MSEK -279, net of divestments. The average days of outstanding trade receivables were 62 days (65).
- Trade payables amounted to MSEK 7,831 (7,899) corresponding to 9.1% (10.1) of annual sales. The change attributable to currencies was MSEK 469 and the remaining MSEK -537 was due to volume decrease, net of divestments.

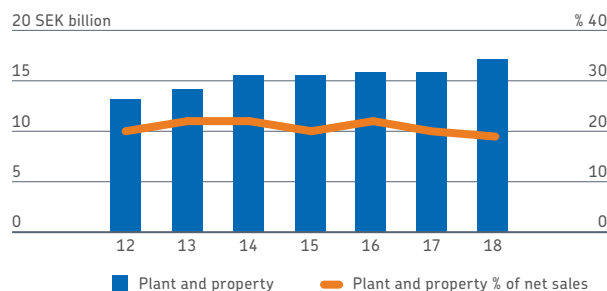
## Plant and property

On 31 December 2018, plant and property amounted to MSEK 16,688 (15,762). This was as a percentage of annual sales 19.5% (20.2). The change attributable to currencies was MSEK 506.

### Net working capital in % of annual sales



### Plant and property % of net sales



## Net debt

Net debt amounted to MSEK 17,400 (21,274) at the end of 2018, representing an improvement of MSEK 3,874 compared to previous year.

Post-employment benefit provisions totalled MSEK 12,833 (12,229) at year end, representing a net increase of MSEK 604 (net decrease of 1,663), which was attributable to:

- Cash payments of MSEK -845 (-1,801)
- Actuarial gains and losses of MSEK 529 (-359)
- Expenses of MSEK 737 (606).
- Divested businesses MSEK -311 (0)
- The remainder was attributable to currency translation differences and other.

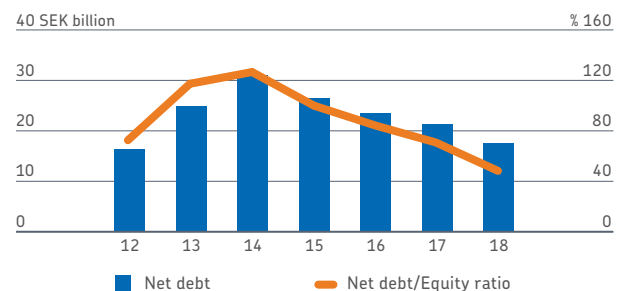
Loans totalled MSEK 16,149 (17,479), at the end of 2018, representing a decrease of MSEK 1,330. The decrease was primarily attributable to net repayments of MSEK 2,101 and positive currency translation effects of MSEK 768 mainly related to EUR.

## Equity

During the year, equity increased from MSEK 29,823 to MSEK 35,452. Net profit amounted to MSEK 7,585 (5,760) and dividends paid were MSEK 2,621 (2,618). Currency translation had a positive effect of MSEK 1,115 (-876). Remeasurements had a net of tax effect of MSEK -437 (-118).

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, 2018, the gearing was 45.0% (49.9), the equity/assets ratio 40.7% (36.7) and the net debt/equity ratio 49.1% (71.3).

### Net debt/equity





# Consolidated statements of cash flow

MSEK	Note	Years ended 31 December	
		2018	2017
<b>Operating activities</b>			
Operating profit		11,049	8,592
<i>Adjustments for</i>			
Depreciation, amortisation and impairment	6	2,472	2,323
Net gain on sales of businesses and property, plant and equipment		-1,518	-46
Other non-cash items		557	534
Income taxes paid		-2,711	-2,353
Contributions to and payments under post-employment defined benefit plans	17	-845	-1,077
<i>Associated companies</i>		6	—
<i>Changes in working capital</i>			
Inventories		-525	-2,316
Trade receivables		-377	-421
Trade payables		-76	910
Other operating assets and liabilities, net		514	927
Interest and other financial items		-201	-644
<b>Net cash flow from operating activities</b>		<b>8,345</b>	<b>6,429</b>
<b>Investing activities</b>			
Additions to intangible assets	10	-184	-165
Additions to property, plant and equipment	11	-2,647	-2,243
Sales of property, plant, equipment, and intangible assets	10, 11	455	136
Acquisitions of businesses, net of cash and cash equivalents	3	—	-27
Divestments of businesses, net of cash and cash equivalents	4	2,360	892
Income taxes paid related to divestments		—	-267
Investment in/sale of equity securities		-3	-2
<b>Net cash flow used in investing activities</b>		<b>-19</b>	<b>-1,676</b>
<b>Net cash flow after investments before financing</b>		<b>8,326</b>	<b>4,753</b>
<b>Financing activities</b>			
Proceeds from medium- and long-term loans		3,952	1,124
Repayments of medium- and long-term loans		-6,053	-4,265
Other financing items		-482	-780
Cash dividends to shareholders of AB SKF and non-controlling interests		-2,621	-2,618
Funding of post-employment benefits	17	—	-724
Tax payment related to funding of post-employment benefits		—	277
Investments in financial assets		-1,387	-1,369
Sales of financial assets		1,508	913
<b>Net cash flow used in financing activities</b>		<b>-5,083</b>	<b>-7,442</b>
<b>Net cash flow</b>		<b>3,243</b>	<b>-2,689</b>
Cash and cash equivalents at 1 January		7,112	9,939
Cash effect excluding acquired/sold businesses		3,396	-2,679
Cash effect from acquired/sold businesses		-153	-10
Translation effect		35	-138
<b>Cash and cash equivalents at 31 December</b>		<b>10,390</b>	<b>7,112</b>

# Comments on the consolidated statements of cash flow

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

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

## Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measure used in the Group, reached MSEK 8,326 (4,753) in 2018. Adjusted for divestments of businesses, the cash flow amounted to MSEK 5,966 (4,155).

Other non-cash items included expenses for which the cash flow has not yet occurred. The most significant items were related to unrealised exchange differences and expenses on the post-employment benefits.

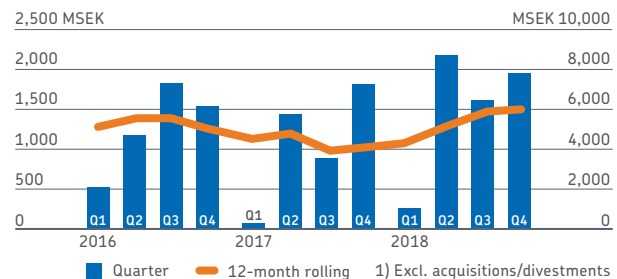
Interest and other financial items included interest paid of MSEK –646 (–407), interest received of MSEK 129 (42), and the remainder related primarily to realised derivatives on commercial flows between Group companies.

During the year the Group divested the L&AT business, which generated a net cash inflow of MSEK 2,315. The Group also divested three smaller businesses during the year which generated a cash inflow of MSEK 45.

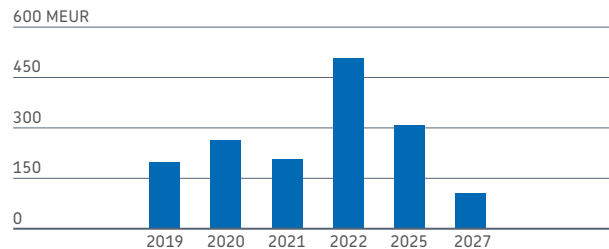
## Cash flow used in financing activities

The Group's debt structure improved in 2018 by the repayment of the MEUR 234 bond due during the year and by changing the maturity profile of the debt by issuing a new bond with maturity 2025 and partially repaying bonds maturing 2019 and 2020. The effect of closing derivatives and interest costs related to the change in the profile of the debt amounted to MSEK –378 and is reported in other financing items. Other financing items included also the effect of acquiring minority shares in China and Ukraine of MSEK –100.

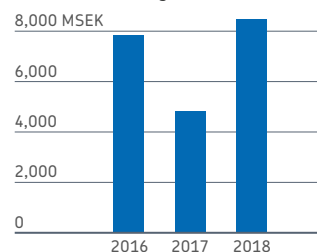
## Cash flow after investments before financing<sup>1)</sup>



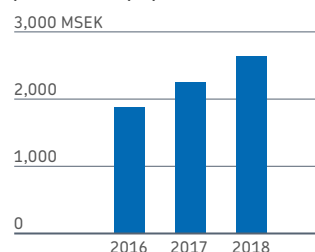
## Current debt structure



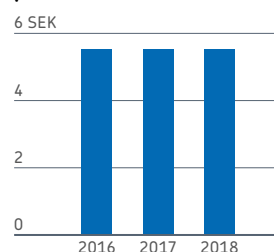
## Cash flow after investments, before financing



## Additions to property, plant and equipment



## Paid dividend per A and B share



The Board of Directors' proposed distribution of surplus for the year 2018, which is subject to approval at the Annual General Meeting in March 2019, includes an ordinary dividend of SEK 6.00 per share, see Note 15.

Cont. Comments on the consolidated statements of cash flow

**Change in net debt**

MSEK	2018 Closing balance	Cash change	Businesses acquired/sold	Other non- cash changes	Translation effect	2018 Opening balance
Loans <sup>1)</sup>	16,149	-2,101	—	3	768	17,479
Post-employment benefits, net <sup>2)</sup>	12,833	-845	-311	1,225	535	12,229
Other short-term financial assets <sup>3)</sup>	-1,192	145	—	2	-17	-1,322
Cash and cash equivalents	-10,390	-3,396	153	—	-35	-7,112
<b>Net debt</b>	<b>17,400</b>	<b>-6,197</b>	<b>-158</b>	<b>1,230</b>	<b>1,251</b>	<b>21,274</b>
Derivatives <sup>4)</sup> included in Other financing items	440	-335	—	302	—	473

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

1) Excludes derivatives, see Note 19.

2) Cash changes are split MSEK -845 (-1,077) in operating activities and MSEK 0 (-724) in financing activities. Other non-cash changes includes remeasurements as well as expenses on defined benefit plans, see Note 17.

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

Cash change of MSEK 145 (-340) is explained by Investment in financial assets of MSEK -1,326 (-1,138) and sale of financial assets of MSEK 1,471 (798).

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

# Consolidated statements of changes in equity

MSEK	Equity attributable to owners of AB SKF							Non-controlling interests	Total
	Share capital	Share premium	FV OCI reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal		
<b>Opening balance 1 January, 2017</b>	<b>1,138</b>	<b>564</b>	<b>307</b>	<b>-1</b>	<b>987</b>	<b>23,039</b>	<b>26,034</b>	<b>1,649</b>	<b>27,683</b>
Net profit	—	—	—	—	—	5,475	5,475	285	5,760
<b>Components of other comprehensive income</b>									
Currency translation adjustments	—	—	—	—	-809	—	-809	-67	-876
Change in FV OCI assets and cash flow hedges	—	—	-101	—	—	—	-101	—	-101
Release of FV OCI assets and cash flow hedges	—	—	—	—	—	—	—	—	—
Remeasurements	—	—	—	—	—	358	358	1	359
Income taxes	—	—	—	—	35	-512	-477	—	-477
<b>Transactions with shareholders</b>									
Non-controlling interest <sup>1)</sup>	—	—	—	—	—	-33	-33	33	—
Cost for Performance Share Programmes, net <sup>2)</sup>	—	—	—	—	—	93	93	—	93
Dividends	—	—	—	—	—	-2,504	-2,504	-114	-2,618
<b>Closing balance 31 December, 2017</b>	<b>1,138</b>	<b>564</b>	<b>206</b>	<b>-1</b>	<b>213</b>	<b>25,916</b>	<b>28,036</b>	<b>1,787</b>	<b>29,823</b>
Net profit	—	—	—	—	—	7,282	7,282	303	7,585
Hyperinflation adjustment <sup>3)</sup>	—	—	—	—	—	113	113	-2	111
<b>Components of other comprehensive income</b>									
Currency translation adjustments	—	—	—	—	1,097	—	1,097	18	1,115
Change in FV OCI assets and cash flow hedges	—	—	-63	—	—	—	-63	—	-63
Release of FV OCI assets and cash flow hedges	—	—	—	1	—	—	1	—	1
Remeasurements	—	—	—	—	—	-529	-529	—	-529
Income taxes	—	—	—	—	56	36	92	—	92
<b>Transactions with shareholders</b>									
Non-controlling interest <sup>1)</sup>	—	—	—	—	—	-25	-25	-73	-98
Cost for Performance Share Programmes, net <sup>2)</sup>	—	—	—	—	—	36	36	—	36
Dividends	—	—	—	—	—	-2,504	-2,504	-117	-2,621
<b>Closing balance 31 December, 2018</b>	<b>1,138</b>	<b>564</b>	<b>143</b>	<b>0</b>	<b>1,366</b>	<b>30,325</b>	<b>33,536</b>	<b>1,916</b>	<b>35,452</b>

1) See Note 27 for details.

2) See Note 23 for details.

3) See Note 1 for details.

## FV OCI reserve

The FV OCI reserve accumulates changes in the fair value of assets recognised directly in other comprehensive income, net of tax, with the exception of any dividends and any impairment losses. See Note 13 for details on FV OCI 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 recognised in the translation reserve net of tax. See Note 26 for details.



# Notes to the consolidated financial statements

## 1 Accounting policies

### Basis of presentation

The consolidated financial statements of the SKF Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Furthermore, the Group is in compliance with the Swedish Financial Reporting Board's RFR 1, Supplementary Accounting Rules for Groups, as well as their interpretations (UFR).

The Annual Report of the Parent company, AB SKF, has been signed by the Board of Directors on 5 March, 2019. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheets are subject to adoption at the Annual General Meeting on 28 March, 2019.

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

### Basis of consolidation

The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control, and hereafter is referred to as "the Group", "SKF" or "the SKF Group". Control exists when the Group has the right to direct the relevant activities of a company, is exposed to variable returns and can use those rights to affect those returns. For the vast majority of the Group's subsidiaries, control exists via 100% ownership. There is also a very limited number of subsidiaries controlled by SKF where ownership is between 50%–100%. The largest of such companies is SKF India Ltd. that is a publicly listed company in India of which the Group has control via ownership of 52.3% of the voting rights. For the subsidiaries where less than 100% is owned, the non-controlling interests are shown separately within equity.

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

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

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

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

Assets and liabilities denominated in a foreign currency, primarily receivables and payables and loans, have been translated at

the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

### Exchange rates

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

Country	Unit	Currency	Average rates		Year-end rates	
			2018	2017	2018	2017
Argentina	1	ARS	0.33	0.51	0.23	0.43
China	1	CNY	1.31	1.26	1.31	1.26
EMU countries	1	EUR	10.28	9.63	10.26	9.48
India	100	INR	12.75	13.11	12.80	12.88
Brazil	1	BRL	2.39	2.67	2.31	2.48
United Kingdom	1	GBP	11.60	11.03	11.34	11.11
USA	1	USD	8.70	8.54	8.97	8.22

### Hyperinflation reporting

During 2018, Argentina has been classified as an hyperinflation economy. Since SKF has operations in the country, the Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies and restated the financial statements accordingly. The Argentinian indexes used in the restatement is; Wholesale Domestic Price Index (IPIM) and Consumer Price Index (IPC).

### Revenue

#### New accounting policy as of 1 January 2018

Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfilment of the contract. Any products that are included in service contracts are reported as separate performance obligations and classified as revenue from products. Revenue is recognised when the control has been transferred to the customer.

Sales are recorded net of allowances for volume rebates, sales returns and other variable considerations if it is highly probable that they will occur.

Revenues from products are recognised at a point in time. Revenues from service and/or maintenance contracts are either recognised at a point in time or over time. In those contracts where the service is delivered to the customer over time, the revenue are accounted for over the duration of the contract with the use of either the input or output methods. These are different methods to measure the progress towards a complete satisfaction of a performance obligation. Revenue from all other service contracts are accounted for at a point in time.

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

For revenue presented per customer industry, segment and geographic area, see note 2.

#### **Previous accounting policy, applicable on transactions prior 1 January 2018**

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

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognised 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. Collectability is assessed based primarily on the credit worthiness of the customer as determined by credit limit control and approval procedures, as well as the customer's payment history.

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

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

#### **Critical accounting estimates and judgements**

Management believes that the following areas contain the most key judgements and the most significant sources of estimation uncertainty used in the preparation of the financial statements, where a different opinion or estimate could lead to significant changes to the Group's financial statements in the upcoming year.

- Judgement on the realisability 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 intangible assets (Note 10)
- Significant assumptions used in the calculation of the post employment benefit obligations (Note 17)
- Judgements used in the recognition and disclosure of provisions and contingent liabilities (Note 18)

#### **New accounting principles**

##### **New accounting principles 2018**

IASB issued and endorsed several new and amended accounting standards, effective date 1 January 2018. As presented in previous reports, IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers, had only a limited impact on the SKF Group accounting. The effects are considered immaterial and there has not been a transition impact to the opening balances for 2018. The Group has updated the accounting policies as an effect of the new standards. See above for the revenue policy and note 13 for financial assets. Other effective, amended accounting standards that have been issued by IASB are not considered to have a material impact on the SKF Group's financial statements.

##### **New accounting principles 2019**

IASB issued and endorsed several new and amended accounting standards effective starting 1 January 2019. Only IFRS 16, "Leases", has an impact on the Group's financial statements.

##### **IFRS 16 "Leases"**

IFRS 16 Leases is effective as of 1 January 2019. For lessees, the standard eliminates the classification of leases as either operating or finance, as required by IAS 17, and instead introduces a single lease accounting model. Applying that model a lessee is required to present, (a) assets and liabilities for all leases with a term of more than twelve 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.

SKF has applied the modified retrospective method when transitioned to IFRS 16 on 1 January 2019, meaning that SKF will not recalculate the financial statements for 2018. The lease liability is the present value of all future payments until lease end date. The practical expedient to set the right of use asset (before adjustments for any prepayments) equal to the lease liability has been applied for the transition. The rate for discounting the lease payments is the SKF Group incremental borrowing rate with consideration to the maturity of the lease contracts. The practical expedient for definition of a lease has been applied, which means that all components within a lease has been considered as a lease component. The short term lease exception and the asset of low value exception have also been applied.

Management judgement and assumptions are required to determine extension options for the right-of-use assets and the present value of the lease liability. Such judgement and assumptions involve identifying a lease, defining the lease term and defining the discount rate.

The opening balance of the lease liability and the Right-of-use assets amounts to SEK 3.2 billion for current lease contracts. The Group's average discount rate used for transition is 5.1%.

## Cont. Note 1

Reconciliation from IAS 17 to IFRS 16	MSEK
Operating lease obligation according to IAS 17 as of 31 December, 2018	3 951
Discounting effect to net present value	-664
Finance leases	40
Short term and assets of low value exceptions	-89
Signed but not yet commenced leases	-210
Reasonable certain to use extension/termination options	190
Indexations	12
Lease liability according to IFRS 16 as of 1 January, 2019	3 230

**New accounting policy Leases as of 1 January 2019**

See note 20 for the current accounting policy for leases. As of 1 January 2019, SKF applies IFRS 16 for accounting of leases and the following policy apply: All lease contracts are recognised in the balance sheet, at commencement date, as a right-of-use asset and a lease liability. A contract is or contains a lease if it conveys, to the Group, the right to control the use of an identified asset for a period of time in exchange of a consideration. A right-of-use asset and a lease liability is recognised for all leases with a term of more than twelve months unless the underlying asset is of low value. The right-of-use asset is subsequently accounted for with the same regulations as Property, plant and equipment.

The lease liability is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used. The incremental borrowing rate is established by the Group's treasury centre based on currency and maturity of lease contracts.

The lease term is determined as the non-cancellable period of the lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The Group also applies the practical expedient for fixed non-lease components and includes them together with any lease component in the contract.

Any future lease modification not registered as a separate contract, is recognised as a remeasurement of the lease liability and an adjustment to the right-of-use asset.

**Reclassifications made to previously published financial information**

As of 1 January 2018, the Group made an assessment of which business model to apply to the financial assets held by SKF and has made a classification of the financial assets into IFRS 9 categories. The main effects of the reclassification are:

**Reclassification in equity of Available for sale reserve to Fair value through Other Comprehensive Income (FV OCI)**

The Group has decided to present the changes in fair value of debt securities and strategic investments in equity securities in other comprehensive income (OCI). The change in fair value was previously presented as Available for sale reserve and are now presented as FV OCI reserve. The exception are debt securities held by SKF Treasury Centre which are categorised as fair value through profit or loss (FVPL) at initial recognition.

**Reclassifications of financial assets**

Financial assets is reclassified as follow in the table below:

Financial asset	Categories		Carrying amount as of December 2017, MSEK	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Trade receivables	Loans and receivables	Amortised cost	13,416	13,416
Cash and Cash equivalents	Loans and receivables	Amortised cost	1 635	1,635
Cash and Cash equivalents	FVPL	FVPL	5,477	5,477
Equity securities	Available for sale	FVOCI	397	397
Marketable securities	FVPL	FVPL	664	664
Hedging derivatives	FVOCI	FVOCI	7	7
Trading derivatives	FVPL	FVPL	178	178
Debt securities	FVPL	FVPL	200	200
Debt securities	Available for sale	FVOCI	21	21
Other loans and receivables	Loans and receivables	Amortised cost	1,227	1,227
<b>Total</b>			<b>23,222</b>	<b>23,222</b>

## 2 Segment information

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

This segment information includes sales and operating profit related to all significant industrial and automotive customers. Segment profit represents the business result generated by the capital employed of the segment and includes allocated corporate expenses and eliminations.

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

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

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

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

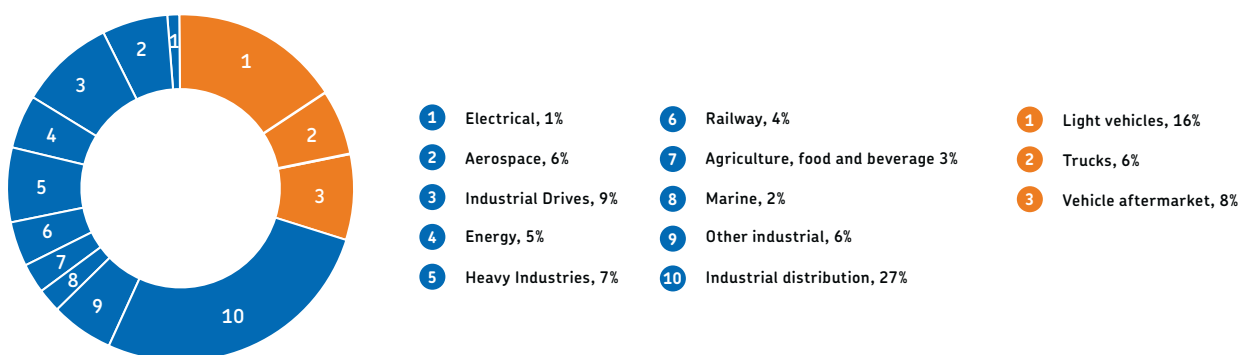
Industrial sells to customers in the global industrial market, directly and indirectly through SKF's worldwide distributor network. Key customers are companies within heavy industry (such as metals, mining, cement, pulp and paper, and off-highway), other industrial (such as automation, machine tool and industrial drives), railway, marine, energy (such as wind, oil and gas) and aerospace. These customer industries are served both directly to OEMs and end-users as well as indirectly through SKF's network of industrial distributors.

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

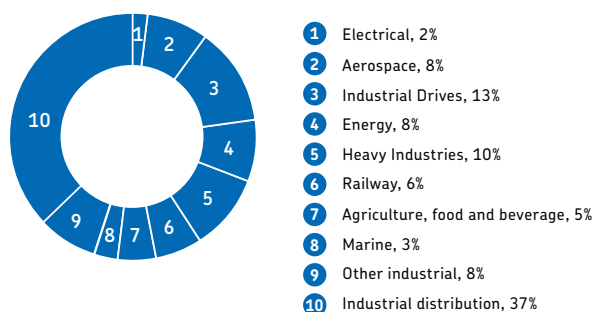
For more information on the customer industries and related products, see pages 54–57.

Previously published segment figures for 2017 have been restated to reflect a change in classification of smaller customers.

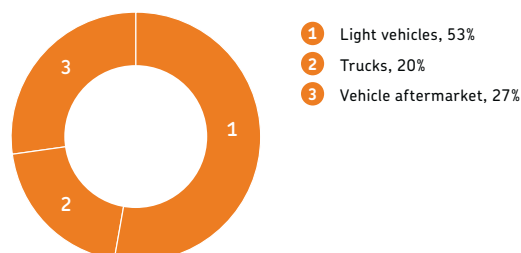
### Net sales – Total



### Net sales by customer industry – Industrial



### Net sales by customer industry – Automotive





## Cont. Note 2

MSEK	Net sales		Contribution to profit before tax	
	2018	2017	2018	2017
Industrial	60,593	53,875	9,430	7,260
Automotive	25,120	24,063	1,619	1,332
<b>Subtotal operating segments</b>	<b>85,713</b>	<b>77,938</b>	<b>11,049</b>	<b>8,592</b>
Financial net	—	—	-861	-934
<b>Total</b>	<b>85,713</b>	<b>77,938</b>	<b>10,188</b>	<b>7,658</b>

MSEK	Depreciation and amortisation		Impairments		Additions to property, plant and equipment and intangible assets	
	2018	2017	2018	2017	2018	2017
Industrial	1,859	1,833	119	59	2,280	1,776
Automotive	469	427	25	4	551	632
Eliminations and unallocated items	—	—	—	—	—	—
<b>Total</b>	<b>2,328</b>	<b>2,260</b>	<b>144</b>	<b>63</b>	<b>2,831</b>	<b>2,408</b>

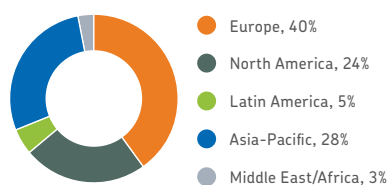
MSEK	Assets		Liabilities	
	2018	2017	2018	2017
Industrial	48,365	47,564	10,146	9,813
Automotive	15,393	14,432	5,242	5,157
<b>Subtotal operating segments</b>	<b>63,458</b>	<b>61,996</b>	<b>15,388</b>	<b>14,970</b>
Financial and tax items	17,470	14,415	30,831	31,784
Eliminations and other unallocated items	5,945	4,792	5,502	4,626
<b>Total</b>	<b>87,173</b>	<b>81,203</b>	<b>51,721</b>	<b>51,380</b>

Geographic disclosure MSEK	Net sales by customer location		Non-current assets	
	2018	2017	2018	2017
Sweden	2,232	2,011	3,990	4,020
Europe excl. Sweden	32,320	29,359	12,237	11,577
North America (incl. Mexico)	20,666	18,544	11,976	12,082
Asia-Pacific	24,080	21,249	4,942	4,858
Middle East/Africa	2,252	2,070	81	84
Latin America	4,163	4,705	1,508	1,423
Eliminations	—	—	425	-562
<b>Total</b>	<b>85,713</b>	<b>77,938</b>	<b>35,158</b>	<b>33,482</b>

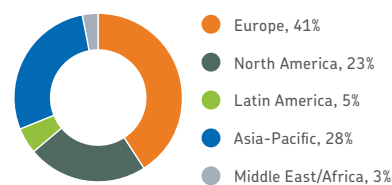
Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (20) were located in USA, 16% (15) in China, and 12% (12) in Germany. Non-current assets exclude financial assets, deferred tax

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, 34% (36) were located in USA, 16% (16) in Germany, and 10% (10) in China.

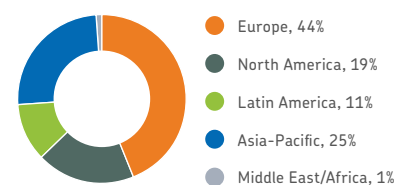
Net sales by geographic area



Net sales by geographic area – Industrial



Net sales by geographic area – Automotive



### 3 Acquisitions

#### Accounting policy

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, when control is obtained, the acquired assets, liabilities and contingent liabilities (net identifiable assets) are measured at fair value.

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognised as goodwill.

Companies acquired during the year are included in the financial statements as of acquisition date.

MSEK	2018	2017
<b>Total fair value of net assets acquired</b>		
Property, plant and equipment	—	12
Current assets	—	4
Non-current liabilities	—	-4
Current liabilities	—	-2
<b>Fair value net assets acquired</b>	<b>—</b>	<b>10</b>
Goodwill	—	17
<b>Total acquisition cost</b>	<b>—</b>	<b>27</b>
Cash and cash equivalents acquired	—	—
<b>Cash outflow</b>	<b>—</b>	<b>27</b>

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

### 4 Divestment of businesses

MSEK	2018	2017
Goodwill	400	518
Other intangible assets	25	276
Property, plant and equipment	328	40
Deferred tax assets	132	—
Other non-current assets	24	—
Current assets	1,389	164
Deferred tax provisions	-23	-61
Non current liabilities	-387	-4
Current liabilities	-577	-55
<b>Net assets disposed of</b>	<b>1,311</b>	<b>878</b>
Profit	1,202	24
<b>Total compensation</b>	<b>2,513</b>	<b>902</b>
Cash and cash equivalents divested	-153	-10
<b>Total cash inflow</b>	<b>2,360</b>	<b>892</b>

During 2018, the Group divested businesses for a total cash flow of MSEK 2,360 resulting in a net gain of MSEK 1,202.

In December 2018, SKF completed the divestment of the L&AT business to Triton corporation. The total compensation of the divestment amounted to MSEK 2,469.

SKF has also completed divestments of smaller businesses during the year, two in the US and one in Europe, amounting to a total compensation of MSEK 44.

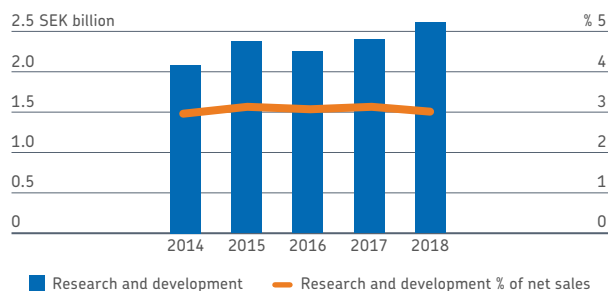
During 2017, the Group divested businesses generating a total cash flow of MSEK 892 resulting in a net gain of MSEK 24.

In June 2017, SKF completed the divestments of the Reelcraft business to Madison Industrial Solutions corporation. The total compensation of the divestment was around MUSD 107.

## 5 Research and development

Research and development expenditure, excluding developing IT solutions, totalled MSEK 2,591 (2,395), corresponding to 3.0% (3.1) of annual sales.

### Research and development % of net sales



## 6 Expenses by nature

MSEK	2018	2017
Employee benefit expenses including social charges	24,724	23,540
Raw material and components consumed, including traded products	26,563	24,756
Change in work in process and finished goods	169	1,513
Depreciation, amortization and impairments	2,472	2,323
Other expenses, primarily purchased services, shop supplies and utilities	22,228	17,193
<b>Total operating expenses</b>	<b>76,156</b>	<b>69,325</b>

Depreciation, amortisation and impairments were accounted for as (MSEK)	2018				2017			
	Depreciation	Amortisation	Impairments	Total	Depreciation	Amortisation	Impairments	Total
Cost of goods sold	1,753	118	38	1,909	1,690	96	36	1,822
Selling expenses	83	374	106	563	98	376	27	501
<b>Total</b>	<b>1,836</b>	<b>492</b>	<b>144</b>	<b>2,472</b>	<b>1,788</b>	<b>472</b>	<b>63</b>	<b>2,323</b>

## 7 Other operating income and expenses

MSEK	2018	2017
<b>Other operating income</b>		
Exchange gains on trade receivables/payables	796	460
Profit from sale of property, plant and equipment	274	14
Profit from associated companies	14	9
Profit from divestment of businesses	1,216	24
Other	170	75
<b>Total</b>	<b>2,470</b>	<b>582</b>
<b>Other operating expenses</b>		
Exchange losses on trade receivables/payables	-898	-537
Loss from sale of property, plant and equipment	-14	-21
Loss on divestment of businesses	-14	—
Other	-52	-45
<b>Total</b>	<b>-978</b>	<b>-603</b>
<b>Other operating income and expenses, net</b>	<b>1,492</b>	<b>-21</b>

## 8 Financial income and financial expenses

MSEK	2018	2017
Interest income	118	109
Interest expense	-599	-677
Net gains/losses:		
Net interest cost on post-employment benefits	-281	-316
Exchange differences, net	25	35
Other financial income including dividends	42	67
Other financial expense	-166	-152
<b>Financial net</b>	<b>-861</b>	<b>-934</b>

Interest expense amounted to MSEK -599 (-677) and included MSEK -135 (-250) related to the debt repurchase during the year, while the effect from the related derivative was MSEK 62 (160). Total net expense for the debt repurchase amounted to MSEK -73 (-90). Other financial expense included costs related to unwinding the discount on provisions, bank charges and other transaction-related costs.

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

Financial net specified by category of financial instruments (MSEK)	2018			2017		
	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	-7	—	—	-8	—	—
Derivatives held for trading	1	-139	266	1	-31	1,731
Derivatives held for hedge accounting	—	—	-1	—	—	1
Financial assets classified as amortised cost	124	—	447	116	—	-1,171
Financial assets classified as fair value through other comprehensive income	—	—	5	—	—	2
Other financial liabilities, primarily loans	—	-460	-650	—	-646	-461
Other liabilities including post-employment benefits	—	—	-447	—	—	-468
<b>Total</b>	<b>118</b>	<b>-599</b>	<b>-380</b>	<b>109</b>	<b>-677</b>	<b>-366</b>

Derivatives classified as held for trading are mainly used for economic hedging, which mitigate the effect of certain items in the categories loans and receivables and other liabilities. Net gains/losses are mainly exchange differences and changes in fair value for all the

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

## 9 Taxes

### Accounting policy

Income tax include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income taxes are recognised 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 recognised in other comprehensive income or directly in equity.

All the companies within the Group compute current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable. Provisions have been made in the financial statements for estimated taxes on earnings of subsidiaries

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

The Group applies the required balance sheet approach for measuring deferred taxes, where deferred tax assets and provisions are recorded based on enacted tax rates for the expected future tax consequences when the asset is realised or debt repaid. These tax rates are applied on existing differences between accounting and tax reporting bases of assets and liabilities, as well as for tax loss and tax credit carry-forwards. Such tax loss and tax credit carry-forwards can be used to offset future income.



## Cont. Note 9

**Accounting estimates and judgements**

Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax provisions and assets. The process involves estimating the current tax together with assessing temporary differences arising from differing treatment of items for tax and accounting purposes.

In particular, management assesses the likelihood that deferred tax assets will be recoverable from future taxable income.

Deferred tax assets are recorded to the extent that it is probable in management's opinion that sufficient future taxable income will be available to allow the recognition of such benefits.

Tax expense (MSEK)	2018			2017		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,628	—	-2,628	-2,405	—	-2,405
Deferred taxes	25	92	117	507	-477	30
<b>Total</b>	<b>-2,603</b>	<b>92</b>	<b>-2,511</b>	<b>-1,898</b>	<b>-477</b>	<b>-2,375</b>

Taxes charged to other comprehensive income included MSEK 36 (-512) related to remeasurements of post employment benefits and MSEK 56 (35) related to net investment hedges.

Reconciliation of the statutory tax in Sweden to the actual tax (MSEK)	2018	2017
Tax calculated using statutory tax rate in Sweden	-2,241	-1,685
Difference between statutory tax rate in Sweden and foreign subsidiaries	-297	-346
Other taxes	-162	-102
Tax credits and similar items	55	177
Non-deductible/non-taxable profit items	27	-495
Change in tax rate	—	771
Tax loss carry-forwards	9	-111
Current tax referring to previous years	16	-119
Other	-10	12
<b>Current tax</b>	<b>-2,603</b>	<b>-1,898</b>

The corporate statutory income tax rate in Sweden was 22.0% (22.0). The actual tax rate on profit before taxes was 25.6% (24.8).

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

Gross deferred taxes per type (MSEK)	2018		2017	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	-67	1,445	-104	1,314
Property, plant and equipment	-2	854	-18	831
Inventories	-447	363	-479	377
Trade receivables	-66	3	-66	6
Provisions for post-employment benefits	-2,593	40	-2,428	44
Other accruals and liabilities	-695	25	-633	20
Tax loss carry-forwards	-1,061	—	-1,123	—
Tax credit carry-forwards	-180	—	-309	—
Other	-87	23	-47	82
<b>Gross deferred taxes</b>	<b>-5,198</b>	<b>2,753</b>	<b>-5,207</b>	<b>2,674</b>
Net deferred taxes presented in the Consolidated balance sheet	-3,563	1,118	-3,633	1,100

Realisability 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 unrecognised deferred tax assets of MSEK 322 (326), whereof MSEK 187 (200) related to tax loss carry-forwards and MSEK 135 (126) related to other deductible temporary differences. These were not recognised due to the uncertainty of future profit streams.

Unrecognised deferred tax assets of MSEK 38 (46) related to tax losses and will expire during the period 2019 to 2023. The remaining unrecognised assets will expire after 2023 and/or may be carried forward indefinitely.

The change in the balance of unrecognised deferred tax assets that reduced current tax expense was MSEK 18 (80) mainly relating to the use of tax loss carry-forwards. The change in the balance of unrecognised deferred tax assets that increased deferred tax expense was MSEK 22 (13) which resulted from a revised judgement on the realisability of certain tax assets in future years.

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

As of 31 December 2018, the Group had tax loss carry-forwards amounting to MSEK 5,712 (5,846), which are available for offset against taxable future profits. Such tax loss carry-forward expire as follows:

2019	21
2020	67
2021	45
2022	55
2023 and thereafter	692
Never	4,832

## 10 Intangible assets

### Accounting policy

Intangible assets are stated at initial cost less any accumulated amortisation and any impairment. Amortisation is made on a straight line basis over the estimated useful lives and begins once the asset is ready for its intended use. The ERP system (Unite) follows another amortisation pattern, as described below under Internally developed intangibles. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset.

The useful lives are:

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

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

### Internally developed intangibles

The Group's most significant internally developed intangibles are software in use, developed for internal purposes and to a minor extent product development. The amortisation plan for Unite is a straight line method following the implementation plan during the useful life period of twelve years. For 2019 the Group will change the amortisation plan for Unite to straight line amortisation keeping the original useful life. For 2018, the yearly amortisation was around 3% of the net book value at the end of 2017. For 2019 and the rest of the useful life, the amortisation rate will be 10%. Capitalised costs during 2018 start being amortised during 2019 and the original useful life for the asset remains, which expects to end in 2028.

### Intangible assets with definite useful lives

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

Factors that are considered important are:

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

## Cont. Note 10

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

**Intangible assets with indefinite useful lives**

Goodwill and other intangible assets with indefinite useful lives have been allocated to CGUs, and are tested for impairment annually and whenever an indication of impairment exists. The impairment test is carried out at the lowest level at which these assets are monitored by management. The lowest CGU level used for impairment test is the segment level, Industrial and Automotive. In 2017, the Group had additionally three CGUs that were tested separately. Those CGUs were integrated to the CGU Industrial in 2018 which is the level where the assets are monitored.

**Accounting estimates and judgements**

Significant management judgement is required in determining if development expenditures should be capitalised. Such expenses are only capitalised when it is probable that they will result in future economic benefits for the Group and the expenditures during the development phase can be reliably measured. The Group applies stringent criteria before a development project results in the recording of an asset, which include the ability to complete the project, evidence of technical feasibility, intention and ability to use or sell the asset. When evaluating software for internal use, management specifically considers new functionality and/or increased standard of performance to be strong evidence that future economic benefits will be achieved. In evaluating product development projects, management considers the existence of a customer order as significant evidence of technological and economic feasibility. All other research expenditures as well as development expenditures not meeting the capitalisation criteria, are charged to cost of goods sold in the income statement when incurred.

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

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

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, taking into account the long-term government bond rate, the corporate spread, the market risk premium, the country risk premium where applicable, and the systematic risk of the CGU at the date of evaluation. Management determines the discount rate to be used based on the risk inherent in the related activity's current business model and industry comparisons.

MSEK	2018 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2018 Opening balance
Acquisition cost								
Goodwill	11,167	—	-884	—	—	6	797	11,248
Patents, tradenames and similar rights	2,871	—	-12	—	—	—	216	2,667
Internally developed software	2,405	131	-23	—	—	—	7	2,290
Customer relationships	4,703	—	-53	—	—	—	335	4,421
Leaseholds	256	35	-40	-12	—	—	9	264
Product development	327	18	-6	—	—	—	16	299
Technology	1,210	—	-9	—	—	-15	84	1,150
Other intangible assets	130	—	—	—	—	12	3	115
<b>Total</b>	<b>23,069</b>	<b>184</b>	<b>-1,027</b>	<b>-12</b>	<b>—</b>	<b>3</b>	<b>1,467</b>	<b>22,454</b>

MSEK	2018 Closing balance	Amorti- sations	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2018 Opening balance
Accumulated amortisation and impairments								
Goodwill	820	—	-503	—	—	1	69	1,253
Patents, tradenames and similar rights	445	41	-11	—	—	—	—	415
Internally developed software	764	57	-23	—	91	—	7	632
Customer relationships	2,484	283	-28	—	—	—	153	2,076
Leaseholds	76	13	-27	-3	—	—	4	89
Product development	196	24	-6	—	—	—	8	170
Technology	474	72	-4	—	—	-6	31	381
Other intangible assets	88	2	—	—	—	6	2	78
<b>Total</b>	<b>5,347</b>	<b>492</b>	<b>-602</b>	<b>-3</b>	<b>91</b>	<b>1</b>	<b>274</b>	<b>5,094</b>

<b>Net book value</b>	<b>17,722</b>							<b>17,360</b>
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MSEK	2017 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impairments	Other	Translation effects	2017 Opening balance
Acquisition cost								
Goodwill	11,248	—	-501	-11	—	—	-710	12,470
Patents, tradenames and similar rights	2,667	—	-139	—	—	—	-225	3,031
Internally developed software	2,290	128	—	-160	—	8	-3	2,317
Customer relationships	4,421	—	-245	—	—	—	-298	4,964
Leaseholds	264	29	—	—	—	10	-10	235
Product development	299	8	—	—	—	—	-1	292
Technology	1,150	—	—	—	—	—	23	1,127
Other intangible assets	115	—	—	-16	—	11	-91	211
<b>Total</b>	<b>22,454</b>	<b>165</b>	<b>-885</b>	<b>-187</b>	<b>—</b>	<b>29</b>	<b>-1,315</b>	<b>24,647</b>

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

<b>Net book value</b>	<b>17,360</b>							<b>19,568</b>
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Cont. Note 10

**Impairment losses**

Impairments amounted to MSEK –91 in 2018, which refers to the scrapping of an internally developed planning module.

Impairments amounted to MSEK –15 in 2017, where the majority relates to a smaller heat transfer coil and tube machinery business in the U.S.

**Intangibles with indefinite useful lives**

Certain tradenames and trademarks are considered to have indefinite useful lives as the Group anticipates to continue to promote these brands in the foreseeable future. This includes the tradenames and trademarks in Lincoln MSEK 1,183 (1,085), Kaydon Friction MSEK 587 (635), PEER MSEK 223 (205), GBC MSEK 204 (187) and others MSEK 91 (98).

**Significant intangibles**

Internally generated software related primarily to the development of Unite to create and deploy improved processes and solutions across the Group. The balance of capitalised expenditures in 2018 was MSEK 1,635 (1,649), including amortisations of MSEK –50 (–47). Remaining useful life is ten years. An impairment of MSEK –91 has been made during the year related to the scrapping of a develop planing module. No impairments were made during 2017.

Other individual intangible assets that are material for the Group include the customer relationships for Lincoln amounting to MSEK 916 (982) having a remaining useful life of seven years, and for Kaydon amounting to MSEK 837 (959) having a remaining useful life of ten years.

**CGUs with significant intangibles**

The CGUs follow the segment reporting. In 2017, the Group had three other CGUs belonging to Industrial, which contained individually identified goodwill and intangibles with indefinite useful lives. These CGUs had value in use calculations using the same common DCF methodology as described in the accounting policy, with estimates and assumptions determined on an individual CGU basis. Total Goodwill amounted to MSEK 1,637 and Tradenames to MSEK 223 for these CGUs and are not included in the 2017 values of the CGU Industrial in the table below.

The table below shows goodwill and other intangibles with indefinite useful lives allocated to the CGUs Industrial and Automotive, as well as some crucial rates that were used for the DCF calculation.

	2018		2017	
	Industrial	Automotive	Industrial	Automotive
Goodwill, MSEK	9,819	528	7,909	449
Tradenames, MSEK	2,084	204	1,840	189
Average revenue growth rate	4.0%	1.7%	4.9%	3.5%
Discount rate, pre tax	12.1%	12.8%	11.0%	9.3%
Terminal growth factor	2.5%	2.5%	2.5%	2.5%

The recoverable amounts used in the testing of the CGUs have been calculated based on value in use using the DCF model as described in Accounting estimates and judgements. The most significant assumptions are the discount rate and the growth rates, being both the revenue growth rates and the terminal growth factor. Revenue growth rates are expressed in the above table as the average growth rate over the five-year forecast period. The same discount rate is applied to all cash flows in the five-year forecast period. Additional information on the forecast period as well as the discount rate and growth rates and how they are calculated is described in accounting estimates and judgements above.

A number of sensitivity analyses were performed to evaluate if any reasonable possible adverse changes in assumptions would lead to impairment. The analyses focused around decreasing the revenue growth rates, and increasing the discount rate by two percentage points, each taken individually and while holding all other assumptions constant. No impairment needs were indicated.

## 11 Property, plant and equipment

### Accounting policy

Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost, less accumulated depreciation and any impairment loss. A component approach to depreciation is applied. This means that where items of property, plant and equipment are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review.

The useful lives are:

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

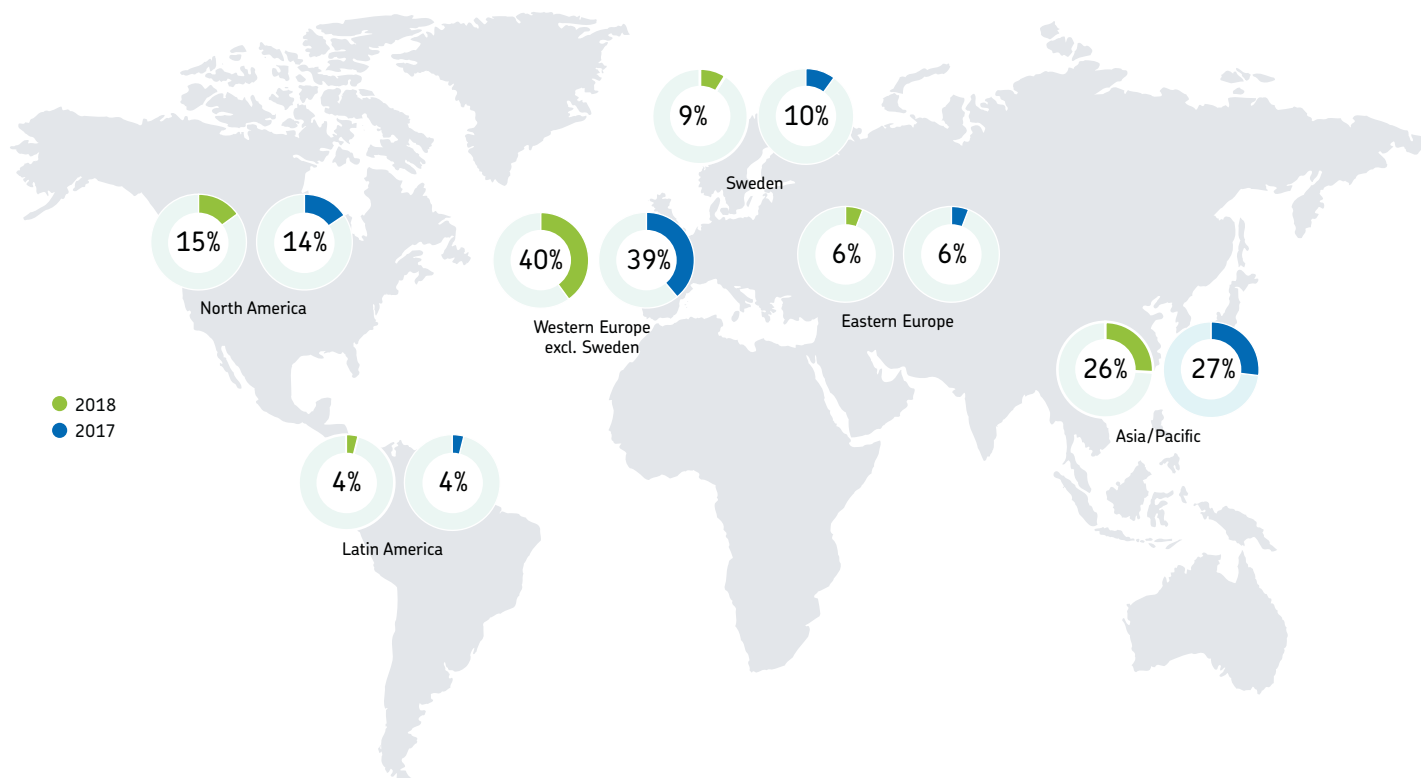
Depreciation and impairments are included in cost of goods sold, selling expenses or administrative expenses depending on where the assets have been used.

### Accounting estimates and judgments

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

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

### Geographical distribution of property, plant and equipment 2017–2018



## Cont. Note 11

MSEK	2018 Closing balance	Additions	Businesses acquired/ sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2018 Opening balance
Acquisition cost								
Buildings	8,516	224	-181	-95	—	173	239	8,156
Land and land improvements	766	27	-22	-28	—	-24	32	781
Machinery and supply systems	31,108	810	-728	-232	—	532	1,139	29,587
Machine toolings and factory fittings	3,955	127	-175	-67	—	-32	160	3,942
Assets under construction including advances <sup>2)</sup>	2,686	1,459	-26	—	—	-1,030	70	2,213
<b>Total</b>	<b>47,031</b>	<b>2,647</b>	<b>-1,132</b>	<b>-422</b>	<b>—</b>	<b>-381</b>	<b>1,640</b>	<b>44,679</b>

MSEK	2018 Closing balance	Depre- ciation	Businesses sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2018 Opening balance
Accumulated depreciation and impairments								
Buildings	4,258	258	-107	-55	—	-49	154	4,057
Land improvements	289	54	—	—	21	-20	9	225
Machinery and supply systems	22,559	1,367	-523	-189	28	-290	834	21,332
Machine toolings and factory fittings	3,237	157	-174	-52	4	-138	137	3,303
<b>Total</b>	<b>30,343</b>	<b>1,836</b>	<b>-804</b>	<b>-296</b>	<b>53</b>	<b>-497</b>	<b>1,134</b>	<b>28,917</b>
<b>Net book value</b>	<b>16,688</b>							<b>15,762</b>

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

MSEK	2017 Closing balance	Depre- ciation	Businesses sold	Disposals	Impair- ments	Other <sup>1)</sup>	Translation effects	2017 Opening balance
Accumulated depreciation and impairments								
Buildings	4,057	242	-5	-16	29	-47	9	3,845
Land improvements	225	47	—	-12	1	-5	3	191
Machinery and supply systems	21,332	1,299	-14	-111	18	-386	-78	20,604
Machine toolings and factory fittings	3,303	200	-6	-49	—	-188	-38	3,384
<b>Total</b>	<b>28,917</b>	<b>1,788</b>	<b>-25</b>	<b>-188</b>	<b>48</b>	<b>-626</b>	<b>-104</b>	<b>28,024</b>
<b>Net book value</b>	<b>15,762</b>							<b>15,746</b>

1) Includes primarily reclassification between categories.

2) Contractual commitments for acquisition of PPE not yet booked amounted to MSEK 670 (663).

## 12 Inventories

### Accounting policy

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

### Accounting estimates and judgements

Adjustments to the cost of inventory may be necessary when the cost exceeds net realisable value. Net realisable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realisable 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 realisable

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.

MSEK	2018	2017
Finished goods	10,209	9,741
Raw materials and supplies	5,908	5,775
Work in process	1,709	1,606
<b>Total</b>	<b>17,826</b>	<b>17,122</b>

Inventory values are stated net of a provision for net realisable value of MSEK 1,421 (1,438). The amount charged to expense for net realisable provisions during the year was MSEK 110 (54). Reversals of net realisable provisions during the year were MSEK 21 (19).

## 13 Financial assets

### Accounting policy

As of 1 January 2018, the Group apply IFRS 9, which is adopted without restating prior periods. More information can be found in Note 1.

### New accounting policy as of 1 January 2018

Financial assets are classified in three categories and are based on the Groups business model for managing the asset and the asset's contractual cash flow characteristics. The assets can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).

Financial assets are recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are initially measured at fair value, which is normally equal to cost. Settlement day recognition is applied for purchases and sales of financial assets.

Financial assets measured at amortized cost are calculated using the effective interest method. For disclosure purpose, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data. For current receivables, such as trade receivables, the carrying amount is considered to correspond to fair value.

Equity securities are measured at fair value. Equity securities without a quoted price are held at cost if the fair value cannot be measured reliably. The Group have elected to classify Equity securities at FVOCI since these investments are held as long-term strategic investments. There is no reclassification of fair value gain or loss when the investment is derecognised and the dividends from those investments are recognised in profit or loss when the Group have the right to receive the payment.

Debt securities are valued at fair value based on the current bid price for the securities and they are classified as either at FVPL or at FVOCI depending on the Groups model for managing those securities and on the characteristics of the cash flows.

Derivatives are categorised as held for trading unless they are subject to hedge accounting. Derivatives classified as held for trading are mainly derivatives used in economic hedges where the changes in fair value are taking directly through profit or loss.

Allowance for doubtful accounts, are recognised with the use of a forward-looking 'expected-loss' impairment model which indicates when the asset may not be recovered. The forward-looking information should capture changes in the market that the customers operate in.

Financial assets are derecognised when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards.

### Previous accounting policy, applicable on transactions prior 1 January 2018

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

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

## Cont. Note 13

Debt securities and equity securities categorised 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 categorised as held for trading unless they are subject to hedge accounting.

Financial assets are derecognised when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards.

**Accounting estimates and judgements**

An allowance for doubtful accounts for expected losses on trade receivables is maintained. When evaluating the need for an allowance, management considers the aging of trade receivable balances, historical write-off experience of customer with similar characteristics. Management does also an estimation of expected credit losses based on market conditions.

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 assets per category 2018**

MSEK	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss		Total	Of which current
			At initial recognition	Trading		
Trade receivables	13,842	—	—	—	13,842	13,842
Cash and cash equivalents	4,390	—	6,000	—	10,390	10,390
Equity securities	—	342	—	—	342	—
Marketable securities	—	—	—	684	684	—
Hedging derivatives	—	—	—	—	—	—
Trading derivatives	—	—	—	75	75	75
Debt securities	—	21	164	—	185	164
Other loans and receivables	1,136	—	—	—	1,136	1,029
<b>Carrying amount</b>	<b>19,368</b>	<b>363</b>	<b>6,164</b>	<b>759</b>	<b>26,654</b>	<b>25,500</b>
<b>Fair value</b>	<b>19,368</b>	<b>363</b>	<b>6,164</b>	<b>759</b>		

**Financial assets per category 2017**

MSEK	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss		Total	Of which current
			At initial recognition	Trading		
Trade receivables	13,416	—	—	—	13,416	13,416
Cash and cash equivalents	1,635	—	5,477	—	7,112	7,112
Equity securities	—	397	—	—	397	—
Marketable securities	—	—	—	664	664	—
Hedging derivatives	—	7	—	—	7	7
Trading derivatives	—	—	—	178	178	178
Debt securities	—	21	200	—	221	200
Other loans and receivables	1,227	—	—	—	1,227	1,122
<b>Carrying amount</b>	<b>16,278</b>	<b>425</b>	<b>5,677</b>	<b>842</b>	<b>23,222</b>	<b>22,035</b>
<b>Fair value</b>	<b>16,278</b>	<b>425</b>	<b>5,677</b>	<b>842</b>		

Financial assets categorised as amortised cost 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 categorised as FVOCI. The exception is debt securities held by SKF Treasury Centre which are categorised as FVPL at initial recognition.

Financial instruments are designated at FVPL when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorised as trading derivatives unless they are subject to hedge accounting.



Fair value hierarchy for financial assets at fair value (MSEK)	Level 1	Level 2	Level 3	2018	Level 1	Level 2	Level 3	2017
Fair value through other comprehensive income								
Equity securities	299	—	—	299	355	—	—	355
Debt securities	21	—	—	21	21	—	—	21
Fair value through profit or loss								
Trading securities	768	—	80	848	792	—	72	864
Cash and cash equivalents	6,000	—	—	6,000	5,477	—	—	5,477
Trading derivatives	—	75	—	75	—	178	—	178
Hedging derivatives	—	—	—	—	—	7	—	7
<b>Total</b>	<b>7,088</b>	<b>75</b>	<b>80</b>	<b>7,243</b>	<b>6,645</b>	<b>185</b>	<b>72</b>	<b>6,902</b>

Financial assets recorded at fair value, which includes the columns Fair value through other comprehensive income and Fair value through profit or loss 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 instruments with a quoted price in an active market. Level 2

includes financial instruments with inputs based on observable data other than quoted prices in an active market. Fair value has been calculated using mainly discounted cash flow analyses based on observable market data. Level 3 includes inputs that are not based on observable market data.

Amounts for equity securities include MSEK 43 (42) valued at cost and are not included in the specification above.

Trade receivables by due date (MSEK)	Carrying amount	Not yet due	Past due, net of allowance			
			1–30 days	31–60 days	61–90 days	> 91 days
<b>2018</b>	13,842	11,728	1,434	326	171	183
2017	13,416	11,444	1,392	254	106	220

The average days outstanding of trade receivables in 2018 were 62 days (65). Trade receivables as a percentage of annual net sales totaled 16.1% (17.2). Trade receivables included receivables sold with recourse amounting to MSEK 70 (71). The risk of customer default for these receivables has not been transferred in such a way that the financial assets qualify for derecognition.

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

Specification of reserve for credit losses (MSEK)	2018	2017
<b>Opening balance 1 January</b>	<b>397</b>	<b>395</b>
Additions	159	74
Reversals	–97	–34
<b>Changes through the income statement</b>	<b>62</b>	<b>40</b>
Allowances used to cover write-offs	–17	–34
Acquired/ divested companies	–1	0
Currency translation adjustments	10	–4
<b>Closing balance 31 December</b>	<b>451</b>	<b>397</b>

## 14 Other short-term assets

MSEK	2018	2017
Value added taxes receivables, net	962	1,051
Income tax receivables	1,095	977
Prepaid expenses	567	477
Accrued income	268	153
Advances to suppliers	61	91
Other current receivables	959	915
<b>Total</b>	<b>3,912</b>	<b>3,664</b>

## 15 Share capital

	Number of shares authorised and outstanding			Share capital (MSEK)
	A Shares	B Shares	Total	
Opening balance 1 January 2017	36,298,533	419,052,535	455,351,068	1,138
Conversion of A shares to B shares	-1,242,730	1,242,730	—	—
<b>Closing balance 31 December 2017</b>	<b>35,055,803</b>	<b>420,295,265</b>	<b>455,351,068</b>	<b>1,138</b>
Conversion of A shares to B shares	-1,700,000	1,700,000	—	—
<b>Closing balance 31 December 2018</b>	<b>33,355,803</b>	<b>421,995,265</b>	<b>455,351,068</b>	<b>1,138</b>

An A share has one vote and a B share has one-tenth of one vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 193,580,944 A shares have been converted to B shares. The quota value for all shares is SEK 2.50.

### Dividend policy

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

If the financial position of the SKF Group exceeds the target for capital structure, which is described in Note 26, an additional distribution to the ordinary dividend could be made in the form of

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

### Dividend payments

The total surplus of the Parent Company amounted to MSEK 18,155 (16,884), see page 119. The Board has decided to propose to the Annual General Meeting, on 28 March, 2019, a dividend of SEK 6.00 (5.50) per share to be paid to the shareholders. The proposed dividend for 2018 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 1 April 2019. The total proposed dividend to be paid is MSEK 2,732 (2,504). The dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. On 5 April 2018, a dividend of SEK 5.50 (5.50) per share was paid to the shareholders.

## 16 Earnings per share

	2018	2017
Net profit attributable to owners of AB SKF (MSEK)	7,285	5,475
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
<b>Basic earnings per share (SEK)</b>	<b>16.00</b>	<b>12.02</b>
Dilutive shares from Performance Share Programmes	658,586	254,214
Weighted average diluted number of shares	456,009,654	455,605,282
<b>Diluted earnings per share (SEK)</b>	<b>15.97</b>	<b>12.02</b>

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

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

## 17 Provisions for post-employment benefits

### Accounting policy

The post-employment provisions and assets arise from defined benefit obligations in plans which are either unfunded or funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation. For funded defined benefit plans, the assets of the plans are held in trusts legally separate from the Group. The related balance sheet provision or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation. However, an asset is recognised 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 recognised, but it is disclosed in the note as an asset ceiling adjustment.

The projected unit credit method is used to determine the present value of all defined benefit obligations and the related current service cost. Valuations are carried out quarterly for the most significant plans and annually for other plans. External actuarial experts are used for these valuations and estimating the obligations and costs involves the use of assumptions. Remeasurements arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognised 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 recognised 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 recognised as expense when incurred.

### Accounting estimates and judgements

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

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

## Cont. Note 17

Amounts recognised in the consolidated balance sheet (MSEK)	2018						
	USA pension	USA medical	Germany pension	UK pension	Sweden pension	Other	Total
Present value of unfunded defined benefit obligation	440	732	726	—	260	894	3,052
Present value of funded defined benefit obligation	8,243	—	9,289	3,728	2,087	1,612	24,959
Less: Fair value of plan assets	-7,473	—	-2,770	-2,891	-669	-1,375	-15,178
<b>Total</b>	<b>1,210</b>	<b>732</b>	<b>7,245</b>	<b>837</b>	<b>1,678</b>	<b>1,131</b>	<b>12,833</b>
Reflected as							
Other long-term assets	—	—	—	—	—	-61	-61
Provisions for post-employment benefits	1,210	732	7,245	837	1,678	1,192	12,894
<b>Total</b>	<b>1,210</b>	<b>732</b>	<b>7,245</b>	<b>837</b>	<b>1,678</b>	<b>1,131</b>	<b>12,833</b>

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

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

### USA

The major U.S. pension plans, represent around 87% of the total U.S. obligation. Benefits are based on length of service and average final salary or a years of service multiplier. All these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. The salary and non-Union defined benefit pension plans have been frozen as of December 2016, hence no additional service cost will be accrued for these plans.

Governance of the plans lies with a benefit board whose members are chosen by the board of directors of the U.S. 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 U.S. 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 U.S. Medicare Program Part D, for prescription drug costs for certain plan participants. On 31 December 2018, this reimbursement right totalled MSEK 22 (22).

### Germany

The major German pension plans represent around 85% 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. A plan change affecting around 75% of the participants of the major German pension plan occurred from 1 January 2018. For these participants no additional service cost is accrued from 2018 and they are covered by defined contribution pension solutions. The remaining participants of the major German pension plan are still entitled to a defined benefit pension solution.

### United Kingdom

The major plans in the UK represent around 90% of the total UK obligation. Benefits under these plans are based on length of service and a career average revalued earnings basis, and are indexed when paid. As of April 2012, these plans are closed to new entrants, who instead are entitled to defined contribution pension solutions. Responsibility for the governance of the plan lies jointly with the subsidiary and a board of trustees comprised of representatives of the subsidiary as well as plan participants in accordance with the Plan constitution. The plan is subject to statutory funding objectives based on the local pension calculation which in the case of funding deficits have an agreed recovery plan to achieve full funding in ten years.

### Sweden

The major plan in Sweden is the ITP plan and it represents around 88% of the total Swedish obligation. Benefits are based on final salary and are indexed when paid. Benefits are established in accordance with a collective agreement established between participating Swedish companies. The plan is closed for employees born after 1978, who instead are entitled to a defined contribution pension solution. The Swedish subsidiaries are required to have credit insurance which covers all pension obligations in case of insolvency. For the Swedish subsidiaries, the portions of the ITP pension financed through insurance premiums to Alecta only cover family pension, health insurance and TGL and as such are immaterial. There are no regulatory funding requirements, however voluntary funding has been provided for the plans through a foundation, which is governed jointly by the company and employee representatives. The foundation must comply with government regulations.

### Other

The most significant plans include the funded pension plans in Switzerland, Canada, and Belgium. Additionally, there are retirement indemnity plans in France and termination indemnity plans in Italy, where lump sum payments are made upon retirement and termination respectively.

MSEK	2018			2017		
	Present value of obligation	Fair value of plan assets	Total	Present value of obligation	Fair value of plan assets	Total
<b>Opening balance 1 January</b>	<b>27,956</b>	<b>-15,727</b>	<b>12,229</b>	<b>28,873</b>	<b>-14,981</b>	<b>13,892</b>
Interest expense/(income)	755	-474	281	775	-459	316
Current service cost	410	—	410	490	—	490
Past service cost	40	—	40	-200	—	-200
Other	3	3	6	-3	3	—
Subtotal expenses	1,208	-471	737	1,062	-456	606
Difference between actual return and interest income	—	807	807	—	-876	-876
Actuarial (gains)/losses – demographic assumptions	12	—	12	-125	—	-125
Actuarial (gains)/losses – financial assumptions	-599	—	-599	775	—	775
Experience adjustments	309	—	309	-133	—	-133
Other	—	—	—	—	—	—
Subtotal remeasurements in OCI	-278	807	529	517	-876	-359
Employer contribution	—	-273	-273	—	-987	-987
Employee contribution	27	-4	23	34	-9	25
Benefit payments	-1,537	942	-595	-1,700	861	-839
Subtotal cash flow <sup>1)</sup>	-1,510	665	-845	-1,666	-135	-1,801
Sold businesses	-625	314	-311	—	—	—
Other	-40	19	-21	-41	1	-40
Translation differences	1,300	-785	515	-789	720	-69
<b>Closing balance 31 December</b>	<b>28,011</b>	<b>-15,178</b>	<b>12,833</b>	<b>27,956</b>	<b>-15,727</b>	<b>12,229</b>

1) Cash outflows for 2019 are expected to be some MSEK 800 which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Components of total post-employment benefit expenses (MSEK)	2018	2017
Post-employment defined benefit expense	737	606
Post-employment defined contribution expense	669	547
<b>Total post-employment benefit expenses</b>	<b>1,406</b>	<b>1,153</b>
Whereof amounts charged to:		
Cost of goods sold	697	504
Selling expenses	377	271
Administrative expenses	51	62
Financial expenses	281	316
<b>Total</b>	<b>1,406</b>	<b>1,153</b>

Plan asset composition (MSEK)	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Government bonds	595	225	820	1,629	251	1,880
Corporate bonds	6,963	-38	6 925	5,401	67	5,468
Equity instruments	4,279	543	4 822	4,720	554	5,274
Real estate	221	777	998	212	581	793
Other, primarily cash and other financial receivables	1,071	542	1,613	1,683	629	2,312
<b>Total</b>	<b>13,129</b>	<b>2,049</b>	<b>15,178</b>	<b>13,645</b>	<b>2,082</b>	<b>15,727</b>



## Cont. Note 17

To enable consistent, proactive and effective management of the post-employment benefits in line with its business strategy and values, the SKF Group established a Global Pension Committee, a governance body who is responsible to align post-employment benefits to SKF Global Pension Policy. SKF Global Pension Policy sets out principles for managing SKF's pension and other long-term employee benefits within SKF globally.

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

The investment positions for the major pension plans are managed within the asset-liability matching framework. Within this framework, the Group's objective is to match plan assets to the pension obligations by investing in securities with maturities that align with the benefit payments as they fall due and in the appropriate currency. SKF Treasury Centre regularly monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Final investment decisions are taken by the local subsidiary/trustee together with SKF Treasury Centre.

Significant weighted-average assumptions at end of year	2018					
	USA pension	USA medical	Germany pension	UK pension	Sweden pension	Other
Discount rate	4.3	4.2	1.8	2.9	2.5	2.1
Pension increase rate <sup>1)</sup>	n/a	n/a	2.0	3.6	2.0	n/a
Salary growth rate <sup>2)</sup>	n/a	n/a	2.7	3.6	3.5	3.3
Longevity male/female <sup>3)</sup>	20.6/22.7	20.6/22.7	20.0/23.5	21.8/23.6	22.2/24.6	19.4/22.8
Weighted average duration of the plan (in years) <sup>4)</sup>	10.2	8.4	18.1	19.1	22.5	11.3

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

1) Pension increase rate refers to indexation primarily tied to inflation.  
 2) Salary growth rate for the U.S. pension is n/a as no additional service cost will be accrued for these plans.

3) Longevity is expressed as the life expectancy of a current 65 year old in number of years.

4) Represents the average number of years remaining until the obligation is paid out.

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

Sensitivity analysis of significant assumptions	Change in actuarial assumption	Impact on DBO Defined benefit obligations, MSEK
Discount rate	+1%	-3,399
	-1%	4,430
Salary growth rate	+0.5%	503
	-0.5%	-456
Pension increase rate	+0.5%	952
	-0.5%	-836
Longevity	+1 year	762
	-1 year	-765

The sensitivity analysis is based on the change in one assumption while holding all other assumptions constant, see notes to previous table. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the DBO to changes in assumptions the same method has been applied as when calculating the pension liability recognised within the obligation.

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

## 18 Other provisions and contingent liabilities

### Accounting policy

In general, a provision is recognised 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 recognised as provisions is management's best estimate of the future cash flows necessary to settle the obligations at the balance sheet date, and the timing of settlement is uncertain.

Claims include both provisions for litigation and warranties, and represent management's best estimate of the future cash flows necessary to settle obligations. Other long-term employee benefits refer to benefits earned and expected to be settled before employment ends. These provisions are calculated using the projected unit credit method and remeasurements (actuarial gains and losses) are recognised immediately in the income statement.

Restructuring programmes are defined as activities that materially change the way a unit does business. Any related restructuring provisions are recognised when a detailed formal plan has been established and a public announcement of the plan has occurred thereby creating a valid expectation that the plan will be carried out.

When an obligation does not meet the criteria for recognition it may be considered a contingent liability and disclosed. Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. They also include existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

### Accounting estimates and judgements

Significant management judgement is required in determining the existence and amount of provisions. As the estimates may involve

uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

Claims include both provisions for litigation and warranties, and represent management's best estimate of the future cash flows necessary to settle obligations, although the timing of the settlement is uncertain. Provisions for litigation are based on the nature of the litigation, the legal process in the applicable jurisdiction, the progress of the cases, the opinions of internal and external legal counsel and advisers regarding the outcome of the case and experience with similar cases. Tax claims in different countries and in different stages of the claim that do not meet the definition of provision are recognised as contingent liabilities.

SKF is part of investigations regarding possible violations of anti-trust rules, class action claims and lawsuits. For more information, see page 58. As per management judgement, these investigations did not qualify for recognition as other provisions or contingent liabilities.

Warranty provisions involve estimates of the outcome of claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers. Assumptions are required for anticipated returns and for cost for replacing defective products and/or compensating customers for damage caused by the Group's products. These assumptions consider historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the Group.

Restructuring provisions involve estimates of the timing and cost of the planned future activities where the most significant estimates relates to the costs necessary to settle employee severance/separation obligations, as well as the costs involved in contract cancellations and other exit costs. These estimates are based on historical experience as well as the current status of negotiations with the affected parties and/or their representatives.

MSEK	2018 Closing balance	Provisions for the year	Utilised amounts	Reversal unutilised amounts	Other	Translation effect	2018 Opening balance
Claims	598	279	-50	-39	-12	1	419
Other long-term employee benefits	745	81	-99	-2	38	18	709
Restructuring	479	321	-237	-32	—	25	402
Other	719	289	-270	-21	-41	16	746
<b>Total</b>	<b>2,541</b>	<b>970</b>	<b>-656</b>	<b>-94</b>	<b>-15</b>	<b>60</b>	<b>2,276</b>

Claims increased during 2018 with MSEK 179 related to warranty claims.

In 2018, the total restructuring cost amounted to around MSEK 369 and included the consolidation of factories in North America and Europe. This cost includes voluntary and involuntary termination benefits spread over a several number of countries. The majority of the remaining restructuring provisions are expected to be settled in 2019 and 2020.

The largest items in other long-term employee benefits are jubilee bonus in Italy, part-time retirement programmes in Germany and special employer's contribution in Sweden.

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

Contingent liabilities at nominal values (MSEK)	2018	2017
Guarantees	25	29
Tax claims	800	673
Other contingent liabilities	22	19
<b>Total</b>	<b>847</b>	<b>721</b>

## 19 Financial liabilities

### Accounting policy

Financial liabilities are recognised in the balance sheets when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are initially recorded at fair value, which is normally equal to acquisition cost. Transaction costs are included in the initial measurement of financial liabilities that are not subsequently measured at fair value through the income statement. Derivatives are recognised at trade date.

Financial liabilities, excluding derivatives, are classified as Other financial liabilities measured at amortised cost. Amortised cost is measured 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. Derivatives are classified into the category Fair value through profit or loss. Financial liabilities are derecognised when they are extinguished.

### Accounting estimates and judgements

For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

		2018		2017	
MSEK	Maturity	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial liabilities					
MEUR 500 (outstanding MEUR 266)	—	—	—	2,624	2,695
MEUR 257	2020	2,706	2,729	4,598	4,646
MEUR 200	2021	2,052	2,054	1,968	1,969
MEUR 500	2022	5,105	5,453	4,895	5,246
MEUR 300	2025	3,068	3,097	—	—
MUSD 100	2027	895	1,012	821	961
Other long-term loans	2020–2023	148	148	140	140
Derivatives held for hedge accounting	2020–2025	468	468	439	439
Derivatives held for trading	2021	408	408	305	305
Subtotal long-term financial liabilities		14,850	15,369	15,790	16,401
Short-term financial liabilities					
MEUR 500 (outstanding MEUR 234)	—	—	—	2,299	2,385
MEUR 192	2019	1,969	2,000	—	—
Trade payables	2019	7,831	7,831	7,899	7,899
Short-term loans	2019	206	206	134	134
Derivatives held for trading	2019	132	132	285	285
Subtotal short-term financial liabilities		10,138	10,169	10,617	10,703
Total		24,988	25,538	26,407	27,104

Derivatives are measured at fair value and fall into Level 2 of the fair value hierarchy for both 2017 and 2018. See Note 13 for a description of the fair value hierarchy.

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

Two of the loans are subject to fair value hedging. The fixed EUR interest on the MEUR 257 and the MEUR 300 loans have been swapped into floating USD interest rate.

The short-term loan MEUR 192 with due date 2019 and part of the long-term loan, MEUR 234 of MEUR 500 with due date 2022

have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to MSEK 4,554 (5,080) as of the balance sheet date.

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

The Group does not have any pledged assets to secure financial liabilities.

## 20 Leasing

Future minimum lease payments at 31 December (MSEK)	2018		2017	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Within one year	16	870	12	715
Later than one year but within five years	28	1,776	30	1,691
Later than five years	1	1,305	3	1,051
<b>Total</b>	<b>45</b>	<b>3,951</b>	<b>45</b>	<b>3,457</b>
Interest	-5		-3	
<b>Present value of minimum lease payments under finance leases</b>	<b>40</b>		<b>42</b>	
Current portion	15		12	
Non-current portion	25		30	

### Accounting Policy

A lease agreement that, according to management's judgement, transfers substantially all benefits and risks of ownership to the Group, is accounted for as a finance lease. Operating leases' rental expenses are recognised in the income statement, on a straight-line basis, over the lease term. For updated accounting policy 2019, see note 1.

Net rental expenses related to operating leases was MSEK 937 (838). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in the U.S., Germany, China, France and Singapore.

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

## 21 Other short-term liabilities

MSEK	2018	2017
Employee related accruals	3,914	3,744
Accrual for rebates	968	784
Income tax payable	522	599
Deferred income	331	299
Customer advances	687	301
Value added taxes payable, net	665	443
Other current liabilities	1,176	1,165
Other accrued expenses	1,823	1,842
<b>Total</b>	<b>10,086</b>	<b>9,177</b>

## 22 Related parties including associated companies

FAM's mission is to create, through co-ordination and in an efficient way, good and sustainable return for Knut och Alice Wallenbergs Stiftelse, Marianne och Marcus Wallenbergs Stiftelse and the foundation Marcus och Amalia Wallenbergs Minnesfond (the "foundations"). The aim of the foundations is to support research and education through contributions, primarily to Swedish universities.

The SKF Group has had no indication that FAM has obtained its ownership interest in the Group for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to FAM. At the end of 2018 FAM is the major shareholder of the Parent company, holding 28.8% (28.9) of the voting rights and 13.8% (13.6) of the share capital.

Investments in associated companies include a 25% shareholding of Simplex-Turbolo Co. Ltd. in 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 U.S.

Transactions with Associated companies (MSEK)	2018	2017
Sales of goods and services	65	66
Purchases of goods and services	384	366
Receivables as of 31 December	6	9
Liabilities as of 31 December	26	27

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 2018, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarised below.

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

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

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

#### Fixed salary

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

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

#### Variable salary

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

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

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

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

#### Performance Shares

The Annual General Meeting 2018 decided on the introduction of SKF's Performance Share Programme 2018. 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 2018–2020 compared to the financial year 2017. 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 maximised 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 2018 it was decided that the Board be entitled to a firm allotment of SEK 7,040,000 to be distributed with SEK 2,070,000 to the Chairman of the Board and with SEK 710,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that an allotment of SEK 1,050,000 for committee work shall be divided with SEK 240,000 to the Chairman of the Audit Committee, with SEK 170,000 to each of the other members of the Audit Committee, with SEK 140,000 to the Chairman of the Remuneration Committee and with SEK 110,000 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 2018 as salary and other remunerations a total of SEK 19,278,120, of which SEK 12,651,162 was fixed annual salary, SEK 5,007,363 was variable salary related to 2017 year's performance, and SEK 1,619,595 was allotment of shares under the Performance Share Programme 2015.

The variable salary for the year 2018 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 62.

Alrik Danielson is covered by the SKF Performance Share Programme 2018.

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

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

**Group Management**

The SKF's Group Management, consisting of 9 people at the end of the year, received in 2018 (exclusive of the President) salary and other remunerations amounting to a total of SEK 60,930,277 of which SEK 41,863,797 was fixed annual salary, SEK 15,649,701 was variable salary related to 2017 year's performance, and SEK 3,416,779 was allotment of shares under the Performance Share Programme 2015.

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 62.

Group Management (exclusive of the President) was in the beginning of 2018 allotted 33,170 SKF shares of series B under SKF Performance Share Programme 2015. SKF's Performance Share Programmes are further described on pages 100 and 102–103.

In the event of termination of employment at the request of the company of a person in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

For Group Management the Board has decided on a defined contribution supplementary pension plan. The plan entitles Group Management members covered to receive an additional pension over and above the basic pension (for Swedish members usually the ITP pension plan). The contributions paid for Group Management members covered by the defined contribution plan are based on each individual's pensionable salary (normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding the level of the basic pension (for Swedish members 30 Income Base amounts). A limited number of members of Group Management have defined benefit pension entitlements relating to previous pension plans. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements. The normal retirement age is 65 years.

## Cont. Note 23

	Fixed salary and other benefits <sup>1)/fixed Board remuneration</sup>		Short-term variable salary		Performance Share Programmes		Remuneration for committee work		Gross pension costs <sup>2)</sup>	Total expensed in 2018	Total expensed in 2017
	Amounts paid in 2018 <sup>3)</sup>	Amounts expensed in 2018 <sup>3)</sup>	Amounts paid in 2018 related to 2017 <sup>3)</sup>	Amounts expensed in 2018 <sup>3)</sup>	Amounts paid in 2018 related to prior years <sup>3)</sup>	Amounts expensed in 2018 <sup>3)</sup>	Amounts paid in 2018 <sup>3)</sup>	Amounts expensed in 2018 <sup>3)</sup>	Amounts expensed in 2018 <sup>3)</sup>		
Amounts in SEK											
Board of directors of AB SKF											
Leif Östling	—	—	—	—	—	—	—	—	—	—	2,307,000
Hans Stråberg	1,035,000	2,070,000	—	—	—	—	310,000	310,000	—	2,380,000	—
Peter Grafoner	699,000	710,000	—	—	—	—	110,000	110,000	—	820,000	794,000
Lars Wedenborn	699,000	710,000	—	—	—	—	350,000	350,000	—	1,060,000	1,027,000
Baba Kalyani	344,000	—	—	—	—	—	—	—	—	—	688,000
Hock Goh	699,000	710,000	—	—	—	—	—	—	—	710,000	688,000
Marie Bredberg	344,000	—	—	—	—	—	—	—	—	—	854,000
Nancy Gougarty	699,000	710,000	—	—	—	—	—	—	—	710,000	688,000
Ronnie Leten	699,000	710,000	—	—	—	—	280,000	280,000	—	990,000	960,000
Barb Samardzich	699,000	710,000	—	—	—	—	—	—	—	710,000	688,000
Colleen Repplier	355,000	710,000	—	—	—	—	—	—	—	710,000	—
CEO <sup>4)</sup>	12,651,162	13,777,400	5,007,363	7,719,865	1,619,595	3,784,895	—	—	4,998,753	30,280,914	27,463,743
Group											
Management <sup>4),5)</sup>	41,863,797	42,279,767	15,649,701	21,326,046	3,416,779	12,413,552	—	—	15,190,837	91,210,203	95,486,740
whereof AB SKF	28,409,391	28,899,361	9,936,826	13,925,092	2,822,668	9,280,448	—	—	9,755,444	61,860,346	64,569,681
Total 2018	60,786,959	63,097,167	20,657,064	29,045,911	5,036,374	16,198,447	1,050,000	1,050,000	20,189,590	129,581,117	—
whereof AB SKF	47,332,553	49,716,761	14,944,189	21,644,957	4,442,263	13,065,343	1,050,000	1,050,000	14,754,197	100,231,260	—
Total 2017	66,902,616	66,744,426	11,132,474	19,186,608	332,948	23,735,748	1,472,000	1,182,000	20,795,701	—	131,644,483
whereof AB SKF	51,699,275	51,467,085	8,511,036	13,299,640	247,928	19,752,576	1,472,000	1,182,000	15,026,123	—	100,727,423

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 pro-

grammes. Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual.

4) Total pension obligations, for SKF Group, related to Group Management (including CEO) were MSEK 180.

5) Exclusive of CEO.

### SKF's Performance Share Programme

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

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

The estimated cost for these programmes, which is based on the fair value of the SKF B share at grant date and the number of shares expected to vest, is recognised 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 159 for SKF's Performance Share Programme 2018. The dividend com-

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

Allotment of shares under SKF's Performance Share Programme requires that the persons covered by each of the programmes are employed in the SKF Group during the entire three year calculation period.

**SKF's Performance Share Programme 2016:** Allotment of shares was made in February 2019. In total 684,762 SKF class B shares were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2016–2018.

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

**SKF's Performance Share Programme 2018:** Allotment of shares may be made following the expiry of the three year calculation period, i.e. during 2021, if all the conditions of the programme are met and the allotment is approved by the Board.

Amounts expensed 2018 for all programmes were MSEK 105 (128) excluding social charges. The total provision for all programmes was MSEK 219 (153) and the total provision for social charges for all programmes was MSEK 40 (36).

Men and women in Board of Directors and Group Management	2018		2017	
	Number of persons	Whereof men	Number of persons	Whereof men
<b>The Group</b>				
Board of Directors of the Parent company incl. CEO	11	73%	12	75%
Group Management incl. CEO	9	78%	9	78%
<b>Parent Company</b>				
Board of Directors of the Parent company incl. CEO	11	73%	12	75%
Group Management incl. CEO	7	71%	7	71%

## 24 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (MSEK)	2018	2017
Audit fees	47	48
Audit related fees	1	1
Tax fees	10	9
Other fees	1	1
	<b>59</b>	<b>59</b>
<b>The Parent Company's share (MSEK)</b>		
Audit fees	9	10
Audit related fees	1	1
Tax fees	—	—
Other fees to auditors	0	—
	<b>10</b>	<b>11</b>

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

Payments made in 2018 to PwC AB included audit fees of MSEK 11, audit related fees of MSEK 1 and MSEK 0 for tax and other fees respectively.

## 25 Average number of employees

	2018		2017	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	673	68%	723	75%
Subsidiaries in Sweden	2,032	80%	2,510	80%
Subsidiaries abroad	39,860	79%	40,581	77%
	<b>42,565</b>	<b>79%</b>	<b>43,814</b>	<b>77%</b>

Geographic specification of average number of employees in subsidiaries abroad	2018		2017	
	Number of employees	Whereof men	Number of employees	Whereof men
France	2,267	81%	2,448	81%
Italy	3,139	78%	3,189	77%
Germany	5,680	88%	5,941	87%
Other Western Europe excluding Sweden	3,484	84%	3,588	84%
Central and Eastern Europe	4,241	64%	4,609	63%
USA	4,377	77%	4,526	73%
Canada	245	78%	249	78%
Mexico	1,651	74%	1,545	76%
Latin America	2,719	89%	2,650	74%
China	6,265	70%	5,565	68%
India	2,451	95%	2,574	96%
Other Asian countries/Pacific	2,850	80%	3,198	80%
Middle East and Africa	491	77%	499	76%
	<b>39,860</b>	<b>79%</b>	<b>40,581</b>	<b>77%</b>

## 26 Financial risk management

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

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

The capital structure target of the Group is

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

Key figures <sup>1)</sup>	2018	2017
Total equity, MSEK	35,452	29,823
Gearing, %	45.0	49.9
Equity/assets ratio, %	40.7	36.7
Net debt/equity ratio, %	49.1	71.3
Return on capital employed, %	17.6	14.2

1) Definition of these key figures is available on page 164.

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 minimise 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 centralised at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorised 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 MSEK 67,567 (62,346) to MSEK 5,908 (4,928). This amount represented the Group's main transaction exposure excluding hedges.

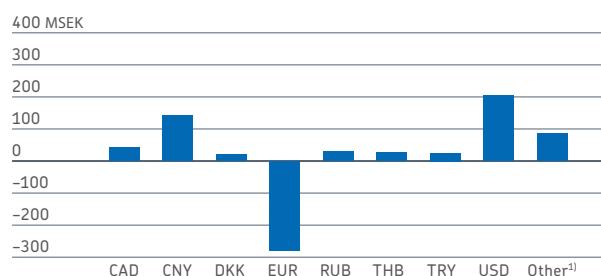
Net currency flows (MSEK)	2018	2017
CAD	845	965
CNY	2,815	2,377
DKK	403	518
EUR	-5,560	-6,330
RUB	606	554
THB	513	485
TRY	507	537
USD	4,109	4,152
Other <sup>1)</sup>	1,670	1,670
SEK	-5,908	-4,928

1) Other is a sum comprising of 11 different currencies

Based on the assumption that the net currency flows will be the same as in 2018, the below graph represents a sensitivity-analysis that shows the effect in SEK on operating profit of a 5% weaker SEK against all other currencies.

The effect on equity is the below result after tax. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

### Effect of transactional currency flows on operating profits of a 5% weaker SEK

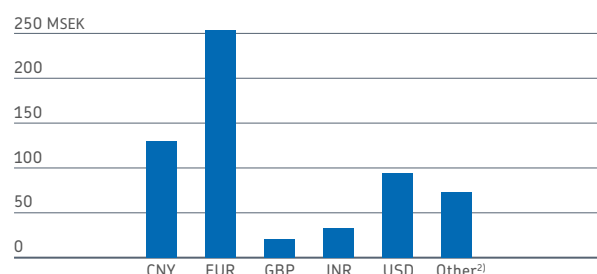


1) Other is a sum comprising 11 different currencies.

### Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to SEK. Based on 2018 operating profits in local currencies, the below graph represents a sensitivity-analysis that shows the effect in SEK on the translation of operating profits of a 5% weaker SEK against all other currencies. To reduce the translation exposure of net assets, the Group has hedged some of its net investment in foreign subsidiaries, for details see pages 106–107.

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



2) Other is a sum comprising 42 different currencies.

### Market risk–Interest rate risk

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

At year-end, total interest bearing financial liabilities amounted to MSEK 28,982 (29,708) and total interest bearing financial assets amounted to MSEK 12,395 (9,219). Liquidity management is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

To manage the interest rate risk and currency risk in the borrowing, the Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating USD, floating SEK interest rates are swapped into floating EUR and floating EUR interest rates are swapped into floating USD.

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavourable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around MSEK 150 (160). 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 MSEK 342 (397), which are categorised as fair value through other comprehensive income. 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 MSEK 17 (20) higher/lower.



## Cont. Note 26

**Liquidity risk**

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet commitments. Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of MEUR 500 syndicated by ten banks that will expire in 2023, and one committed credit facilities of MEUR 250 that will expire in 2020.

A good rating is important in the management of liquidity risks. As of 31 December 2018 the long-term rating of the Group is Baa1 by Moody's Investors Service and BBB+ by Fitch Ratings, both with stable outlook.

The table below shows the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment flows. All instruments held on 31 December 2018 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 2018. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

MSEK	2018 Cash flows			
	2019	2020	2021–2023	2024 and thereafter
Loans	–2,430	–2,989	–7,731	–4,302
Trade payables	–7,831	—	—	—
Derivatives, net	–82	74	–949	13
<b>Total</b>	<b>–10,343</b>	<b>–2,915</b>	<b>–8,680</b>	<b>–4,289</b>

**Credit risk**

Credit risk is defined as the Group's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation. The SKF Group is exposed to credit risk from its operating activities and certain financing activities.

The maximum exposure to credit risk for the Group amounted to MSEK 26,312 (22,820) 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 (MSEK)	2018	2017
Trade receivables	13,842	13,416
Other receivables	2,005	2,107
Derivatives	75	185
Cash and cash equivalent	10,390	7,112
<b>Total</b>	<b>26,312</b>	<b>22,820</b>

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

With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The SKF Group has signed ISDA agreements (International Swaps and Derivatives Association, Inc.) with nearly all of these financial institutions. ISDA is classified as an enforceable netting arrangement. One feature of the ISDA agreement is that it enables the SKF Group to calculate its credit exposure on a net basis per counterparty, i.e. the difference between what the Group owes and is owed. The agreement between the Group and the counterparty allows for net settlement of derivatives when both elect to settle net. In the event of default of one of the counterparties the other counterpart of the netting agreement has the option to settle on a net basis. Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored. As of the balance sheet date the Group had derivative assets of around MSEK 52 (116) and derivative liabilities of around MSEK 993 (965) subject to enforceable master netting arrangements.

**Hedge accounting**

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

Derivative instruments which provide effective economic hedges, but are 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 recognised in the income statement as financial income or expense or in the operating result depending on the nature of the hedged item.

**Fair value hedges**

Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. Changes in the fair value of these derivative financial instruments designated as hedging instruments are recognised 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 recognised in the income statement under financial items. If a hedge relationship is discontinued, the accumulated adjustment to the carrying amount is amortised over the duration of the life of the hedged item.

The SKF Group hedges the fair value risk of financial liabilities on December 2018, by using cross-currency interest rate swaps.

The MEUR 257 and MEUR 300 loans with fixed interest payments have been swapped into floating USD interest.

The effectiveness of the hedging relationship is measured at inception of the hedge relationship and prospectively to ensure that the economic relationship between hedge item and hedging instrument remains. 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 MSEK –468 (–438) as fair value hedges as of 31 December 2018.

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

MSEK	Financial expense 2018	Financial expense 2017
Financial liabilities (hedged items)	102	240
Cross-currency interest-rate swaps (hedging instruments)	-112	-235
<b>Difference (inefficiency)</b>	<b>-10</b>	<b>5</b>

#### Cash flow hedges

Electricity forward contracts were used by the factories in Sweden 2017 to reduce their exposure to changes in electricity prices. In 2018 the Group had no outstanding electricity forward contracts.

In the 2017 financial year, gains totalling MSEK 1 resulting from the change in fair value of electricity forwards were taken to other comprehensive income and gains of MSEK 1 were transferred via other comprehensive income to cost of goods sold.

#### 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 recognised 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 MEUR 571 (571) were hedged by the Group against changes in the EUR/SEK exchange rates. EUR loans for an amount of MEUR 426 (500) and derivatives for an amount of MEUR 145 (71) were designated as hedge instruments.

The result of the hedges totalled MSEK -257 (-161) before tax in 2018 and was recognised as a translation difference in other comprehensive income. During the year no gains/losses (0) have been recycled from other comprehensive income to the income statement, matching the recycling of the hedged subsidiary's cumulative translation differences.

#### Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 13 and liabilities in Note 19. A distinction is made depending on whether these are part of an effective hedging relationship or not.

Derivative net (MSEK)	Category	2018	2017
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	-468	-438
Economic hedges	Trading	-411	-291
Currency forwards/currency options			
Net investment hedges	Hedge accounting	-1	7
Economic hedges	Trading	-43	-121
Electricity forwards			
Cash flow hedges	Hedge accounting	—	-1
Share swaps			
Economic hedges	Trading	-10	—
		<b>-933</b>	<b>-844</b>

## 27 Non-controlling interests

#### Accounting policy

Subsidiaries that the Group controls, but owns less than 100% in, are consolidated into the Group's financial statements. The category "non-controlling interests (NCI)" in the equity report accumulates the portion of a subsidiary's equity that is not attributable to the owners of AB SKF.

	January–December	
Summarised income statement (MSEK)	2018	2017
Net sales	3,765	3,482
Operating profit	659	582
<b>Net income</b>	<b>399</b>	<b>347</b>
Other comprehensive income	-14	-86
<b>Total comprehensive income</b>	<b>385</b>	<b>261</b>
Profit allocated to NCI	190	165
Dividends paid to NCI	-38	-31

#### Significant non-controlling interests

During 2018 the Group acquired the shares of non-controlling interests in China and Ukraine which reduced equity of non-controlling interests with MSEK -73.

The largest non-controlling interest is SKF India Ltd. in India. The non-controlling interests holds a 47.7% (47.7) shareholding in the company. This represents 3.5% (4.1) of the Group's total equity. The table below presents the summarised financial information of SKF India Ltd.

	As of 31 December	
Summarised balance sheet (MSEK)	2018	2017
Non-current assets	625	655
Current assets	2,721	2,334
<b>Total assets</b>	<b>3,346</b>	<b>2,989</b>
Equity attributable to shareholders of AB SKF	1,350	1,190
Equity attributable to NCI	1,230	1,085
Non-current liabilities	46	39
Current liabilities	720	675
<b>Total equity and liabilities</b>	<b>3,346</b>	<b>2,989</b>

## Parent Company, AB SKF

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

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

Dividend income from consolidated subsidiaries amounted to MSEK 4,644 (2,489).

Net investments in subsidiaries decreased by MSEK –415 (–54) whereof MSEK –1,132 (–50) is attributable to impairments and

MSEK 884 (1) is related to capital contributions. Shares with a booked value of MSEK –167 (–5) were sold during the year.

Risks and uncertainties in the business for the Group are described in the Administration Report for the Group. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit and lower dividend income for the parent company, as well as a need for write-down of the values in the shares in subsidiaries. Due to the wide spread of markets, geographically as well as operationally in which the subsidiaries operate, the risk that the financial position for the parent company will be negatively affected is assessed as small.

Unrestricted equity in the parent company amounted to MSEK 18,155.

## Parent Company income statements

MSEK	Note	Years ended 31 December	
		2018	2017
Revenue	2	7,011	6,352
Cost of revenue	2	–5,729	–4,387
General management and administrative expenses	2	–1,572	–1,880
Other operating income and expenses, net	2	–27	1
<b>Operating profit</b>		<b>–317</b>	<b>86</b>
Financial income and expenses, net	3	3,492	2,137
<b>Profit after financial items</b>		<b>3,175</b>	<b>2,223</b>
Appropriations	4	550	897
<b>Profit before tax</b>		<b>3,725</b>	<b>3,120</b>
Income taxes	5	29	216
<b>Net profit</b>		<b>3,754</b>	<b>3,336</b>

## Parent Company statements of comprehensive income

MSEK	Note	Years ended 31 December	
		2018	2017
Net profit		3,754	3,336
<b>Items that may be reclassified to the income statement</b>			
Assets at fair value through other comprehensive income	9	–63	–103
<b>Other comprehensive income, net of tax</b>		<b>–63</b>	<b>–103</b>
<b>Total comprehensive income</b>		<b>3,691</b>	<b>3,233</b>

# Parent Company balance sheets

MSEK	Note	As of 31 December	
		2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	6	1,775	1,901
Property, plant and equipment	7	69	75
Investments in subsidiaries	8	21,934	22,349
Long-term receivables from subsidiaries		13,724	14,705
Investments in associated companies		—	1
Investments in equity securities	9	299	360
Other long-term receivables		551	198
Deferred tax assets	5	252	339
		<b>38,604</b>	<b>39,928</b>
<b>Current assets</b>			
Short-term receivables from subsidiaries		5,217	6,181
Other short-term receivables		64	78
Prepaid expenses and accrued income		67	63
Cash and cash equivalents		2	16
		<b>5,350</b>	<b>6,338</b>
<b>Total assets</b>		<b>43,954</b>	<b>46,266</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		1,138	1,138
Statutory reserve		918	918
Capitalized development reserve		324	338
		<b>2,380</b>	<b>2,394</b>
<b>Unrestricted equity</b>			
Fair value reserve		122	185
Retained earnings		14,279	13,363
Net profit		3,754	3,336
		<b>18,155</b>	<b>16,884</b>
		<b>20,535</b>	<b>19,278</b>
<b>Untaxed reserves</b>	4	<b>24</b>	<b>24</b>
<b>Provisions</b>			
Provisions for post-employment benefits	10	347	309
Other provisions		205	257
		<b>552</b>	<b>566</b>
<b>Non-current liabilities</b>			
Long-term loans	11	13,723	14,705
		<b>13,723</b>	<b>14,705</b>
<b>Current liabilities</b>			
Short-term loans	11	1,968	2,299
Trade payables		234	219
Short-term liabilities to subsidiaries		6,300	8,527
Other short-term liabilities		107	189
Accrued expenses and deferred income		511	459
		<b>9,120</b>	<b>11,693</b>
<b>Total shareholders' equity and liabilities</b>		<b>43,954</b>	<b>46,266</b>

# Parent Company statements of cash flow

MSEK	Note	January–December	
		2018	2017
<b>Operating activities</b>			
Operating loss/profit		–317	86
<i>Adjustments for</i>			
Depreciation, amortisation and impairments	6, 7	278	172
Impairments equity securities	8	1,132	50
Other non-cash items		151	223
Payments under post-employment defined benefit plans	10	–29	–32
<i>Changes in working capital</i>			
Trade payables		15	15
Other operating assets and liabilities, net		–921	3,162
Interest received	3	342	396
Interest paid		–516	–834
Other financial items		345	–279
<b>Net cash flow from operating activities</b>		<b>480</b>	<b>2,959</b>
<b>Investing activities</b>			
Additions to intangible assets	6	–133	–127
Additions to property, plant and equipment	7	–13	–15
Dividends received from subsidiaries	3	4,466	2,489
Investments in subsidiaries	8	–884	—
Sales of shares in subsidiaries	8	714	247
Investments in equity securities	9	–3	–3
<b>Net cash flow used in investing activities</b>		<b>4,147</b>	<b>2,591</b>
<b>Net cash flow after investments before financing</b>		<b>4,627</b>	<b>5,550</b>
<b>Financing activities</b>			
Proceeds from medium- and long-term loans		3,165	893
Repayment of medium- and long-term loans		–5,302	–3,927
Cash dividends to AB SKF's shareholders		–2,504	–2,504
<b>Net cash flow used in financing activities</b>		<b>–4,641</b>	<b>–5,538</b>
<b>Increase(+)/decrease(–) in cash and cash equivalents</b>		<b>–14</b>	<b>12</b>
Cash and cash equivalents at 1 January		16	4
<b>Cash and cash equivalents at 31 December</b>		<b>2</b>	<b>16</b>



# Parent Company statements of changes in equity

MSEK	Restricted equity			Unrestricted equity		Total
	Share capital <sup>1)</sup>	Statutory reserve	Capitalised development reserve	Fair value reserve	Retained earnings	
<b>Opening balance 1 January, 2017</b>	<b>1,138</b>	<b>918</b>	<b>261</b>	<b>288</b>	<b>15,827</b>	<b>18,432</b>
Net profit					3,336	3,336
<b>Components of other comprehensive income</b>						
Change in assets to fair value through other comprehensive income	—	—	—	-103	—	-103
Capitalised development reserve	—	—	77	—	-77	—
<b>Transactions with shareholders</b>						
Cost under Performance Share Programmes <sup>2)</sup>	—	—	—	—	117	117
Dividends	—	—	—	—	-2,504	-2,504
<b>Closing balance 31 December, 2017</b>	<b>1,138</b>	<b>918</b>	<b>338</b>	<b>185</b>	<b>16,699</b>	<b>19,278</b>
Net profit					3,754	3,754
<b>Components of other comprehensive income</b>						
Change in assets to fair value through other comprehensive income				-63		-63
Capitalised development reserve			-14		14	
<b>Transactions with shareholders</b>						
Cost under Performance Share Programmes <sup>2)</sup>					70	70
Dividends					-2,504	-2,504
<b>Closing balance 31 December, 2018</b>	<b>1,138</b>	<b>918</b>	<b>324</b>	<b>122</b>	<b>18,033</b>	<b>20,535</b>

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

2) See Note 23 to Consolidated financial statements for information about Performance Share Programmes.

**Restricted equity** includes share capital and statutory reserves as well as capitalised development reserves which are not available for dividend payments.

**Unrestricted equity** includes retained earnings which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets.

# Notes to the financial statements of the Parent Company

## 1 Accounting policies

### Basis of presentation

The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities" as well as their interpretation (UFR). In accordance with RFR 2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the Consolidated financial statements.

The implementation of IFRS 9 Financial assets and IFRS 15 Revenue from contracts with customers, had only a limited impact on the accounting of the Parent company. The effects are considered immaterial and there has not been a transition impact to the opening balances for 2018. See Note 1 to the Consolidated financial statements for more information.

### Post-employment benefits

AB SKF reports pensions in the financial statements in accordance with RFR 2. According to RFR 2, IAS 19 shall be adopted regarding supplementary disclosures when applicable.

### Investments in subsidiaries

Investments in subsidiaries are recorded at acquisition cost, reduced by any impairment.

### Untaxed reserves

The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation.

### Equity

When development expenses are capitalised for internal development of intangible assets, a corresponding amount is transferred from retained earnings to a reserve for capitalised development in restricted equity. The reserve is released to retained earnings upon amortisation of the capitalised development.

### Intangible assets

According to Swedish legislation, goodwill has a definite useful life. The useful life amounts to eight years and the amortisation follows a linear pattern.

## 2 Revenues and operating expenses

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

subsidiaries. Cost of revenue include research and development expenses totalling MSEK 2,267 (2,136).

Of the total operating expenses, MSEK 4,798 (3,882) was invoiced from subsidiaries.

## 3 Financial income and financial expenses

MSEK	2018	2017
<b>Income from participations in Group companies</b>		
Dividends from subsidiaries	4,466	2,489
Other financial income from investments in subsidiaries	499	242
Impairment and disposals of investments in subsidiaries	-1,132	-102
	<b>3,833</b>	<b>2,629</b>
<b>Financial income</b>		
Interest income from subsidiaries	342	396
Other financial income	4	1
	<b>346</b>	<b>397</b>
<b>Financial expenses</b>		
Interest expenses to subsidiaries	-190	-222
Interest expenses to external parties	-339	-629
Other financial expense	-158	-38
	<b>-687</b>	<b>-889</b>

## 5 Taxes

## 6 Intangible assets

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## 7 Property, plant and equipment

MSEK	2018 Closing balance	Additions	Disposals	2018 Opening balance
<b>Acquisition cost</b>				
Buildings	5	—	—	5
Machine toolings and factory fittings	87	13	-13	87
Assets under construction including advances	23	—	-2	25
	<b>115</b>	<b>13</b>	<b>-15</b>	<b>117</b>
MSEK	2018 Closing balance	Depreciation	Disposals	2018 Opening balance
<b>Accumulated depreciation</b>				
Buildings	2	1	—	1
Machine toolings and factory fittings	44	4	-1	41
	<b>46</b>	<b>5</b>	<b>-1</b>	<b>42</b>
<b>Net book value</b>	<b>69</b>			<b>75</b>

## 8 Investments in subsidiaries

Investments in subsidiaries held by the Parent company on 31 December (MSEK)	2018	Additions	Impairment	Disposals and capital repayments	2017	Additions	Impairment	Disposals and capital repayments	2016
Investments in subsidiaries	21,934	884	-1,132	-167	22,349	1	-50	-5	22,403

The Group is composed of 192 legal entities (subsidiaries), where AB SKF is the ultimate parent either directly or indirectly via intermediate holding companies. The vast majority of the Group's subsidiaries perform activities related to manufacturing and sales. A limited number are involved in central Group functions such as treasury or reinsurance, or as previously mentioned, act as intermediate holding companies. This legal structure is designed to effectively manage legal requirements, administration, financing and taxes in the countries in which the Group operates. In contrast,

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

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

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value (MSEK)		Main activities <sup>1)</sup>
					2018	2017	
SKF Argentina S.A.	Argentina	—	14,677,299	29.2% <sup>2)</sup>	75	75	M,S
SKF Australia Pty. Ltd.	Australia	—	96,500	100%	—	—	S
SKF Österreich AG	Austria	—	200	100%	176	176	M,S
SKF Belgium NV/SA	Belgium	—	1,778,642	99.9% <sup>2)</sup>	109	109	S
SKF Logistics Services Belgium NV/SA	Belgium	—	29,907,952	99.9% <sup>2)</sup>	28	28	O
SKF do Brasil Ltda.	Brazil	—	517,294,748	99.9% <sup>2)</sup>	477	1,152	M,S
SKF Bearings Bulgaria EAD	Bulgaria	—	24,664,309	100%	183	183	M
SKF Canada Ltd.	Canada	—	130,000	100%	58	58	M,S
SKF Chilena S.A.I.C.	Chile	—	88,191	99.9% <sup>2)</sup>	—	—	S
SKF (China) Co. Ltd.	China	—	133,400	100%	1,135	1,135	O
SKF CZ, a.s.	Czech Republic	—	430	100%	10	10	S

Name of directly owned subsidiaries	Country	Registration number	No. of shares	% ownership	Book value (MSEK)		Main activities <sup>1)</sup>
					2018	2017	
<b>Carried Forward</b>					<b>2,251</b>	<b>2,926</b>	
SKF Danmark A/S	Denmark	—	5	100%	7	7	S
Oy SKF Ab	Finland	—	48,400	100%	12	12	M,S
SKF Holding France S.A.R.L.	France	—	1	100%	3,371	3,371	0
SKF GmbH	Germany	—	1,000	100%	1,574	1,574	M,S
SKF Maintenance service GmbH	Germany	—	1	100%	6	6	S
SKF Hellas S.A.	Greece	—	2,000	100%	—	—	S
SKF Svéd Golyóscsapágy Zrt	Hungary	—	20	100%	—	—	S
SKF Technologies (India) Private Ltd.	India	—	3,066,500,101	94.65% <sup>2)</sup>	352	352	M,S
SKF India Ltd.	India	—	24,423,776	45.63% <sup>3)</sup>	90	90	M,S
PT. SKF Indonesia	Indonesia	—	53,411	60%	24	24	M,S
PT. SKF Industrial Indonesia	Indonesia	—	5	5% <sup>2)</sup>	1	1	S
SKF Industrie S.p.A	Italy	—	465,000	100%	912	912	M,S
SKF Japan Ltd.	Japan	—	32,400	100%	225	225	S
SKF Malaysia Sdn Bhd	Malaysia	—	1,000,000	100%	57	57	S
SKF de México, S.A. de C.V.	Mexico	—	375,630,290	99.9% <sup>2)</sup>	303	303	M,S
PEER Rodamientos de Mexico, S.A. de CV	Mexico	—	3,202,619	99.9% <sup>2)</sup>	—	2	S
SKF New Zealand Ltd.	New Zealand	—	375,000	100%	11	11	S
SKF Norge AS	Norway	—	50,000	100%	—	—	S
SKF del Peru S.A.	Peru	—	2,564,903	99.9% <sup>2)</sup>	—	—	S
SKF Philippines Inc.	Philippines	—	700	14% <sup>2)</sup>	1	—	S
SKF Polska S.A.	Poland	—	3,701,466	100%	156	156	M,S
SKF Portugal-Rolamentos, Lda.	Portugal	—	61,601	95% <sup>2)</sup>	4	4	S
SKF Korea Ltd.	Republic of Korea	—	128,667	100%	74	74	M,S
SKF Sealing Solutions Korea Co., Ltd.	Republic of Korea	—	153,320	51%	15	15	M,S
SKF Treasury Centre Asia & Pacific Pte. Ltd.	Singapore	—	61,500,000	100%	467	467	0
SKF Asia Pacific Pte. Ltd.	Singapore	—	1,000,000	100%	—	—	S
Barseco (PTY) Ltd.	South Africa	—	1,422,480	100%	157	157	0
SKF Española S.A.	Spain	—	3,650,000	100%	383	383	M,S
SKF Förvaltning AB	Sweden	556350-4140	124,500	99.6% <sup>2)</sup>	3,870	3,870	0
SKF International AB	Sweden	556036-8671	20,000	100%	1,320	1,320	0
Återförsäkringsaktiebolaget SKF	Sweden	516401-7658	30,000	100%	125	125	0
Bagaregården 16:7 KB	Sweden	916622-8529	—	99.9% <sup>2)</sup>	61	60	0
SKF Eurotrade AB	Sweden	556206-7610	83,500	100%	12	12	S,0
SKF Lager AB	Sweden	556219-5288	2,000	100%	—	—	0
AB Svenska Kullagerfabriken	Sweden	556210-0148	1,000	100%	—	—	0
SKF Verwaltungs AG	Switzerland	—	500	100%	502	502	0
SKF Actuation System (Liestal) AG	Switzerland	—	—	—	—	165	M,S
SKF Taiwan Co. Ltd.	Taiwan	—	169,475,000	100%	171	171	S
SKF (Thailand) Ltd.	Thailand	—	1,847,000	92.4% <sup>2)</sup>	37	37	S
SKF B.V	the Netherlands	—	1,450	100%	304	304	S
SKF Holding Maatschappij Holland B.V	the Netherlands	—	60,002	100%	423	—	0
Trelanoak Ltd.	United Kingdom	—	6,965,000	100%	120	120	0
PSC SKF Ukraine	Ukraine	—	1,266,122,556	100%	207	205	M,S
SKF Logistics Uruguay S.A.	Uruguay	—	566,886,506	100%	174	174	S,0
SKF USA Inc.	USA	—	1,000	100%	4,155	4,155	M,S
SKF Venezolana S.A.	Venezuela	—	20,014,892	100%	—	—	S
					<b>21,934</b>	<b>22,349</b>	

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

2) Parent company together with subsidiaries own 100%.

3) Parent company together with subsidiaries own 52.3%



## Cont. Note 8

Name of indirectly owned subsidiaries	Country	% Ownership	Owned by subsidiary in	Main activities <sup>1)</sup>
Alemite LLC	USA	100%	USA	M,S
Beijing Nankou SKF Railway Bearings Co. Ltd.	China	51%	China	M,S
Cooper Roller Bearings Co. Ltd.	United Kingdom	100%	United Kingdom	M
General Bearing Corporation	USA	100%	USA	S
General Bearing Intern Trading Ltd.	China	100%	Barbados	S
Industrial Tectonics Inc.	USA	100%	USA	M,S
Kaydon Corporation	USA	100%	USA	M,S
Kaydon Europa B.V.	the Netherlands	100%	USA	O
Kaydon Ring & Seals Inc	USA	100%	USA	M,S
Lincoln Helios (India) Ltd.	India	100%	Germany	M,S
Lincoln Industrial Corporation	USA	100%	USA	M,S
Lincoln Lubrication Equipment (Changshu) Co. Ltd.	China	100%	USA	M,S
Lincoln Lubrication (SA) Pty Ltd.	South Africa	100%	South Africa	S
LCC SKF Tver Ltd.	Russian Federation	100%	Sweden	M
Ningbo General Bearing Ltd.	China	100%	Barbados	M,S
PEER Bearing Company, Changshan (CPZ1)	China	100%	China	M
PEER Bearing GmbH	Germany	100%	Germany	S
RFT S.p.A.	Italy	100%	Italy	M,S
RKS S.A.S	France	100%	France	M
Shanghai Peer Bearing Co. Ltd. Shanghai	China	100%	China	S
SKF (China) Sales Co. Ltd.	China	100%	China	S
SKF (Dalian) Bearings and Precision Technologies Co. Ltd.	China	100%	China	M
SKF (Jinan) Bearings & Precision Technology Co. Ltd.	China	100%	China	M
SKF (Schweiz) A.G.	Switzerland	100%	Switzerland	S
SKF (Shanghai) Automotive Technologies Co. Ltd.	China	100%	China	M
SKF (Shanghai) Bearings Ltd.	China	100%	China	M
SKF (U.K.) Ltd.	United Kingdom	100%	United Kingdom	M,S
SKF Aeroengine France S.A.S	France	100%	France	M,S
SKF Aerospace France S.A.S.	France	100%	France	M,S
SKF Bearing Industries (Malaysia) Sdn Bhd	Malaysia	100%	the Netherlands	M
SKF China Ltd.	China	100%	China	S
SKF Distribution (Shanghai) Co. Ltd.	China	100%	China	S
SKF Economos Deutschland GmbH	Germany	100%	Austria	S
SKF France S.A.S	France	100%	France	M,S
SKF Industrial Service Shanghai Co. Ltd.	China	66%	China	S
SKF Latin Trade S.A.S	Colombia	100%	Chile	S
SKF LLC	Russian Federation	100%	Sweden	S
SKF Lubrication Systems CZ s.r.o	Czech Republic	100%	Germany	M
SKF Lubrication Systems Germany GmbH	Germany	100%	Germany	M,S
SKF Magnetic Mechatronics S.A.S	France	100%	France	M,S
SKF Marine GmbH	Germany	100%	Germany	M,S
SKF Marine Singapore Pte Ltd.	Singapore	100%	Germany	S
SKF Mekan AB	Sweden	100%	Sweden	M
SKF Sealing Solutions Austria GmbH	Austria	100%	Austria	M,S
SKF Sealing Solutions GmbH	Germany	100%	Germany	M,S
SKF Sealing Solutions (Qingdao) CO.	China	100%	Austria	M,S
SKF Sealing Solutions (Wuhu) Co. Ltd.	China	100%	China	M,S
SKF Sealing Solutions S.A. de C.V	Mexico	100%	USA	M,S
SKF South Africa (Pty) Ltd.	South Africa	70%	South Africa	S
SKF Steyr Liegenschaftsvermietungs GmbH	Austria	100%	Austria	O
SKF Sverige AB	Sweden	100%	Sweden	M,S
SKF Türk Sanayi ve Ticaret Limited Sirketi	Turkey	100%	Belgium	S
Stewart Werner Corporation of Canada	Canada	100%	USA	S
The Cooper Split Roller Bearing Corp	USA	100%	USA	M,S
Venture Aerobearings LLC.	USA	51%	USA	M,S
Vesta Si Sweden AB	Sweden	100%	Sweden	M
Zhejiang Xinchang Peer Bearing Co. Ltd.	China	100%	China	M,O

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

## 9 Investments in equity securities

Name and location (MSEK)	Holding in percent	Number of shares	Currency	2018 Book value	2017 Book value
Wafangdian Bearing Company Limited, China	19.7	79,300,000	HKD	290	354
Other			SEK	9	6
				<b>299</b>	<b>360</b>

## 10 Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally, the Company sponsors a complementary defined contribution (DC) scheme for a

limited group of managers. This DC scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

Amount recognised in the balance sheet (MSEK)	2018	2017
Present value of funded pension obligations	408	371
Fair value of plan assets	-249	-250
<b>Net obligation</b>	<b>159</b>	<b>121</b>
Present value of unfunded pension obligations	188	188
<b>Net provisions</b>	<b>347</b>	<b>309</b>

Change in net provision for the year (MSEK)	2018	2017
Opening balance 1 January	309	306
Defined benefit expense	67	35
Pension payments	-29	-32
<b>Closing balance 31 December</b>	<b>347</b>	<b>309</b>

Components of expense (MSEK)	2018	2017
Pension cost	53	47
Interest expense	13	2
Return on plan assets	1	-14
<b>Defined benefit expense</b>	<b>67</b>	<b>35</b>
Defined contribution expense	86	90
<b>Total post-employment benefit expense</b>	<b>153</b>	<b>125</b>

The calculation of defined benefit pension obligations has been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan was 3.84% (3.84) and for the other defined benefit plan it was 2.12% (0.6). Expected cash outflows for 2019 were MSEK 120.

## 11 Loans

MSEK	Maturity	Interest rate	2018		2017	
			Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
MEUR 500 (Outstanding 234 m)	—	3.88	—	—	2,299	2,385
MEUR 500 (Outstanding 192 m)	2019	1.87	1,968	2,000	2,610	2,695
MEUR 750 (Outstanding 257 m)	2020	2.38	2,628	2,729	4,411	4,646
MEUR 200	2021	3.64	2,052	2,054	1,968	1,969
MEUR 500	2022	1.63	5,106	5,453	4,895	5,246
MEUR 300	2025	1.25	3,042	3,097	—	—
MUSD 100	2027	4.06	895	1,012	821	961
			15,691	16,345	17,004	17,902

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

MSEK	2018	2017
Salaries, wages and other remuneration	777	760
Social charges (whereof post-employment benefit expense)	400 (129)	356 (125)

See Note 23 to the Consolidated financial statements for information on remuneration to the Board and president as well as men and women in management and the board. Refer to Note 25 to

the Consolidated financial statements for the average number of employees and to Note 24 to the Consolidated financial statements for fees to the auditors.

## 13 Contingent liabilities

MSEK	2018	2017
General partner	1	1
Other contingent liabilities	20	18
	<b>21</b>	<b>19</b>

General partner relates to liabilities in limited partnership Bagaregården 16:7.

Other contingent liabilities refers to guarantee commitment regarding pension liabilities in the Swedish subsidiaries.

# Proposed distribution of surplus

Fair value reserve	SEK	121,402,341
Retained earnings	SEK	14,279,424,822
Net profit for the year	SEK	3,754,061,163
<b>Total surplus</b>	<b>SEK</b>	<b>18,154,888,326</b>

The Board of Directors and the President recommend to the shareholders, a dividend of SEK 6 per share <sup>1)</sup> to be carried forward:	SEK	2,732,106,408 <sup>2)</sup>
Fair value reserve	SEK	121,402,341
Retained earnings	SEK	15,301,379,577
	<b>SEK</b>	<b>18,154,888,326</b>

1) Suggested record day for right to dividend, 1 April, 2019.

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 2018 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, 5 March, 2019

Hans Stråberg, *Chairman*  
 Peter Grafoner, *Board member*  
 Lars Wedenborn, *Board member*  
 Hock Goh, *Board member*  
 Alrik Danielson, *President and CEO,*  
*Board member*

Nancy Gougarty, *Board member*  
 Ronnie Leten, *Board member*  
 Barb Samardzich, *Board member*  
 Colleen Repplier, *Board member*  
 Jonny Hilbert, *Board member*  
 Zarko Djurovic, *Board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 5 March, 2019.

PricewaterhouseCoopers AB

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

Bo Karlsson  
*Authorised public accountant*

# Sustainability statements<sup>1)</sup>

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## About this report

This report has been prepared in accordance with the GRI Standards 'Core' option.

The reader will find relevant sustainability information in each part of the report. These statements provide SKF's stakeholders with transparent information on the Group's sustainability performance according to GRI Standards.

### Topics related to the Annual Report

In addition to the information provided in this Annual Report, related Topics can be found at [skf.com/ar2018](http://skf.com/ar2018).

- GRI content index<sup>2)</sup>
- 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 2018

### Statutory sustainability report

SKF has prepared a separate report according to the Swedish annual account act on sustainability reporting and reports on the topics:

- **Business model** page 12,
- **Anti-corruption** page 129,
- **Environment** pages 131–135,
- **Employees** pages 136–142,
- **Human rights and other relevant social topics** pages 143–146.

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 58–61 and on pages 122–123.

1) As defined by GRI Standards

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



# General disclosures

## Organisational profile

### 102-01 Name of the organisation

AB SKF

### 102-02 Activities, brands, products, and services

The SKF Group is a leading global supplier of products, solutions and services within bearings, seals, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimisation, engineering consultancy and training. Examples are found in this report on pages 2–5, 21–24 and 54–57. For information on SKF's brands please refer to [skf.com/brands](http://skf.com/brands).

### 102-03 Location of headquarters

SKF Group headquarters is located at Hornsgatan 1 in Gothenburg, Sweden.

### 102-04 Location of operations

SKF operations are global, the Group has manufacturing operations in 24 countries and direct sales channels in 70 countries. The Group is present in 130 countries. A list of SKF operations can be found in Topic related to the Annual Report on [SKF.com/ar2018](http://SKF.com/ar2018). SKF's manufacturing, sales and other operations are also presented on pages 119–116 in this Annual Report.

### 102-05 Ownership and legal form

SKF provides articles of association on [skf.com/ar2018](http://skf.com/ar2018). These are part of Topics related to the Annual Report. In addition, information on shares and shareholder information can be found on pages 51–52.

### 102-06 Markets served

Page 2 provides an overview of geographies and industries served. Information on Industrial and Automotive segments are further described on pages 4–5 and 54–57.

SKF sometimes describes its business as customer industries, more detailed information on these is available at [skf.com/skfs-business](http://skf.com/skfs-business).

### 102-07 Scale of the organisation

Information on the SKF Group and its operations are found in various sections in the report. Employee information is found on this page and on page 104.

SKF Manufacturing and other operations are presented on [skf.com/ar2018](http://skf.com/ar2018).

Net sales are presented on page 66 and broken down further in the financial statements on pages 77–78.

Total capitalisation broken down in terms of debt and equity are presented in the financial statements on page 69. SKF has delivered 457,000 tonnes of bearings 2018. In addition, the Group has delivered seals, condition monitoring, lubrication systems and services.

### 102-08 Information on employees and other workers

#### Employees and other workers by employment type

	Indefinite		Temporary		Agency	Total
	White collar	Blue collar	White collar	Blue collar		
2018						
Western Europe	9,165	10,989	65	396	1,089	21,704
Asia and Pacific	3,350	6,585	11	349	2,118	12,413
North America (incl. Mexico)	2,081	3,713	24	4	237	6,059
Eastern and Central Europe	866	2,973	21	536	269	4,665
Latin America	756	2,051	5	23	58	2,893
Africa and Middle East	395	70	0	0	38	503
<b>Total</b>	<b>16,613</b>	<b>26,381</b>	<b>126</b>	<b>1,308</b>	<b>3,809</b>	<b>48,237</b>

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represents headcount per year end December 2018.

#### Employees by contract and gender

2018	Full time			Part time		
	Men	Women	Women %	Men	Women	Women %
Western Europe	16,708	3,050	15%	263	594	69%
Asia and Pacific	7,914	2,315	23%	41	24	37%
North America	4,423	1,393	24%	1	6	86%
Eastern and Central Europe	2,812	1,579	36%	1	4	80%
Latin America	2,307	510	18%	11	7	39%
Africa and Middle East	352	106	23%	4	4	50%
<b>Total</b>	<b>34,515</b>	<b>8,953</b>	<b>21%</b>	<b>321</b>	<b>639</b>	<b>67%</b>

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local HR systems and applying these percentages to the total headcount per geographic area.

### 102-09 Supply chain

SKF's downstream value chain serves some 40 different industries in 130 countries. To serve the diverse customer base in these markets in the best way, SKF owns and operates 94 manufacturing plants across the world. SKF directly employs over 27,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. The purchased material consists of steel raw material such as bars, wires, tubes and strips, and steel based components such as rings, balls, rollers, and sheet metal parts, and other direct material as well as subcontracted

and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and in the Americas. About 85–90% of supplies to SKF factories come from local or regional suppliers. The total annual spend of the SKF Group is around SEK 40 billion and roughly around 1,200 suppliers make up 80% of the total spend by volume. Please refer to more information about SKF's supply chain in the section Purchasing on page 145.

#### **102-10 Significant changes to the organisation and its supply chain**

SKF divested its linear actuation business during the year. The units included in this part of the operations are not included in the specific disclosures.

#### **102-11 Precautionary principle or approach**

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

#### **102-12 External initiatives**

SKF endorses or subscribes to a number of internationally recognised principles, charters and guidelines which promote sustainable and ethical business practices. This helps to reflect and communicate the importance of SKF Care – the Group's framework for sustainability. The main ones are:

- The United Nations Global Compact which is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. SKF has participated in the Global Compact since 2006. SKF Annual Report is also the Group's Communication on progress for the principles of the Global Compact.

- The International Labour Organisation (ILO) which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.
- The International Chamber of Commerce (ICC) which is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.
- The Organisation for Economic Co-operation and Development (OECD), which has the mission to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognised standards.

#### **102-13 Membership of associations**

SKF is an active partner in several industry collaborations and initiatives. The Group holds dialogues with industrial peers on issues relating to technology and management across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in the UN Global Compact, the World Bearing Association, Transparency International, Teknikföretagen, the Royal Swedish Academy of Engineering Sciences, the Swedish Life-cycle Centre and the International Standardisation Organisation among others. In addition, SKF collaborates with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy. A list of memberships is available at [skf.com/gri](http://skf.com/gri).

## **Strategy**

#### **102-14 Statement from senior decision-maker**

The President's letter is found on pages 6–8. Strategic priorities, trends, targets and achievements and outlook are described throughout the report.

#### **102-15 Key impacts, risks, and opportunities**

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on pages 14–17 and SKF's overall risk management approach is described on pages 58–61. With reference to the definitions in the overall risk management section, sustainability risks and opportunities can be related to strategic, operational, compliance and financial risks.

Corruption constitutes risks for SKF in terms of litigation, fines, bad-will, and loss of business. Furthermore, corruption constitutes a risk for the involved employee in terms of fines, imprisonment, health and safety. SKF's anti-corruption activities are risk based and include internal and third party risk assessments, internal financial controls and training of SKF and selected third party

employees. In addition, SKF has ethical requirements in contracts with suppliers, distributors and agents. If these requirements are not fulfilled, the relationship is terminated. The SKF Ethics and Compliance Reporting Line which can be used by SKF employees and others for reporting ethical concerns is an important part of the compliance program. Furthermore, SKF conducts audits and investigations on SKF units as well as on third parties using internal and external resources. SKF's commitment to fight corruption is also manifested through the membership in Transparency International Sweden's Corporate Supporters Forum.

On environmental topics, energy, emissions and resource use stands out as the most significant topics. They can be related to direct business risks and opportunities as SKF's solutions often create value for customers by helping them to improve resource and energy efficiency. SKF's customer solutions can provide significant environmental benefits regarding for example global warming and resource use. More on customer solutions can be found in the Creating and capturing customer value section on pages 21–23 and Application driven innovation on page 24.

The environmental risks directly related to SKF's manufacturing and supply chain are managed by group wide management systems and procedures to mitigate or reduce all relevant risks. At the same time, industries served by SKF are expected to experience transformations related to sustainability and digitalisation which can impact the demands for SKF services as both risks and opportunities.

Employee recruitment and development have gained increasing attention recently. As technology development accelerates across all sectors there is an increased demand among employers for similar types of competencies. The scarcity for new competencies can affect the way the company attracts, develops and engages critical competencies and capabilities needed to deliver upon the Group's strategy.

Likewise, for the individual employee, it becomes ever more important to continuously develop. This risk is managed through continuous development of recruitment processes, competence development and employer branding activities.

In terms of human rights, SKF has worked for many years according to external principles and charters to integrate human rights risks in its policies and procedures. SKF works according to UN Guiding Principles of Business and Human Rights and reports its work on pages 143–145.

SKF has established Group targets for a number of relevant sustainability topics. Detailed results and governance mechanisms are presented in these statements on pages 128–146.

## Ethics

### 102-16 Values, principles, standards, and norms of behavior

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptations of the SKF management systems but the SKF Code of Conduct is the superior policy. All other policies are subordinate to it. It is available in 17 languages and publicly available on SKF.com/code.

### The SKF Group values

Empowerment • High ethics  
Openness • Teamwork

### 102-17 Mechanisms for advice and concerns about ethics

SKF employees are requested to report behavior that is not in line with SKF's Code of Conduct to their manager, local human resources or to other senior managers including the country management. Employees can also raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line. The reporting line is hosted by a third part and reports can be made anonymously unless this is prohibited by local legislation.

During 2018, SKF made the SKF Ethics and Compliance Reporting Line available to external parties on SKF.com. SKF employees and others can report concerns in their own language via a designated web portal or by calling a local telephone number. SKF has a strict non-retaliation policy towards anyone raising concerns in good faith. During 2018, 305 concerns were reported to the central functions via the Ethics and Compliance Reporting line or via other channels. The major types of concerns reported were discrimination or harassment (23%) misconduct or inappropriate behaviour (18%), conflict of interest (9%), violation of Code of Conduct (8%) and fraud (6%). The majority of the confirmed cases related to harassment or discrimination have led to verbal or written warnings to the individuals involved, and a few cases have led to dismissal. In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management.

# 305

cases reported via the Group's  
whistle blowing system

## Governance

### 102-18 Governance structure

SKF Care defines the Group's approach to contribute to sustainable development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organisational structure with clear areas of responsibility and delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship. Refer to page 152 in the Corporate Governance Report.

### 102-19 Delegating authority

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. SKF is organised in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group

People, Communication, Legal and Sustainability. In SKF, the implementation of sustainability programmes in the line organisation is driven by the respective SKF areas, their business units, or by country organisations with direction and coordination from formal cross-functional decision making bodies and working-groups such as:

- The Responsible Sourcing Committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the code of conduct are identified at our suppliers.
- The EHS and Quality Board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and associated policies and instructions and coordinates the deployment of the Group's related strategy.
- The Group Ethics and Compliance Committee, which oversees the risks and opportunities related to ethics and compliance areas of sustainability.

Authority and responsibility is further delegated to the country managers who are appointed by SKF's Group management. The country manager is typically the company manager in the largest SKF company in the country and is also the chairperson or board member in the other SKF companies in the country. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as stated in the SKF Group Policy on Country Manager and Managing Director Roles and Responsibilities.

For certain specific sustainability topics, such as safety and health, environment, quality and Code of Conduct compliance, SKF uses a systematic and standardised approach which is embedded throughout the organisation and decision making processes. Group-wide management systems are used to support and drive continual improvement. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The SKF approach to environmental, health and safety management is based on a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management).

On the individual employee level, incentives are set following SKF's performance management process. In general, the Group sets the ambition and direction of the company and employees and managers then set their personal goals for the year, follow up achievements and discuss priorities. Specific, measurable, attainable, realistic and timely (SMART) goals are set between employees and their immediate managers, which form the basis for the annual performance review. This way, employees can influence their own work activities, performance behaviours and future compensation.

#### **102-20 Executive-level responsibility for economic, environmental, and social topics**

The Senior Vice President, Group People, Communication, Legal and Sustainability has the task to assure that the principles defined by SKF Care are addressed and integrated into all operations and activities throughout the Group. This means that sustainability

performance is the responsibility of the operational parts of the company and this shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management. This responsibility is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. Group Sustainability and Compliance is responsible for establishing policies, strategies and targets related to SKF's overall sustainability performance. These in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

#### **102-21 Consulting stakeholders on economic, environmental, and social topics**

The Annual General Meeting is the main function for direct consultation between stakeholders and the highest governance body on economic, environmental and social topics. SKF also announces points of contact in this report on page 164.

#### **102-22 Composition of the highest governance body and its committees**

Refer to pages 153–157 in the Corporate Governance Report.

#### **102-23 Chair of the highest governance body**

Refer to page 154 in the Corporate Governance Report.

#### **102-24 Nominating and selecting the highest governance body**

Refer to page 153 in the Corporate Governance Report.

#### **102-25 Conflicts of interest**

Refer to page 153 in the Corporate Governance Report.

#### **102-26 Role of highest governance body in setting purpose, values, and strategy**

With reference to the statements under 102-20, this authority is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are acted upon accordingly.

#### **102-32 Highest governance body's role in sustainability reporting**

SKF Annual Report 2018 includes SKF's Sustainability Report and is signed by all members of the Board.

#### **102-36 Process for determining remuneration**

The principles of remuneration for Group Management is submitted by the Remuneration Committee to the Board, which submits a proposal for such remuneration principles to the Annual General Meeting (AGM) for approval.

#### **102-37 Stakeholders' involvement in remuneration**

Operational stakeholder dialogue is delegated via SKF's Group Management. Stakeholder's views on topics, such as remuneration, are taken into account via the Annual General Meeting where proposals are sent out in advance.

## Stakeholder engagement

### 102-40 List of stakeholder groups

Feedback and input is sought from a wide range of stakeholders and in many different ways. Input from customers, investors and analysts, employees, unions and representatives from civil society is taken in both proactively and reactively via interviews, surveys, conferences, meetings and data analysis.

### 102-41 Collective bargaining agreements

SKF holds collective bargaining agreements in 20 countries (Argentina, Austria, Brazil, Bulgaria, China, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, South Korea, Sweden, the UK, Ukraine and USA). These countries make up over 95% of all blue-collar workers (around 27,000). If the workers at a site choose not to be unionised, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing of which the biggest countries are, Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

95%

of all blue-collar workers  
hold collective  
bargaining agreements

### 102-42 Identifying and selecting stakeholders

Stakeholder groups are defined as entities or individuals who can be significantly affected by SKF's activities. The Group works in different ways to identify individuals with whom to engage and many times in the form of continual dialogues. Connected to sustainable development, the general rationale is that all these different stakeholders have specific concerns. There is usually a specific function within the Group that manages the direct dialogue, and identifying individuals from whom to seek feedback, as part of their specific tasks, such as Investor relations, PR and Media, Sales, Operations Development, etc.

### 102-43 Approach to stakeholder engagement

#### Customers

Customer input is sought and received via sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also collects key issues and concerns from customer surveys and assessments.

#### Investors and analysts

SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. Capital market days are held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via discussions during investor meetings.

#### Employees and union organisations

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. This is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 152–161. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.

#### Civil society

The communities in which SKF operates are important stakeholders for the company and their input helps shape local SKF activities. Local SKF organisations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local network collaboration. Local media is also considered to represent civil society. Formal and informal networks are used to share experiences and ideas with other companies, topic experts and NGOs.

#### Suppliers

Suppliers input on material topics is managed via SKF's responsible sourcing programme. Local sourcing offices enable close communication on daily operations. On-site audits and training provide feedback to SKF on suppliers' performance related quality and sustainability as part of a total cost assessment of supplier development. The SKF Code of Conduct is the standard used during audits and screening. Issues related to these audits are the ones presented here.

### 102-44 Key topics and concerns raised

- Climate impact
- Conflict minerals
- Environmental compliance
- Human rights and labour rights (including health and safety)
- Corruption

- Climate impact and financial climate risk and opportunities management
- Human rights along the value chain (including health and safety)
- Cost competitiveness and operational efficiency
- Digitalisation, job development and manufacturing footprint

- Environment, health and safety
- Employment and competency development in relation to digital automation
- Diversity and working climate
- Leadership and change management

- Climate impact
- General responsible business conduct, tax transparency
- Connection between the Group's strategy and the Global Goals

- Employment procedures
- Health and safety
- Overtime
- Systematic environmental management



## Reporting practices

### 102-45 Entities included in the consolidated financial statements

See pages 114–116.

### 102-46 Defining report content and topic boundaries

SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance, based on the input provided to the Group as presented in the previous section. To do this, SKF applies reporting principles of stakeholder inclusiveness, sustainability context, materiality and completeness. As part of the report's content definition and the reflection of its materiality, topics and boundaries have been evaluated from internal and external stakeholder perspectives. The statements on pages 128–146 provide more detailed information in a systematic manner to ensure that information is easily found.

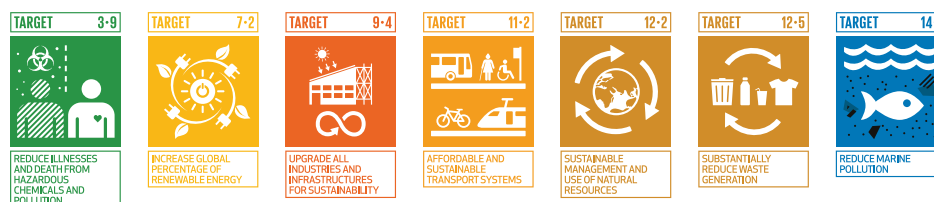
SKF defines its stakeholders as those who can be significantly affected by the Group's activities.

When approaching stakeholders proactively, the respondents are usually provided a short-list of potentially material topics. The stakeholders are asked to highlight the most significant topics for their assessments and decisions related to SKF. They are also asked to add additional issues or remove what they consider irrelevant. SKF uses this input together with risk assessments, product lifecycle assessments and general impact assessments to define the significant environmental, economic and social impacts.

In 2018, the Group attempted to gather materiality input based on the Global Goals and 169 targets. The approach was to distinguish what is relevant in three main phases of the value chain – SKF operations, its customer use phase and at its suppliers. In the first attempt, the main focus group was employees. The targets that was rated of highest importance or expectations are presented below.

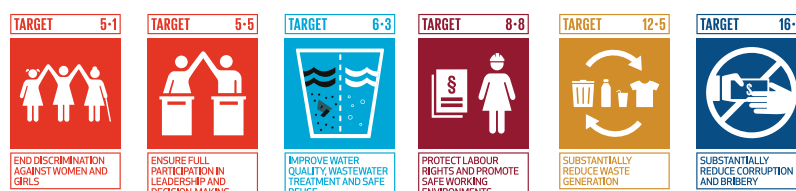
#### Customer use phase

In the customer use phase, SKF employees consider resource efficiency, renewable energy and everything which can be done to increase safety, environmental and health performance of rotating equipment to be most important.



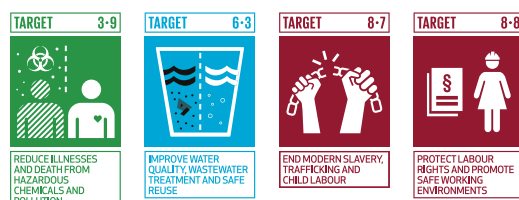
#### SKF operations

At SKF's own operations, decent work, equal opportunities, resource and water efficiency and anti-corruption are top rated by employees.



#### SKF's supply chain

SKF's employees think that in the supply chain, the Group should focus its activities on decent work, health safety and environmental stewardship.

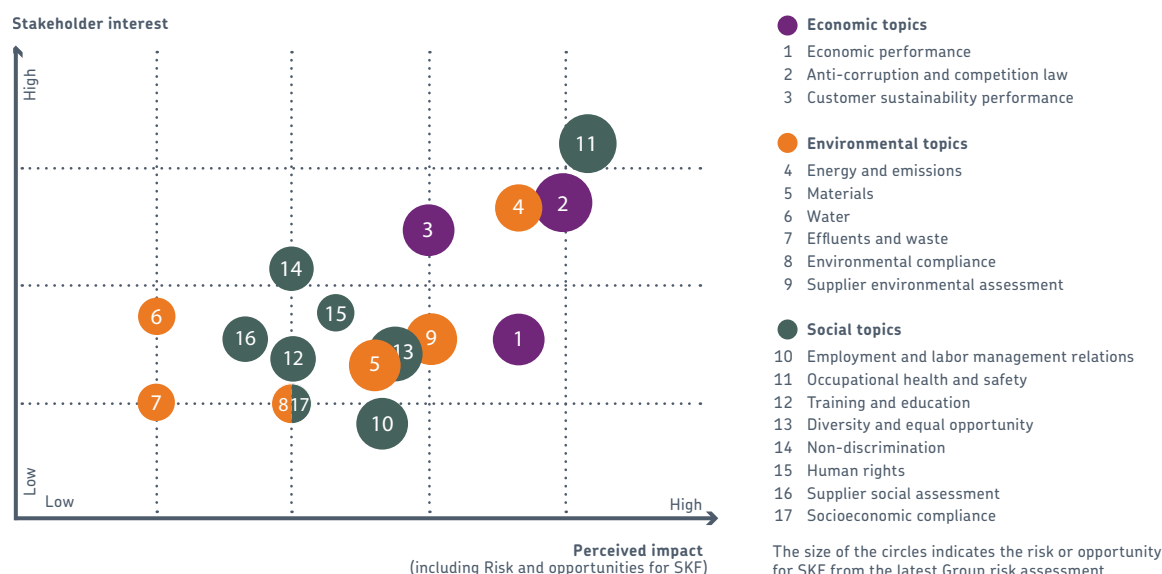


### 102-47 List of material topics

When combining the feedback above with previously collected input from other stakeholder groups as presented on page 125, the result is translated and presented in terms of GRI Standard topics. All these topics are considered material and relevant to report. As indicated on the next page, several topics at the top right of the matrix stick

out as highly material. The ambition however is not to provide an exact numeric score for each topic but instead provide an approximated rating.

The context, scope and boundaries of each topic are described further in the specific disclosures on pages 128–146 along with the management approach.



### Movement in the materiality matrix

Input provided to SKF in 2018 has been added to complement previously collected feedback. The main new input sought proactively in 2018 comes from SKF employees and unions. Other input has been gathered from customer and investor questionnaires and upon request to SKF centrally from e.g. media. The result of this has resulted in a few changes. Translated into GRI topics, the ones that moved the most are

- Energy and emissions remain high on the stakeholder agenda and gained importance on the impact perception.
- Supplier environmental assessment gained importance in terms of perceived impact.
- Diversity increases slightly in terms of perceived impact and stakeholder interest.
- Customer sustainability performance has been given its own topic.

### 102-48 Restatements of information

On page 135, SKF has restated the water consumption for 2017 and 2016. One large site had overreported its water use. The effect is that water use for 2017 was significantly lower than reported.

On page 133, the weight of sold bearings for 2015–2017 has been restated. Weight of sold bearings is used as a denominator for SKF's climate objectives (emission by tonne sold bearings). The reporting of this KPI is continually developing and as new entities are included in the scope, the historical data is restated to be comparable over time, both in terms of weight of sold products and for CO<sub>2</sub> emissions.

On page 133, The base line for emission from goods transportation has been restated to exclude express shipment. This is due to delay in the process of calculating the emissions from express freight. 2015–2017 express shipments made up <1% of shipped weight and 2–7% of goods transportation emissions.

### 102-49 Changes in reporting

SKF has adopted the new GRI Standard 403 – Occupational Health and Safety 2018. As this is the first year using this standard, a few more omissions are used where information is not yet available.

SKF has also created an own specific topic referred to as Customer sustainability performance. This topic will be gradually developed as SKF develops its method further to assess sustainability impact of its customer solutions.

### 102-50 Reporting period

1 January to 31 December 2018.

### 102-51 Date of most recent report

The report was published on 6 March 2019. The previous report was published on 5 March 2018.

### 102-52 Reporting cycle

Annual

### 102-53 Contact point for questions regarding the report

Please refer to page 164.

### 102-54 Claims of reporting in accordance with the GRI Standards

With reference to GRI Standards accordance criteria, the SKF Annual Report 2018 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors.

### 102-55 GRI content index

A complete GRI content index is available together with Topics related to the Annual Report on [skf.com/ar2018](http://skf.com/ar2018)

### 102-56 External assurance

To ensure SKF's stakeholders and readers of the Group's sustainability report are confident in the transparency, credibility and materiality of the information published, SKF has been submitting its sustainability reports for third-party review and verification since the year 2000.

Sustainability disclosures in the SKF Annual Report 2018 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 147.

# SKF's material topics

## Economic Performance

### Material topic: GRI 201 – Economic Performance

#### 103-1 Materiality and boundaries

Economic performance is considered to be material for SKF Group and its subsidiaries. The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control.

#### 103-2–103-3 Management approach, its components and evaluation

SKF is a profit driven organisation. The financial performance is the overall indicator of the economic impact SKF has on society. All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS. Please refer to page 74 for more information about SKF's financial accounting policies.

#### 201-1 Direct economic value generated and distributed

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

Economic value generated and distributed, (MSEK)	2018	2017
Net sales	85,713	77,938
Revenue from financial investments and other operating income	1 594	156
<b>Economic value generated</b>	<b>87,307</b>	<b>78,094</b>
Operating costs	–51,796	–46,219
Employee wages and benefits	–24,724	–23,540
Economic value distributed to providers of capital	–3,331	–3,181
Economic value distributed to government (income taxes)	–2,603	–1,898
<b>Economic value distributed</b>	<b>–82,454</b>	<b>–74,838</b>
<b>Economic value retained</b>	<b>4,853</b>	<b>3,256</b>

**Economic value generated** includes net sales, see page 66, interest income, see page 81, and profit on sale of assets and businesses, net, see page 80.

**Operating costs** include the total operating expenses, see page 80, plus the net of other operating income and expenses, see page 80, plus financial net, see page 81, less employee wages and benefits, see page 80, less revenues from financial investments and other operating income, see page 80, less interest expenses, see page 81.

**Employee wages and benefits** includes costs related to wages and salaries including social charges, see page 80.

**Economic value distributed to providers of capital** includes suggested dividends to SKF's shareholders, see page 92 and interest expenses, see page 81.

**Economic value distributed to government** includes income taxes for Group, see page 66. For the actual payment of taxes during the year, see cash-flow analysis on page 70.

#### 201-2 Financial implications and other risks and opportunities for the organisation's activities due to climate change

SKF's business is diversified in terms of products, customers, geographic markets and industries. The Group usually divides its customer into some 40 different industries and SKF owns and operates around 90 manufacturing units in around 30 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change.

#### Business risks and opportunities

SKF sees it as a key element in its strategy to be able to identify industries that will benefit from new and tougher climate related regulations and changed customer preferences and needs. One example of this is SKF's early participation in the industrialisation of wind energy. Another example is SKF's close partnerships with automotive customers in the electrification and improvement of energy efficiency of the drivelines. Many industries, especially all those producing vehicles or input material to vehicles, will likely be subject to similar transformational changes. SKF is following this on industry as well as on customer level to develop new technologies for new demands. Due to the different position of SKF in the value chain and wide variety of business, scenario planning and estimated effects on the bottom line are not aggregated at Group level.

Please refer to pages 54–57 for an overview of SKF's business areas. Customer industries are further described on [skf.com/skfs-business](http://skf.com/skfs-business).

#### SKF operations

SKF has mapped all its manufacturing units from a physical climate risk perspective (risks of flooding and strong wind). Climate change effects are considered when deciding where to locate new SKF's manufacturing sites.

One of the most immediate and obvious financial risks related to climate change for SKF's value chain is an increased cost of energy. It is with high uncertainty how and where e.g. carbon taxation would be implemented, and SKF chooses to address this as an integrated risk of energy cost. The best way to mitigate this risk is to reduce the energy demand. In terms of spend, electricity makes up the absolute majority of energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. A 10% increase in costs related to energy would impact the Group's result by around SEK 130 million. For more on SKF's climate objectives, please refer to Energy and emissions on page 131.

### Supply chain

A general cost increase in energy would also impact the cost of raw materials and components purchased by SKF. Most direct materials used by SKF undergo several steps of refinements before procured by SKF. This makes SKF less sensitive to raw material cost fluctuations but has traditionally made SKF more sensitive to other operational costs at suppliers. Regardless, energy cost remains one major cost driver in the supply chain. SKF has established an objective for energy intensive major suppliers to implement the ISO 50001 energy management standard to mitigate cost risks and to reduce environmental impact.

SKF has also incorporated risk management in the purchasing strategies. One risk area is supply issues linked to natural disasters.

The risk mitigation actions will support suppliers to reduce potential impact of climate change, such as extreme weather events.

In general, the costs associated with actions to commercialise opportunities and to mitigate risks related to climate change are embedded in other costs, such as research and development, maintenance and investment budgets and cannot be reported separately.

### 201-3 Coverage of the organisation's defined benefit plan obligations

SKF reports extensively on the coverage of its provisions of post-employment benefits in the financial statements on pages 93–96.

## Anti-corruption and Anti-competitive behaviour

**Material topics: GRI 205 – Anti-corruption and GRI 206 – Anti-Competitive behavior**

### 103-1 Materiality and boundaries

SKF addresses corruption and competition law as part of the Group's ethics and compliance programme. SKF operates on several markets across the world where corruption indexes indicate high risks. SKF has over many years had a strong focus on business ethics in its corporate values and works continuously to institutionalise these. This work has led to an increased number of reported concerns and a willingness to discuss ethical dilemmas more openly. See page 60 and 122 for a general description of corruption risk in relation to other risks.

### 103-2 – 103-3 Management approach, its components and evaluation

SKF's ethics and compliance programme cover fraud, anti-trust, corruption, money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights. SKF has Group policies and instructions setting out the expectations on how to act. Processes, controls, guidelines, training and tools are integrated parts of the programme and are available for employees on the Groups internal webpages.

A Group ethics and compliance risk assessment is performed annually. All relevant internal stakeholders (SKF Group staff functions of Internal Audit, Human Resources, Environment, Health and Safety, Purchasing and Sustainability and Compliance) participates. As part of the assessment, activities to mitigate the identified risks are planned and prioritised. The plans are implemented and acted upon by the operational units.

During 2018, new mandatory anti-corruption and anti-fraud e-learning courses have been launched globally. SKF has also conducted a comprehensive anti-corruption effort related to SKF distributors working in regions with high corruption risks. The focus has been on sales to government and state-owned entities.

The efforts to increase the awareness and use of the SKF Ethics & Compliance Reporting Line has continued during the year. In line with expectations, ethical concerns reported through this channel have increased. Please refer to page 123 for an overview of cases reported.

### 205-1 Operations assessed for risks related to corruption

SKF conducts yearly assessments of its corruption risks globally. In addition, risk based ethics and compliance reviews are carried out. The main purpose of these reviews is to assist units in their work to identify and address each unit's specific ethics and compliance risks, including corruption. During 2018, 50 such reviews have been carried out around the world. SKF conducted three in-depth anti-corruption audits during the year in units with extra high corruption exposure. Sales of SKF products by distributors to state owned entities in countries with high corruption risk constitutes the most significant corruption risk related to SKF's business. During 2018, SKF has mapped all distributors with such exposure and actions to prevent or mitigate these risks are ongoing.

### 205-3 Confirmed incidents of corruption and actions taken

During 2018, 24 fraud and corruption incidents have been confirmed. As a result, 31 employees had to leave SKF. SKF also decided to terminate 15 distributors for their involvement in unethical business practices. The majority of the confirmed incidents occurred in China and India. The main reasons for this historically high number of confirmed incidents are an increase in the number and quality of received concerns related to fraud and corruption, and higher awareness internally of the fraud and corruption risks SKF and its distributors are exposed to. This has led to increased efforts in preventing and detecting fraud and corruption. SKF has also developed its detection methodology.

### 206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices

For any ongoing investigations, please refer to Risk management on page 58.

## Customer sustainability performance

### 103-1 Materiality and boundaries

For many years, SKF has focused on the environmental benefits of customer solutions – including energy use, CO<sub>2</sub> emissions, noise levels, water use, etc. This work has built up knowledge around life-cycle management and e.g. how scope 4 emissions can be avoided. More than 60 solutions were assessed and promoted under the SKF BeyondZero concept as part of the climate objectives 2012–2016. Recent years' development with an increased understanding of the connection between economic, social and environmental risk and the launch of the SDGs from the United Nations has provided the SKF Group with the opportunity to collaborate more closely with customers to create and deliver ever more sustainable solutions. In doing so, the Group has carefully assessed the targets and activities proposed by the Agenda 2030 and mapped risks and opportunities related to both internal activities and the role of SKF in supporting customers with engineered solutions.

With SKF Care as the foundation and with the Global Goals as the opportunity map of the future, SKF has established two main ways it can have a positive impact:

1. The business we make – products, services and business models
2. The way we make the business – the way of running operations as a responsible business partner, employer, and corporate citizen

The section below will focus on the first category – the business the Group makes. This is the products, services and solutions from SKF.

### 103-2–103-3 Management approach, its components and evaluation

SKF is establishing additional actions the Group can take in collaboration with its customers to enable positive impact. These activities revolve around safety of machine operators, improvement of air quality, reducing water use, water treatment and other infrastructure and utilities, development of renewable energy, sustainable transport systems, increase life and resource utilisation, reducing chemicals and soil contamination. Building on the previous work to assess environmental impacts of products and services under the SKF BeyondZero concept, the Group now continues its efforts to improve and quantify other sustainability impacts of customer solutions. This work is in progress and it is clear that SKF customer solutions can provide positive impacts in relation to a majority of the SDGs.

To support this work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating sustainability performance.



### Examples of products and services developed with significant positive sustainability impact



**SKF Food Line ball bearing units –Blue Range** have been developed to offer a complete range of hygienic and high-performance bearing unit solutions for the most demanding food and beverage environments. Specially developed to help eliminate contaminants and to reduce the spread of bacteria, they provide a solution to many food safety issues.

Some of the sustainability benefits, which have been verified in customer

processes, shows that this design helps prevent water contamination and reduces up to 33% of the hot water otherwise used for cleaning excess grease in the process. It enables a longer operating life and is highly recyclable, improving resource efficiency – both in customer operations and over the life cycle of the product.



#### SKF Remanufacturing

Remanufacturing is found in many SKF business models—usually in combination with condition monitoring and predictive maintenance. But increasingly also as a stand alone product. The remanufactured bearings and units from SKF function as new and are delivered to customers with the same warranty as new bearings. For the customer, this brings benefits such as

reduced lead times, lean operations and often lower costs. The remanufactured bearings cut emissions in the production phase by 60–80%, compared with a new bearing.



## Energy and emissions

**Material topics: GRI 302 – Energy and GRI 305 – Emissions**

### 103-1 Materiality and boundaries

Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy-efficient and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions. The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

### 103-2–103-3 Management approach, its components and evaluation

The Group's climate objectives are described in brief on page 31. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO<sub>2</sub> emissions from manufacturing per tonne of sold products and
- 40% reduction of CO<sub>2</sub> emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). In this statement, the management approach along the value chain and total energy and emissions are disclosed.



#### SKF's own operations

SKF used some 1,800 GWh of energy in its manufacturing operations 2018, which has resulted in around 500,000 tonnes of CO<sub>2</sub> emission. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2018. The certificate covers around 50 more energy intensive operations making up about 80% of the Group's total energy use. SKF has a centralised function to manage strategic energy sourcing decisions for the Group, including cost effective reduction of carbondioxide intensity.

SKF's management approach is decentralised to SKF's sites and integrated in the environmental management system.

Energy efficiency work at sites is often closely linked to local maintenance strategies.

During 2018 to increase focus and accelerate improvements in both energy and CO<sub>2</sub> performance, SKF developed a new Group wide energy target. This applies to all units within the scope of the ISO 50001 standard. This target requires an improvement in energy performance of 3% compared to Unit, Cluster, Area or Group energy base line. The base line is established using linear regression of the previous two years monthly energy use vs. value added (a measure of production activity which is known to correlate with energy demand). This KPI removes distortions, which impact more simplistic measurements of energy performance (such as production volume variations) and allows a focus on the real underlying energy performance. The KPI and target follow up will start in January 2019.



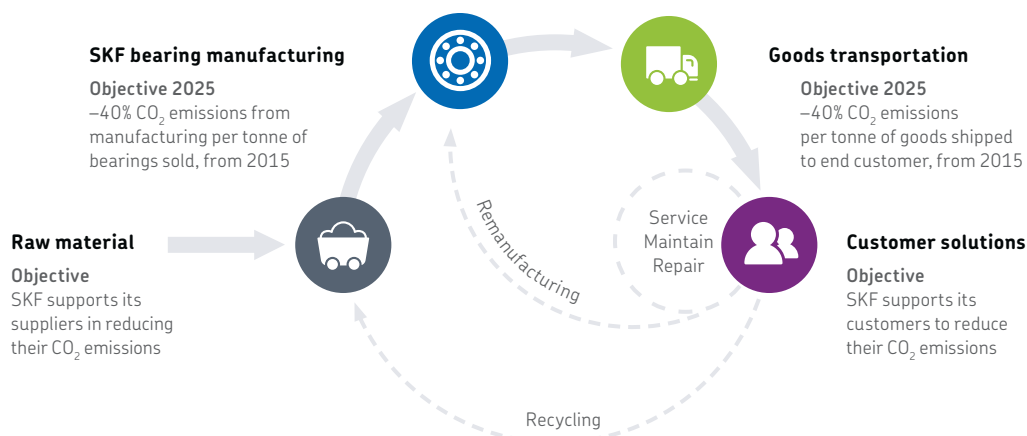
#### Goods transportation

SKF is directly managing the majority of goods transportation downstream and part of the transportation upstream. The Group works to reduce CO<sub>2</sub> emissions from transports in four main ways: optimise transport network and routing; use energy-efficient transport modes with low CO<sub>2</sub> intensity (e.g. ocean and rail instead of air where feasible); procure transport with high fuel efficiency and low-carbon fuels; and minimise mileage between suppliers, factories and end customers (i.e. optimise SKF's footprint). As of 2017, the Group changed efficiency measure to CO<sub>2</sub> emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.



#### Raw material and components

The emissions from raw material and components is about as much as those from SKF's own operations, with the important difference being that it is not in the Group's direct control. As a main mean of cutting cost and emissions from the supply chain, SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. This standardised way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.





### Customer solutions

Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact, lies in the customer use phase of the Group's products and solutions.

As reported on page 130, many of SKF's offerings can be strongly linked to sustainability needs along side other business needs and in doing so, create value for customers, investors and society. Some are more specifically linked to mitigating climate change.

As part of SKF's climate objectives for 2025, yearly aggregated revenue data from the following key areas are tracked and reported: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenues of these areas amounted to almost SEK 4.1 billion in 2018.

### Lifecycle impact

In addition to cutting climate impact in the transactional value chain, SKF also works to develop new business models to reduce environmental impact alongside cost. First of all, the Group work to predict maintenance and enable cost effective repair and service at the customers' processes. Secondly, SKF brings back bearings and units for refurbishment or remanufacturing – a process which can cut energy and emissions by 60–80%, compared to the production of a new bearing.

### Data reporting according to the Greenhouse gas Protocol guidance

In these statements, all SKF's manufacturing sites, technical and engineering centres and logistics centres are included, also those outside the ISO 50001 scope. Joint ventures are included where SKF has management control. Energy data and related GHG emissions are reported monthly and followed up bi-annually by the SKF Group management.

SKF uses the Greenhouse gas (GHG) Protocol Corporate Guidance for reporting its emissions. Due to the nature of SKF's operations, only three greenhouse gases are likely to be released in significant quantities for tracking. These are carbon dioxide (CO<sub>2</sub>), methane and nitrous acid, where CO<sub>2</sub> is by far the biggest contributor to SKF's emissions. Scope 1 and 2 emissions are all reported in CO<sub>2</sub>-equivalents (CO<sub>2</sub>e), including the above mentioned other emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.

### 302-1 Energy consumption within the organisation

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with GHG protocol.

Source, GWh	2018	2017	2016
LPG	20	20	18
Natural gas	301	302	291
Fuel oil	10	9	10
Renewable energy generated on-site	21	4	3
District heating and cooling	138	144	144
Electricity	1,324	1,338	1,279
<b>Total energy use</b>	<b>1,814</b>	<b>1,817</b>	<b>1,745</b>

### 302-3 Energy intensity

This disclosure includes all energy generating scope 1 and scope 2 emissions for the SKF Group, and revenues in SEK billion for the SKF Group. In this disclosure, the comparison years have not been adjusted for acquisitions and divestments, as net sales is not.

GWh per SEK billion	2018	2017	2016
Total energy use (GWh)	1,814	1,817	1,745
Revenues, net sales (SEK billion)	85,713	77,938	72,589
<b>Energy intensity (GWh/SEK billion x 1,000)</b>	<b>21.14</b>	<b>23.31</b>	<b>24.04</b>

### 302-4 Reduction of energy consumption

Absolute energy use decreased marginally 2018 compared to 2017. At the same time, the production rate increased. The conclusion is that energy efficiency initiatives have paid off, at the same time as the production channels have been better utilised.

### 305-1 Direct (Scope 1) GHG emissions and

### 305-2 Energy indirect (Scope 2) GHG emissions

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with GHG protocol.

Market based emissions, tonnes	2018	2017	2016
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions scope 1,	62,034	62,269	59,982
<b>Energy indirect (Scope 2) GHG emissions</b>			
CO <sub>2</sub> e emissions Scope 2, Market based	432,427	544,923	528,037
<b>Total CO<sub>2</sub>e emissions, market based</b>	<b>494,461</b>	<b>607,192</b>	<b>588,019</b>

Location based, tonnes	2018	2017	2016
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions scope 1,	62,034	62,269	59,982
CO <sub>2</sub> e emissions Scope 2, Location based	580,209	605,771	576,851
<b>Total CO<sub>2</sub>e emissions, location based</b>	<b>642,423</b>	<b>668,040</b>	<b>636,833</b>

### Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2018	2017	2016
<b>Direct (Scope 1)</b>			
LPG (3.0 per tonne)	4,180	4,318	3,914
Fuel oil (3.2 per tonne)	2,418	2,271	2,515
Natural gas (0.002 per cubic meter)	55,436	55,680	53,553
<b>Supplied (Scope 2), market based</b>			
Electricity	408,232	519,422	502,344
District heating and cooling	24,195	25,501	25,693
<b>Total CO<sub>2</sub>e emissions, market based</b>	<b>494,461</b>	<b>607,192</b>	<b>588,019</b>

Scope 1 emission factors have been gathered used from Folksam and Finanstidningens Environmental Index 2000.  
Scope 2 emission factors have been gathered from by SKF's contracts with electricity and district heating and cooling suppliers.

### 305-3 Other indirect (Scope 3) GHG emissions

Under scope 3 emissions, SKF reports CO<sub>2</sub> emissions from goods transportation and business travel, which is only a smaller part of the total scope 3 emissions. A significant part are related to raw material but these cannot be reported due to complexity of aggregating accurate data.

**Goods transportation data and related CO<sub>2</sub> emissions**

	2018	2017	2016	2015
CO <sub>2</sub> emissions from transport Scope 3, (tonnes)	122,448	107,997	96,439	106,112
Transport works (tonnes shipped)	437,245	358,683	367,149	350,046

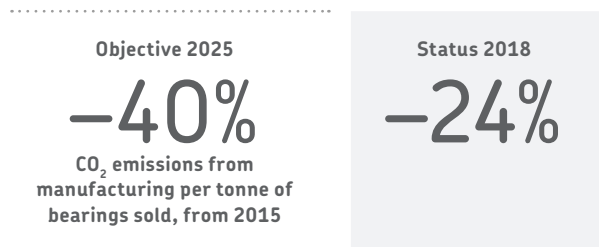
**Shipped volumes and emissions per transport mode 2018**

	Road	Sea	Air
Transport works, tonnes shipped, % of total	76.8	22.5	0.7
CO <sub>2</sub> emissions, % of total	33.3	37.8	28.9

**Business travel**

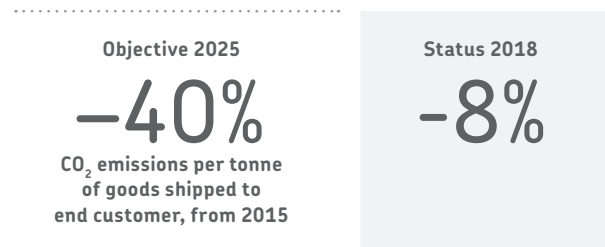
SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the U.S. and China. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult. For 2018, SKF has used extrapolated data for the U.S. air travels based on the average emissions between 2006-2017, the figure for the U.S. amounts to 5,108 tonnes CO<sub>2</sub>.

	2018	2017	2016
CO <sub>2</sub> emissions from air travel (Scope 3)	23,897	21,612	20,604

**305-4 GHG emissions intensity****SKF's bearing manufacturing**

Intensity	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>
CO <sub>2</sub> -emissions – bearing & units factories (tonnes)	366,612	451,658	441,431	441,218
Weight bearings and units sold (tonnes)	457,086	441,396	431,564	418,108
GHG emissions intensity CO <sub>2</sub> -emissions/tonnes sold products	0.80	1.02	1.02	1.06
% change vs 2015	-24%	-3%	-3%	—

1) All data has been restated to reflect acquisitions and divestments.

**Goods transportation**

	2018	2017	2016	2015
GHG emissions intensity kg CO <sub>2</sub> emissions per tonnes shipped goods to end customer <sup>2)</sup>	280	301	263	303
% change vs 2015	-8	-1	-13	—

2) The baseline for emissions from goods transportation has been restated to exclude express shipment. This is considered a better improvement KPI as it excludes extremes over time. 2015–2017 express made up <1% of shipped weight and 2–7% of goods transportation emissions.

**305-5 Reduction of GHG emissions****Scope 1 and 2**

Absolute CO<sub>2</sub> emissions was significantly reduced during 2018 compared to baseline 2015. This is partly due to increased energy and overall efficiency, but mainly it is due to an increased percentage of renewable energy sourced in Germany and Italy, where the Group operates several energy intensive operations.

**Scope 3 Goods transportation**

For goods transportation, SKF's absolute emissions have increased by 15% since baseline 2015, this is explained by a significant increase in transport works (tonnes shipped increased by 25%). The relative emissions per tonnes shipped has been reduced by 8%, excluding express shipments. This efficiency gain is the result of shortening transport routes, higher fill rate and actively switching to more CO<sub>2</sub> efficient transport modes.

**Customer solutions and reduced climate impact**

As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from four areas of its customer industries where SKF solutions are making a significant contribution in helping to mitigate climate change. These are: renewable energy generation, electric vehicles, recycling industry, bearings remanufacturing.

The total revenues of these areas amounted to SEK 4.1 billion in 2018.

SEK billion	2018	2017
Total revenues from renewable energy, electric vehicles, recycling industry and bearings remanufacturing.	4.1	4.5

Read more about customer sustainability performance on page 130.

## Materials, Water, Effluents and waste, Environmental compliance

**Material topics:** GRI 301 – Material, GRI 303 – Water, GRI 306 – Effluents and waste, GRI 307 – Environmental compliance

### 103-1 Materiality and boundaries

Details can differ between the environmental topics, but overall SKF has a similar management approach to Material, Water, Effluents and waste, and Environmental compliance. These topics are material first of all within SKF and its subsidiaries.

**Materials** The Group sourced about 535,000 tonnes of metal components in 2018. The main impact from this lies within the value chain and is associated to energy and emissions. The main way in which SKF can influence this is by focusing on material efficiency in the manufacturing processes. By avoiding wasted material at SKF – the waste associated with the embedded energy and emissions up-stream are also avoided.

**Water** is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due its close correlation to energy generation.

Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient.

**Effluents and wastes** are relevant from SKF's manufacturing operations.

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

### 103-2–103-3 Management approach, its components and evaluation (combined)

SKF has deployed an environmental management system certified according to ISO 14001:2015. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. New or recently acquired subsidiaries are provided a time frame for inclusion. This is typically one to two years but can be extended if the company acquired is of significant size and or complexity. 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 organisation.

SKF assures that environmental matters are prioritised through the line organisation by integrating environmental performance delivery into the responsibilities of the factory manager, the cluster or Business Unit Manager and up through to Business Area and Group. Local support, competence (particularly for legal compliance) and coordination for the units is provided by the EHS country coordinators.

Potential spills, incidents and fines are publicly reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to [skf.com/ar2018](http://skf.com/ar2018).

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits. Environmental performance at suppliers is further reported on page 146.

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

SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. The most important dimension of water for SKF is the water needed to generate energy for use over the value chain.

During 2017 and 2018, and based on an impact analysis at a Group level, SKF has developed new KPIs to measure and drive a reduced environmental impact. The Group has started to report according to the new parameters in 2018. It has been possible to define specific objectives for some of these KPI's, however others are based on parameters not previously followed up and so the Group will need to monitor and establish a base line for these during 2019 before defining specific objectives. The KPI's where objectives are defined are:

- Eliminate solvents (emitting volatile organic compounds) from all washing processes by 2025.
- Reach and maintain a recycling rate of grinding swarf at 80%.
- Water use targets are established at SKF sites with significant water risks. In 2018, SKF had twelve such sites.

KPI's where specific objectives are to be defined during 2019 cover the following aspects;

- Waste recycling excluding direct material waste
- Waste recycling including direct material waste
- Waste water treatment

### Data collection

All data was compiled either quarterly or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control. Data from sites can be included in the compilation even if the site is not yet fully integrated in the management systems. Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. For site by site data, please refer to the Environmental performance data available at [skf.com/ar2018](http://skf.com/ar2018).

### Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

### Restatement and changes in reporting

SKF has during 2018 updated many of the environmental parameter and KPIs in the Group's management system. This means that several fractions cannot be reported for 2017 and or 2016.

Water use has been restated for 2017 and 2016 due to a significant reporting error at one site.

### 301-1 Materials used by weight or volume

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favourable material properties and is widely available.

SKF does not report any renewable materials or recycled input material. The most significant part of the material used comes from components which have been machined and refined along the value chain. This means that SKF does not have direct influence over the source of the material but only the specified quality. In general, bearing steel is made out of a significant proportion of scrap steel, however an exact percentage cannot be provided.

#### Non-renewable material

Tonnes	2018	2017	2016
Metal as raw material from external suppliers	535,547	591,138	477,131
Rubber as raw material from external suppliers	4,762	5,616	5,505
Oils	9,196	8,920	6,808
Greases	2,525	2,651	2,003

#### Group target-Eliminate solvent (volatile organic compounds) from all washing processes by 2025

SKF halved its use of solvent between 2007 and 2016. Thereafter, newly acquired businesses resulted in an increase. In 2018, SKF has set a target to eliminate the use of solvent in washing processes, which is the main way volatile organic compounds are emitted from the Group operations. Work is ongoing to be able to report on this target from 2019 and onwards.

### 303-1 Water withdrawal by source

As the clear majority of SKF's factories are located in industrial zones, water is supplied by municipalities. Other sources have not been considered material. Therefore, SKF monitors total water consumption at operating units and not per withdrawal by source. As the reporting is based on actual measurements from water suppliers or at SKF sites, no specific assumptions are referred to.

Water use targets are established at SKF sites with significant water risks. In 2018, SKF had twelve such sites.

Water (1,000 N cubic meters)	2018	2017	2016
Water from municipal supply	2,155		
Water use from other source	997		
Water withdrawal total <sup>1)</sup>	3,152	3,336	3,904

1) First year of reporting this way, previous years only total use was available. 2017 and 2016 is restated after significant reporting error was found.

### 306-2 Waste by type and disposal method

During 2017 and 2018, SKF has updated its environmental KPIs which is reflected in this report. The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. A new KPI has been established where the Group shall move upwards in the waste hierarchy with the ultimate goal to reach zero waste. The exact level and target date will be established in 2019, after the first year of reporting the current state.

The amounts of residual material and recycling rate are disclosed below and in more detail in Environmental data spreadsheet available at [skf.com/ar2018](http://skf.com/ar2018). 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.

Non-hazardous waste	2018	2017 <sup>2)</sup>	2016 <sup>2)</sup>
Total residuals generated (tonnes)	496,825	n/a	n/a
Recycled or reused (tonnes)	481,877	n/a	n/a
Recycling rate (%)	97%	n/a	n/a
Incinerated with energy recovery (tonnes)	4,839	n/a	n/a
Incinerated without energy recovery (tonnes)	877	n/a	n/a
Landfill, excl grinding swarf (tonnes)	9,231	n/a	n/a

2) 2018 is first year of reporting according to these fractions.

The overall recycling rate was close to 100%. This was according to expectations as metal residuals make up a significant proportion of the weight. In SKF internal improvement KPI, metal residuals from production may be excluded be able to more closely follow improvement in waste hierarchy. More details of this work will be reported next year.

#### Group target-80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles mixed with emulsion. The Group has set a target to reach and maintain 80% recycling, which was actually achieved the first time 2015. SKF continues to depend greatly on variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target.

SKF is constantly working to find business partners who are able to use grinding swarf as input to their production, both as direct and indirect material. In 2018, the rate of recycled or reused grinding swarf increased somewhat to 72%.

Hazardous waste, grinding swarf	2018	2017	2016
Grinding swarf generated (tonnes)	24,051	22,839	20,522
Recycled or reused (tonnes)	17,420	15,400	15,597
Recycling rate (%)	72%	67%	76%
Incinerated, heat recovery (tonnes) <sup>2)</sup>	1,235	n/a	n/a
Incinerated, no recovery (tonnes) <sup>2)</sup>	1,222	n/a	n/a
Landfill <sup>2)</sup>	4,173	n/a	n/a

2) 2018 is the first year of reporting according to these fractions.

### 307-1 Non-compliance with environmental laws and regulations

SKF received no significant fines or directives from the environmental authorities in 2018. One less significant spill was recorded. This has been communicated and resolved with local environmental authorities.



## Employment

### Material topic: GRI 401 – Employment

#### 103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives as set out by the Group. The work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage succession planning.

#### 103-2–103-3 Management approach, its components and evaluation

SKF's human resources function (Group People) is integrated in the Group People, Communication, Legal and Sustainability organisation. There are specific Human Resources personnel and responsibilities at Group, area, country and site level. Group People works to ensure that the company has the right people, in the right place at the right time and that these people are competent, motivated and able to create and capture value for our customers. Group People manages labour affairs and the formal dialogue with the SKF World Union Council, and the global framework agreement with the World Union Council which is based on the SKF Code of Conduct. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local union and the World Union Council. As the SKF Group operates under Swedish legislation and the Swedish Corporate Governance Code, employee representatives are part of the Board. Among other things, this means that

employee representatives from white- and blue-collar unions have direct insight on board level issues and the strategic outlook for the Group.

SKF's operations are diverse both in terms of industries and geographies served. This is reflected in traditionally decentralised human capital development and planning. However, digitalisation of operations and business has increased the need for a more centralised approach to workforce planning and strategy. Processes included in such centralisation include higher management succession planning, recruitment, talent management, leadership and learning (read more on page 140). New common systems are being put place to facilitate this work. As these common systems are not yet fully operational across the Group, SKF cannot report retention rate and turnover by age Group but only by gender and region.

The top risks for SKF when it comes to talent attraction have been identified as matching future needs of the Group to the regional and local availability of right skills. As society and industry is digitalised, more organisations are looking for the same skills. From exit interviews and focus groups, SKF has established a better understanding of why employees choose to stay or leave the Group and, from this, adapts its management approach. Some of the strengths have been identified as clarity of purpose, ethics and environmental responsibility, while some of the gaps are related to leadership, and lack of opportunities to progress in the career beyond a certain level. These insights set the agenda for SKF's employment expertise work in the years to come. In 2018, SKF has increased focus on internal mobility and job rotation.

#### 401-1 New employee hires and employee turnover

##### Employee retention rate by region (excluding lay-offs)

%	2018			2017	2016
	Women	Men	Total		
Asia and Pacific	84.5	89.8	88.6	88	92
Middle East and Africa	86.8	91.3	90.3	90	93
North America	91.4	91.3	91.3	91	92
Latin America	93.1	93.6	93.5	93	95
Eastern and Central Europe	92.4	91.3	91.7	90	90
Western Europe	95.9	96.4	96.3	96	96
<b>Group</b>	<b>91.5</b>	<b>93.5</b>	<b>93.1</b>	<b>93</b>	<b>93</b>

Retention rate as reported above is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

**Employee turnover by region**

%	2018			2017	2016
	Women	Men	Total		
Asia and Pacific	18.2	11.9	13.4	13.4	9.3
Middle East and Africa	14.8	11.9	12.6	11.1	8.2
North America	16.6	16.8	16.7	17.5	14.5
Latin America	13.3	14.4	14.2	19.5	17.2
Eastern and Central Europe	8.4	10.7	9.9	11.1	9.7
Western Europe	5.6	4.7	4.9	4.7	5.6
<b>Group</b>	<b>11.6</b>	<b>9.5</b>	<b>9.9</b>	<b>10.3</b>	<b>9.1</b>

**New hires by region**

Total number	2018			Women as share of total, %
	Women	Men	Total	
Asia and Pacific	444	1,176	1,620	27%
Middle East and Africa	21	42	63	33%
North America	207	614	821	25%
Latin America	212	631	843	25%
Eastern and Central Europe	119	280	399	30%
Western Europe	199	856	1,055	19%
<b>Group</b>	<b>1,202</b>	<b>3,599</b>	<b>4,801</b>	<b>25%</b>

**Labour management relations****Material topic: GRI 402 – Labour management relations****103-1 Materiality and boundaries**

The main priority of the relationship between labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice. This is based on the SKF Code of Conduct and the work focuses on labour management relations between SKF Group and workers within SKF Group and its subsidiaries. SKF also collaborates with other companies in formal and informal networks.

**103-2–103-3 Management approach, its components and evaluation**

Issues relating to significant changes at SKF, for example in acquiring, divesting or consolidating 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 occasion. SKF makes it clear in its Code of Conduct that all employees have the right to join a union and to bargain collectively. Continual dialogue is on-going to ensure that it works for both SKF, and the union members.

The Council, which includes all 20 countries referred to on page 124–125, meets every year to discuss labour issues in an open format and to share what is currently happening in the Group. All countries with major operations have the right to send union officials or observers to the SKF World Union Council. In 2018, the Council was held in Italy in September. The focus areas were, employment, environment, health and safety, and digitalisation. Overall, SKF's setup with the World Union Council is seen as a great competitive advantage for addressing and deploying global initiatives.

**402-1 Minimum notice periods regarding operational changes**

SKF does not state a specific minimum notice period as the Group cannot overrule the centrally agreed collective bargain agreements in the countries SKF operates in. SKF holds consultations and provides information to relevant parties, which are two separate procedures. Notice regarding operational changes is always defined on a case-by-case basis but always with the local unions involved, and/or reviewed at the World Works Council. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

## Occupational health and safety

### Material topic: GRI 403 – Occupational health and safety

#### 103-1 Materiality and boundaries

Health and safety is a material issue in different aspects of SKF's direct operations as well as activities occurring along the value chain. SKF employs around 27,000 people in blue-collar work roles and the focus here is primarily on physical health and safety. This is also relevant for suppliers and is addressed as part of SKF's responsible sourcing approach, see page 143. However, traditional office tasks are increasing and thus psychological health and well-being are increasingly material.

#### 103-2–103-3 Management approach, its components and evaluation

SKF's accident rate has steadily improved over the last two decades but the rate of improvement has slowed down in recent years. In 2018, the accident rate was 0.81 per 200,000 worked hours. SKF strives to achieve further reductions in the accident rate by increasing the effectiveness of its management approach towards health and safety in various ways.

During 2018 a major reorganisation of overall EHS (Environment, Health and Safety) governance in SKF has taken place with the primary objective to improve health and safety (and environmental) performance. The change has reinforced the line ownership for H&S by appointing EHS managers in the manufacturing clusters, business units and their equivalent management teams across SKF.

Working as part of the operational management teams, these individuals will make sure that appropriate attention, resources and investments are given H&S in their respective units. They will be supported in this work by the long established EHS country coordinators – who will provide local competence, guidance and support to the units.

#### 403-1 Occupational health and safety management system

SKF has established and deployed a Group-wide health and safety management system according to the OHSAS 18001 management standard. High-level requirements on health and safety are defined in the Group's EHS policy and detailed instructions and procedures are integrated within the environment, health and safety management system at Group, country and site level. The system drives compliance with legal requirements and those defined by the Group, its customers and other stakeholders. The system also provides a framework to drive continuous improvement in health and safety performance.

The scope of the management system includes physical and psychological health and safety. It covers all employees at SKF sites, in commute or working for SKF off-site, such as maintenance engineers at a customer to SKF, please refer to disclosure 403-8.

#### 403-2 Hazard identification, risk assessment, and incident investigation

SKF and its subsidiaries apply tools and processes as prescribed in the management system and according to legal requirements to prevent accidents and ill-health. Risk assessments are carried out on a regular basis at all levels from shop floor to office. The quality of risk assessments is assured by training of EHS and other persons undertaking them. Risk assessments are a focus during internal audits and external audits, where typically a sample of risk assessments, corrective and preventative actions are reviewed.

Measures to mitigate or eliminate the identified risks are defined and implemented and risk assessments are reviewed and updated periodically or after any incident has occurred. Recordable accidents are reported and followed up both at the unit level and further up in the organisation right up to Group level.

Thorough investigations, which result in effective corrective and preventative actions must be deployed after each recordable accident. In cases where the issue is linked to risks which may be relevant for other units – the causes of the accident and the corrective and preventative measure to avoid a repeat are shared with other relevant units. In certain cases, changes may be needed in the Group level management system as part of a preventative measure.

All employees are required to report accidents, incidents and unsafe conditions – as they are a vital source of improvements and indicate opportunities to better control the associated risk. The SKF code of conduct and related processes make it clear that any management reprisals against individuals making such reports are strictly forbidden. In the unlikely event that a manager acts against the Code of Conduct – the SKF Ethics and compliance reporting line can be used to escalated this. Risks reported must be addressed at the local level but are not required to be reported in detail further up in the organisation – only the total number of such cases should be reported for the unit as this gives an indication of the level of safety related activity. No distinction is made between SKF employees, agency workers or other persons on site for the identification and control of risk.

SKF employs health and safety coordinators with expertise to support team leaders and managers at all levels in the organisation. Periodic training is also organised on health and safety procedures, roles and responsibilities for factory managers and health and safety coordinators as part of the SKF Improvement Academy and The SKF Manufacturing Academy.

Based on the risk assessment carried out for a specific machine, process or role, employees receive training so that they understand the risks and how to manage them – through following defined procedures or wearing personal protective equipment for example. Any employees who intentionally ignore the defined safety rules will face disciplinary measures in order to protect themselves and their colleagues from unsafe behaviours.

When defining corrective or preventative actions in response to identified risk, SKF's management system requires that the hierarchy of control measures principles be applied. First option is hazard elimination if this is not possible then substitution, engineering controls, administrative controls and finally personal protective equipment.

SKF's Group policies on environment, health, safety and quality are distributed and highly visible on the walls of every factory and office within the SKF Group. The policy makes it clear that the company never expects any employee to work unprotected in an unsafe environment.

#### 403-3 Occupational health services

Occupational health services are provided to workers at most units and vary from one country to another (depending on the need of the unit, the level of health service provided externally etc.). SKF cannot report exactly how the quality of such health services is evaluated and ensured. Services are generally supplied by third parties who ensure data privacy in accordance with applicable regulations.

#### 403-4 Worker participation, consultation, and communication on occupational health and safety

Worker representatives are appointed to the health and safety committees by the employees using a voting system in line with SKF World Union Council processes. SKF health and safety committees operate on factory or unit management level with the objective to bring together worker and management representatives in order to discuss and agree on needed measures to improve the health and safety performance at the factory or unit. The committees meet at least once per quarter and decisions taken shall be communicated to the workforce and acted upon and followed up. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this.

#### 403-5 Worker training on occupational health and safety

All employees, and agency workers, are provided health and safety training as well as other code of conduct training as part of induction training. More specific training is provided depending on the job description. Specific training for potentially hazardous jobs – such as working with electricity, at heights, hot work and so on is mandatory for employees working with these aspects. SKF also provided general health and safety training via mandatory e-learning. All trainings are provided during work hours. The efficiency is assessed based on accident rates in combination with severity rated which are expected to be reduced over time towards zero.

#### 403-6 Promotion of worker health

The SKF Group has for a long time provided various health promoting activities beyond occupational safety. Close to 95% of employees are covered by health promoting programmes including HIV/AIDS prevention, substance abuse, obesity, healthy life style, and stress management. Increasingly these programmes or initiatives take a more holistic approach to health and in 2018 SKF formalised this process further by issuing the SKF Group Employee Well-Being policy. This is focused on three areas: psychological work safety, life-balance and healthy life choices. The confidentiality of individuals is protected in line with general data privacy laws.

#### 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships

As part of the SKF Code of Conduct for suppliers and sub-contractors, the Group perform on-site audits on a wide variety of sustainability topics. Health and safety are central elements of these follow-ups with suppliers. Read more about this on pages 145–146 – Supplier social assessments.

SKF's employees also work at customers' sites, at suppliers or other locations outside SKF premises. As part of the process of defining such off-site activities, SKF assess health and safety risks. Occasionally, risks not previously identified by the customer or supplier are found and in such cases control measures must be agreed before work commences.

Occupational safety is also a central element in courses held by SKF for customers on mounting and dismounting bearings.

#### 403-8 Workers covered by an occupational health and safety management system

Over 86%, or some 38,000 employees are covered by the certified part of the health and safety management system. The system focuses on the manufacturing sites, workshops, logistics- and technical centres. In addition, 83%, around 3,000 consultants or agency workers under SKF's management control are also covered

by the management system. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a period before being included in the scope of SKF certification of management systems. All units are subject to internal audit every one to three years.

The data has been collected from SKF financial reporting system using headcount data for sites and units included in the Groups OHSAS 18001 certification and accidents reporting is divided by the total headcount, including agency workers and consultants.

SKF is globally certified according to OHSAS 18001, ISO 14001, ISO 9001 and ISO 50001. SKF engages a qualified third party audit company to audit for compliance to these management standards at Group and unit level. In addition to these external audits, a number of SKF employees are qualified as Group internal auditors and these individuals also audit units to assure compliance with the standards, the environment, health and safety policy and related Group instructions and requirements. Read more on the certification on [skf.com/18001](http://skf.com/18001).

#### 403-9 Work-related injuries

SKF does not separately report accidents on workers who are not employees, but includes them in the total figures reported below.

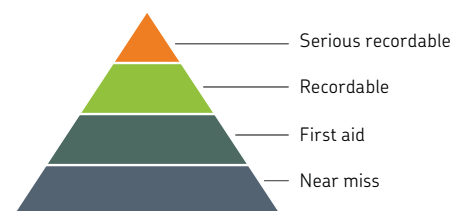
Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool.

The accident rate is calculated with  $R \times 200,000/h$ , where  
 $R$  = number of recordable accidents and  
 $h$  = total hours worked at the site/unit

	2018	2017	2016	2015	2014	2013	2012	2011
Accident rate for the Group	0.81	0.85	0.87	0.99	1.13	0.99	1.06	1.05
Rate of high consequence work related injuries	0.013	0.013						

	2018	2017
Work related fatalities	0	0
High consequence work accidents	5	5
Recordable accidents	319	324
First aid incidents	2,920	3,054
Near miss incidents	5,731	5,135
Worked hours (x 200,000)	398	390

On many units, near miss and first aid incidents occur but are still unrecorded. The ambition with the pyramid is that an increasing attention to near miss incidents reported, the better the risk mitigation becomes, which would result in a reduced number of recordable and serious accidents.



## Training and Education

### Material topic: GRI 404 – Training and Education

#### 103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of our people. With digitalisation, globalisation and new technologies come new opportunities to deliver sustainable offerings to our customers and to enhance production processes and ways of working. These opportunities create both challenges and possibilities for SKF employees to develop new competences that are of value to them as individuals, to SKF and to customers. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasingly amount of performance support opportunities aimed at the Group's employees, distributors and customers. Closely connected to social impact is employee development.

#### 103-2–103-3 Management approach, its components and evaluation

Learning and development must happen continuously in the company for SKF to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. This is why all employees can propose their own main competence development activities in e.g. an individual development plan (IDP).

The IDP consists of both generic and specific training or development activities agreed between the employee and her/his manager. The IDP is also used to follow up the completion of training and development activities. Training defined within a plan can range from job rotation, shadowing and mentoring, to specific technical training on a wide range of subjects such as project management, quality or application engineering. SKF also develops short videos and e-learning to provide cost effective training to enable communication and learning. Managers involvement and support are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available.

Effective competence development is increasingly important for SKF to succeed in the competitive market. The SKF Academy functions coordinates the overall strategy, methods and tools for enhanced learning in SKF. The Group's human resources function strive to ensure that competence development activities are designed and implemented to support the strategic business agenda.

Major recent initiatives include the REP business offer-programs targeting specific customer segments to transform the sales force from transactional sales into selling a function or value based service. Other examples are the Sales excellence for application engineers, Business acumen programs in Latin America, Factory manager executive program and different Industry 4.0-related initiatives. Local centres of learning and learning experts are in place in the main SKF operations to support implementation and local adaptation of SKF's global curriculum as well as to drive development programmes and initiatives meeting local needs.

Utilising the joint knowledge and resources of the central human resources function, SKF Academies and local learning experts, SKF has a solid foundation for development and implementation of effective competence enhancing activities. Tools and methods such as web-conferencing, e-learning, SKF's social media platforms and collaborative communities are supporting these efforts.

#### 404-2 Programmes for upgrading employee skills and transition assistance programmes

SKF offers internal programmes and funding for external education. The exact approach differs from country to country. In several entities, employees can seek scholarships from employee development foundations. These are usually open for all employees and, at times, also to children of employees. Training and skill upgrading are also done at varying depth or degrees in different parts of the organisation.

In collaboration with the SKF World Union Council, the Group identified needs to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business. Initiatives include re-skilling from production execution to maintenance by offering theoretical and practical education in electronics and mechanics, upskilling in automation technology, robotics and simulations as well as possibilities to combine work with part-time university studies in production development. At SKF in Cassino, Italy, SKF has implemented a pilot for digitalised manufacturing for ball bearings. Related to this, the factory has implemented a Digital Twin Training Package with specific training for operators, specialists, maintenance teams and management.

In Sweden, one recent re-skilling initiative is the Industry Knowledge Validation program, where employees in production and logistics are offered e-learning based training to upgrade their skills in ten knowledge areas. Upon successful completion, the certificate validates some important competences, equaling knowledge level of three year industrial high school. So far, some 150 employees have successfully passed the validation.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees that find new internal demands difficult and would like to explore professions not available at SKF.

#### 404-3 Percentage of employees receiving regular performance and career development reviews

Managers in SKF are accountable to work with their teams to define individual and team performance goals, so that employees have a clear understanding how they contribute to the overall SKF strategy. The process is supported by a global platform, aiming to have documented digitalised information. However due to local work laws, there are locations where the process is still run in other formats.

The performance management process is flexible so that managers and their teams can review and update progress and priorities throughout the year, according to business needs. The overall performance rating is defined during the performance review meeting and is used as input for the salary review process and for the talent management process.



SKF employees are encouraged to take ownership of their own competence and career progress and development. Their managers are expected to support for employees' development. Career conversations are encouraged to take place at any time, though the company encourage the review of the IDP during the performance review meeting.

As part of the ambition to keep a motivated and competent workforce, SKF has, during the year created a job rotation centre operating at Group level and implemented talent reviews using a global platform. Here, employees can add their CV and express their career aspirations. The aim with these initiatives is to improve the quality of career discussions and to stimulate even more the internal talent flow and career development within the company.

The scope of this survey covers around 16,000 staff workers included in the people and learning management system (LMS). In 2018, the scope of the users of this system expanded from 13,000 to around 16,000.

	2018		2017	
	Women	Men	Women	Men
% of LMS users with documented performance reviews	86	86	94	96
	2018		2017	
% of assigned LMS users with active individual development plans <sup>1)</sup>	65		58	

1) Individual development plans can only be reported as a total for white-collar workers and not by gender or category.

## Diversity and Equal Opportunity

### Material topic: GRI 405 Diversity and Equal Opportunity

#### 103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF that all employees compete on the same level in order to attract the most suitable people to drive its business in the best possible way. In the ever-increasing competition for talent, SKF cannot afford to attract only a certain type of people. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity as a means to gaining competitive advantage.

#### 103-2–103-3 Management approach, its components and evaluation

According to the International Labour Organisation (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality, and make sure that everyone in SKF has a fair chance to develop, compete for jobs and that competition should be based on professionalism. The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles are based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

SKF has a slightly higher turnover on women than that of men. In 2018, 25% of the new employees were women, which is higher than the total share of women today (21%). However, since the turnover rate for women are higher, SKF still stands still on total Group level. While around 1,200 of the newly hired were women, over 1,100 women also left the company. This trend is also evident at higher level management, even though women in junior management positions and local management teams have slowly increased

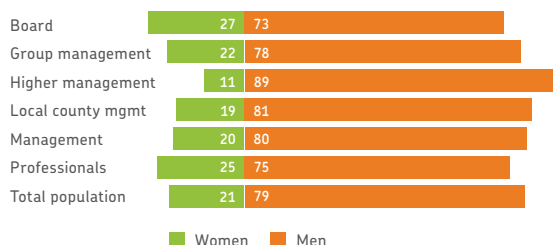
over time. One of the main challenges is to first of all attract more women into SKF and to simultaneously balance the ratio of women and men at senior management level.

This challenge is widely acknowledged within SKF and the Group's subsidiaries are encouraged to attract more diverse teams. The development of tasks in the workplace and new business models based on data analytics, software development, digitalisation of manufacturing and preventative maintenance is expected to result in a need for new competencies. Ability to attract diversity for such workforce is of outermost importance. This transformation of work can also help the SKF Group to provide new and more diverse tasks which is expected to also facilitate attraction of a more diverse workforce.

#### 405-1 Diversity of governance bodies and employees

The table provides % of women and men at different job categories within the organisation.

##### Gender diversity, %



##### The Board of Directors

Please refer to page 156.

##### Group Management

Please refer to page 161.

##### Higher management

Around top 500 managers in the SKF Group.

The actual number in this population changes over time.

##### Local management teams

Around 200 different legal entities in SKF around the world. SKF measures how many individuals are totaling these groups and proportion of women and men.

##### Managers

Those in SKF's eight big countries, who have people reporting to them, excluding executive management.

##### Professionals

The staff employees with no people reporting to them.

##### Total population

The average number of SKF employees.

#### 405-2 Ratio of basic salary and remuneration of women to men

Range Position (RP) is being used as a relative salary measure since it makes it possible to compare salary between positions and across countries. Range position is calculated for each employee by using the SKF salary structure in each country.

$RP = \text{annual base salary} / \text{Market salary midpoint per position class}$

##### Categorisation

In SKF, salaries are set by individual position classification, job category, performance and responsibilities. The Group uses an internationally well-known position classification system (IPE) for defining positions.

The complexity of the categorisation between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2018:

- **Professionals** includes job roles such as entry, specialists, expert or team leaders.
- **Management** includes roles such as professional team leader, manager, senior manager or sub-function head.

Average ratio of salaries using range position (women/men)

	Managers	Professionals
Total	-4%	-6%

##### Comments

On average, the data in the gender analysis indicates that the female employees on average have a salary 5.6% lower than the male employees. This measurement varies from -9.4% to -0.8% for the eight countries included in the analysis. There are also variations between job categories.

This gender analysis has not been able to account for factors such as age or years of experience for the employees. Such factors may explain some degree of the differences in relative salary.

##### Scope and data collection

The scope of the salary mapping includes a representative selection of SKF's biggest eight countries with a total of over 12,000 salaried employees (China, France, Germany, India, Italy, Sweden, the UK and USA).

For comparing salaries for men and women SKF uses relative salary for staff, i.e. the so-called range (in) position. The relative salary is calculated as base salary divided by market salary (mid-point). Using relative salary enables comparability of salaries independent of weight (i.e. PC). This is necessary as SKF normally has fewer individuals in higher position classes and also fewer women, which makes absolute comparison statistically inaccurate.

## Human rights

**Material topics:** Non-discrimination, Freedom of association and collective bargaining, Child labour, Forced or compulsory labour, Human rights assessments

This part of the report is prepared according to UN Guiding Principles on Business and Human Rights Reporting Framework as well as GRI Standards.

### 103-1 Materiality and boundaries

The human rights perspective has been part of SKF's work for decades and was formulated in the first edition of the SKF Code of Conduct, which was originally based on the SA8000 standard. As with other aspects, SKF's initial response to human rights was to start in its own back yard—looking at the Group's internal operations and processes, and then the supply chain with the responsible sourcing programme which was initiated in 2005. SKF owns and operates around 90 manufacturing plants across the world, employing around 27,000 people in different types of production. These facilities have local and global supply of components and raw material. Since the first assessment on risk to people, the salient issues for SKF have been related to women and men at work for SKF, or in the supply chain. The work is continually evolving as risk assessment and due diligence processes are maturing and as more knowledge is gained of how the Group's activities can have an impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and services.

#### Modern Slavery Act 2015

AB SKF is committed to ensure that the companies within the SKF Group do not allow slavery or human trafficking. As with other human rights, this commitment extends to the supply chains used by the SKF Group. This statement is made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015 and sets out the steps the SKF Group has taken to ensure that slavery and human trafficking are not taking place in company operations or supply chains.

### 103-2–103-3 Management approach, its components and evaluation (combined)

#### Background and policy commitment

Initially back in 2002, the SKF Code of Conduct was established based on a number of international external principles and charters, such as ILO conventions and the International Chambers of Commerce Business Charter for Sustainable Development and later the UN Global Compact when the Group joined in 2006. The SKF Code of Conduct has since been used to develop many related policies on specific topics and to address business partners along the value chain. When the UN Guiding Principles were first launched, SKF's Code of Conduct was updated to fulfil the demands of the policy commitment. The Code is available on SKF.com/code and is part of commercial agreements with suppliers, subcontractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, backed up by adapted versions specifically addressing SKF-owned companies, suppliers, subcontractors and distributors but they are all based on the same principles.

SKF works to integrate human rights aspects in all processes where SKF sees a risk that people could be adversely affected. This means that in screening and audit activities, such as internal ethics and compliance reviews and audits, quality audits, code of conduct audits at suppliers etc., human rights are considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated from the Group's ethics and compliance committee and to the audit committee at board level. SKF Group management are continually being updated on specific issues, such as health and safety for SKF's employees and serious incidents. The Group's EHS (environment, health and safety), and responsible sourcing programmes are vital parts of managing salient human rights in SKF operations and supply chain.

#### Salient human right risks

As explained in the introduction, SKF perceives the salient human rights being related to freedom of association and collective bargaining, compensation, work hours, health, safety, wellbeing and discrimination. So far, the salient risks are associated to the supply chain. Lack of transparency and traceability means that the further upstream in the value chain, the more difficult it is to isolate concrete human rights risks.

Other human rights issues that SKF is following closely, although not deemed salient, are related to children's rights, child labour and young workers, and forced or bonded labour. SKF follows up closely,



first of all with potential new suppliers on their risks related to these human rights. In this work, SKF focuses on geographic regions where risks are higher, where rule of law and social inequality is weaker. SKF takes in third party data to assess the overall risks on human rights as reported in global statistics.

#### **Stakeholder collaboration**

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to manage such risks. The primary stakeholder group with whom SKF has a direct relationship with the rights-holder is the employees, and so a formal social dialogue is held between local management and worker representatives. In addition to on-going dialogue, the SKF Group management meets annually with the SKF World Union Council.

SKF also keeps in close dialogues with peers and NGOs via networks such as the UN Global Compact and partakes in collaborations such as Railsponsible (specific to the railway industry), and RSPO (Roundtable on Sustainable Palm Oil) as a supplier of bearings and solutions into that industry.

#### **Trends and patterns 2018**

In 2018, there has been a continued focus on preventing harassments to safeguard safe workplaces. From assuming a number of unrecorded cases, the Group has emphasised the importance to report concerns, which has resulted in an increase in number of cases reported and questions asked. SKF's zero tolerance for harassment was emphasised during the year with mandatory trainings rolled out across the Group.

On labour related human rights, the annual conference between the SKF World Union Council and the Group focused on health, safety, decent jobs and automation driven by digitalisation. The SKF company wide business travel policy underlines that during business trips, the employee must adhere to SKF Code of Conduct and other Group Policies at all times during business travel, also during non-working hours.

#### **Integrating finding and taking action**

The SKF Code of Conduct implies that the different stakeholder aspects shall be taken into consideration prior to any business decisions. Should any decision be taken that may have adverse impact on human rights, meaning against the SKF Code of Conduct, the individual who records such an event is expected to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routine is not an option, SKF uses the an externally hosted ethics and compliance reporting mechanism. Read more about ethics and compliance reporting on page 123.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues are related to freedom of association and collective bargaining as SKF has operations in countries where such do not exist. The Group works together with the World Union Council to seek pragmatic ways to bargain collectively and nominate worker representatives. This is to be in line with its global framework agreement with the union, while at the same time making sure to adhere to local laws, and not put employees at risk.

#### **Tracking performance**

SKF continuously addresses human rights at audits, both internally and in the supply chain. SKF has established that: if the Group finds cases, and then set up action plans with business partners to reduce risks or initiate remediation activities, this is considered effective management.

#### **Impact from SKF's business and products**

SKF works to continuously to reduce any negative downstream impact relating to its business. Given the nature of SKF's business, negative impact to people from the Group's products could be related to environmental performance. SKF works to ensure compliance to laws and regulations, and to phase out material and substance hazardous to people and the natural environment.

Looking at the business that SKF makes, the purpose of SKF's products and solution is to make things work better, run faster, longer, cleaner or more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time. SKF's linkage to human rights infringements downstream in the value chain is so far considered weak. The work so far, which may be related to human rights, focuses on adhering to export control regulation. SKF has identified a few industry hotspots where the general human risks are higher, such as the extractive industries, forestry and energy as these are associated with significant land use. No actual cases of human rights violations linked to SKF risks have been identified.

#### **406-1 Incidents of discrimination and corrective actions taken**

A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved.

#### **407-1 Operations and suppliers in which the freedom of association and collective bargaining may be at risk**

The overall approach from the state towards union membership, and the level of independence of trade unions in certain countries where SKF has operations, creates challenges in this respect. SKF works pragmatically with the World Union Council and the appointed union representatives to try and address these challenges. Please refer to pages 124 and 137 for a description of the SKF World Union Council's work related to collective bargaining agreements.

#### **408-1 Operations and suppliers at significant risk for incidents of child labour**

The issue of child labour is included in SKF internal and supplier audits. In 2018, SKF found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the responsible sourcing programme, as explained below on next page.

#### **409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour**

The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2018, no cases of forced or bonded labour have been identified.

#### **412-1 Operations that have been subject to human rights reviews or impact assessments**

All SKF's units are subject to human rights reviews as part of ethics and compliance reviews. These reviews include the full range of the Code of Conduct. All SKF's units are subject to review within a three-year interval using a risk-based approach. In 2018, 50 such reviews were carried out. In addition, sites undergo risk based in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers, read more on next page.

## Supplier assessments

**Material topics: GRI 414 – Supplier social assessment and GRI 308 – Supplier environmental assessment**

### 103-1 Materiality and boundaries

SKF addresses supplier impact on the environment, human rights, labor practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers but uses a risk based approach focusing auditing on tier one and sometimes tier two suppliers.

### 103-2–103-3 Management approach, its components and evaluation (combined)

SKF's responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of Supplier development, which covers areas of delivery, quality, product compliance and Code of Conduct. All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier.

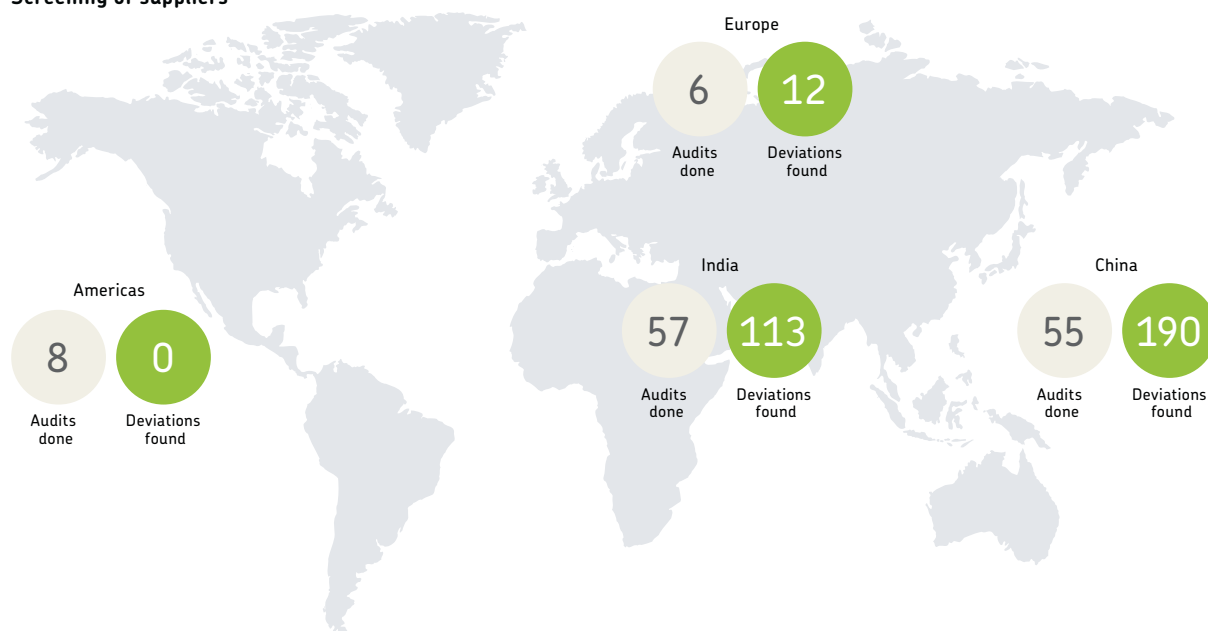
SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% spend are automatically subject to audits if they are located in high risk regions, these can be both tier one and two suppliers. In addition to these, when

risks to people or the environment are flagged, during site visits or screenings, the suppliers are escalated to be audited. This can be any type of supplier e.g. professional services or other indirect material. Screening of suppliers are done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third-party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as at a quality review. The Code of Conduct audit procedure is based around a checklist with 62 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment, bribery and fraud.

Most non-compliance cases are managed by SKF's regional purchasing offices in alignment with global category managers until resolved. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee to decide ways of resolving complex issues. First and foremost, the work focuses on establishing a strong partnership and develop targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2018, ten critical deviations were found at four suppliers in China. The cases were escalated to the Responsible Sourcing Committee, who decided to assign specific support to help these suppliers to improve. At the end of the year, the main problems have been solved and three out of four suppliers were confirmed as business approved. Sourcing was completely stopped and contract terminated

## Screening of suppliers



External risk maps, combined with SKF's operations and spend have resulted in a region or country focus when it comes to risk assessment audits and follow-ups.



with one supplier. During 2018, SKF worked to bring quality and Code of Conduct audits closer, striving to improve the process of escalate warning signs found during any supplier visits to a full Code of Conduct audit. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, and pollution and waste control. The data reported in these statements are consolidating SKF's finding into GRI's designations.

#### **414-1, 308-1 New suppliers that were screened using social and environmental criteria**

All new suppliers of direct material in high risk countries are visited on site. In other countries, all new direct material suppliers are subject to a modular quality audit, which could include or trigger a code of conduct audit. Major suppliers in high risk countries are subject to re-audit. Indirect material suppliers are audited when awarded strategic sourcing status.

In 2018, 126 suppliers have been audited, total number of suppliers assessed in other ways cannot be disclosed. 41 out of 126 has been audited without negative impact identified. With the 85 other suppliers, all (100%) have confirmed improvements.

46 new suppliers were audited on site using environmental and social criteria and two of these were disqualified to supply to SKF.

#### **414-2 Negative social impacts in the supply chain and actions taken**

In 2018, 255 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations. The most common deviations are related to occupational health and safety, work hours, compensation and employment contracts procedures. Four suppliers with major deviations have been escalated to Responsible Sourcing Committee. All cases are prioritised and addressed according to their urgency.

#### **308-2 Negative environmental impacts in the supply chain and actions taken**

In 2018, 60 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to resolve these. In Asia, SKF has established a specific focus on environmental compliance. A short-list of suppliers with higher environmental risks has been identified in 2018 and the initiative focuses on helping local suppliers under development adhere to increasing demands. SKF has the management systems, competencies and experience to do this which is a competitive advantage in the local supplier development.

## **Socioeconomic compliance**

### **Material topic: GRI 419 – Socioeconomic compliance**

#### **103-1 Materiality and boundaries**

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance programmes across the full value chain. Within this report, the focus is with SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, and treaties, and local regulation is one of the most important tasks a multinational enterprise can manage to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

#### **103-2–103-3 Management approach, its components and evaluation**

SKF has also increased the awareness of sustainability and compliance related topics for its staff during the year. A Group wide programme of short online trainings was launched with content about data privacy, harassments, how to report ethical concerns, anti-corruption, safety at work and other topics. The programme continues into 2019 with more short topics specific mandatory trainings and is expected to further reduce risks of non-conformances with policies, laws and regulations.

One important compliance area for SKF is data privacy. The GDPR (General data protection regulation) came into force within the European Union in 2018 and puts clearer responsibility and higher accountability for companies handling personal data.

As SKF shares information globally, these rules affect SKF also outside the European Union. SKF was prepared to meet this increased responsibility; and had for example established a data privacy policy, appointed data protection officers, assessed and registered IT applications and reviewed supplier contracts.

SKF follows the development on OECDs tax transparency requirements. The Swedish government has included country by country reporting of tax to be filed to the national tax authority. SKF has filed such information but does not report publicly due to sensitive competitive information. Tax is increasingly an important sustainability topic and SKF makes its tax policy public on skf.com. The global bearings market, which is the main business of the SKF Group is made up of a few number of large enterprises. This is explained more on pages 4–5 and 34. This means that by publicly disclosing earning and taxes per country, or even by region can provide competitors information on exactly where SKF do business. This information would be highly valuable for any competitor. For this reason SKF will not disclose taxes or earnings by country publicly.

In addition to the above topics and other socioeconomic areas reported within these statements, SKF works closely to ensure compliance to topics such as corruption money laundering, export control and human rights.

#### **419-1 Non-compliance with laws and regulations in the social and economic area**

No cases of non-compliances related to these topics have been identified.

# Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report

**To the general meeting of the shareholders in AB SKF (publ),  
corporate identity number 556007-3495**

## Introduction

We have been engaged by the Board of Directors of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2018 in the sections "Sustainability Statements" and "Objectives and results – environmental and social", as well as "GRI-Content Index" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 120.

## Responsibilities of the Board and Group Management

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the statutory sustainability report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 120 of the Sustainability Report, and consist of the parts of the framework for sustainability reporting published by GRI (Global Reporting Initiative) that 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 misstatement, 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, and to provide opinion statement on the statutory sustainability report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. 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. We have conducted our review regarding the statutory sustainability report in accordance with RevR 12, *Auditor's Report on the Statutory Sustainability Report*, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and

a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to AB SKF (publ) according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the same level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as 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, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A statutory sustainability report has been prepared.

Gothenburg, 5 March 2019  
Öhrlings PricewaterhouseCoopers AB

Peter Clemedtsen  
Authorised Public Accountant

Fredrik Ljungdahl  
Expert Member of FAR

## Appendix

Our limited assurance engagement has, based on an assessment of materiality and risk, included the following procedures:

- Update of our knowledge and understanding of SKF's organisation and activities,
- Assessment of suitability and application of the criteria regarding the stakeholders' need for information,
- Assessment of the outcome of the company's materiality analysis and stakeholder dialogue
- Interviews with management at group level and visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,

- Examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
- valuation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
- Analytical procedures of the information stated in the Sustainability Report,
- Assessment of the company's declared "in accordance" option according to the GRI Standards,
- Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.

# Auditor's report

**To the general meeting of the shareholders of AB SKF (publ),  
corporate identity number 556007-3495**

## **Report on the annual accounts and consolidated accounts Opinions**

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 12–30 and 34–119 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

## **Basis for Opinions**

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

## **Our audit approach**

### **Audit scope**

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting

estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

SKF is a process-oriented company and the business is highly transactional operating on a number of systems and databases that initiate and process transactions. The SKF's IT infrastructure is complex and the group is currently undergoing a significant change process including implementation of a new ERP system.

SKF has a defined Internal Controls framework, SICS. SKF has developed a set of controls for IT applications within the SICS framework being relevant for financial reporting. The group audit team together with IT specialists, have identified and assessed those processes, applications and databases that has an impact to significant transaction flows and consequently are critical for the financial reporting and our audit.

Our audit strategy included local audits for those entities and countries that together represent larger operations and markets for the group. We included those operations that were viewed to have a particular relevance including the group's treasury unit. No individual entity is viewed to represent a significant component to the group audit. In addition to the local audits, we have performed testing to group consolidation together with consolidated analytical assessments in order to have a reasonable basis for our group audit. For those entities being in scope for group audit procedures we have issued detailed instructions and received reporting and reviewed procedures performed through discussions and meetings with local teams to confirm that we have satisfactory basis for our group audit opinion.

### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

**Key audit matters**

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

**Key audit matter****How our audit addressed the Key audit matter****Valuation of intangible assets****Refer to note 10 of the consolidated accounts for the related disclosures**

As of 31 December 2018 intangible assets amount to SEK 17,722 million for the group. Out of this total, an amount of SEK 10,347 million relate to goodwill and SEK 2,288 million to tradenames and trademarks with an indefinite life.

According to IFRS, the company is required, at least annually, to test these assets for impairment.

Impairment testing involves assumptions with a significant degree of judgment, in particular for those assumptions that relate to the company's applied discount rates and expectations on market development and the future cash flow generation of the business.

Valuation of intangible assets and impairment testing represent a key audit matter for our audit in light of the significant values of the group's intangible assets and the inherent uncertainties of assumptions and estimates involved.

Our audit procedures and testing of the valuation and impairment tests of intangible assets include areas and tests described below, however are not limited to these.

We have evaluated models for impairment testing used by the company together with valuation and accounting specialists and have assessed these to be in line with common valuation techniques used.

We have assessed assumptions used in the calculations and that are further described in note 10. Our procedures to assess assumptions used included to compare company's future cash flow forecasts to available business plans and other information relevant for the estimated development of the business.

We have assessed the group's sensitivity analyses of impairment tests to changes in significant assumptions and the risk that negative changes could lead to an impairment.

We have further performed independent sensitivity analyses and performed back testing to prior year assumptions to under build the quality of forecasting process and assess assumptions for reasonableness and consistency.

**Recognition of provisions and contingent liabilities for lawsuits and claims****Refer to Risk management page 58 and note 18 of the consolidated accounts for the related disclosures**

SKF together with other companies in the bearing industry are part of investigations from competition authorities in different territories. Civil claims have been initiated from purchases of bearing to SKF together with the other companies affected by the EU ruling and fine for violation of EU competition rules in 2014. There is a risk for further civil claims from direct and indirect purchasers of bearings.

Risks and uncertainties from such investigations and potential claims need to be carefully assessed and analyzed. The assessment of outcome from legal proceedings and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. These considerations make the area one of the key audit matters in our audit.

Our independent evaluation of management's descriptions and assessments of legal proceedings and claims include areas described below, however are not limited to these.

We have performed inquiries to local management as well as to group management and parent company.

Our procedures further involve reading of minutes and the group's internal documentation of legal proceedings and claims to assess the accuracy and completeness of the disclosures and accounting treatment in the consolidated accounts.

In specific cases, we have collected statements from external legal advisors to risks and assessments made.

### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–11, 31–33, 120–146 and 160–164. Other information further includes those documents listed in "Topics related to SKF's annual report". Beyond other information in this document the company publishes a yearly report "SKF in brief 2018" that we expect to have access to after the date of the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information that we have had access to prior the date of this auditor's report, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to

continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### Report on other legal and regulatory requirements

#### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.



**Basis for Opinions**

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

**Responsibilities of the Board of Directors and the Managing Director**

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

**Auditor's responsibility**

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

PricewaterhouseCoopers AB was appointed auditor of AB SKF (publ) by the general meeting of the shareholders on the 29 March 2017 and has been the company's auditor since the 26 April 2013.

Gothenburg 5 March, 2019  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Auditor in Charge*  
*Authorised Public Accountant*

Bo Karlsson  
*Authorised Public Accountant*

# Corporate Governance Report

## Introduction

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organisational structure with clear areas of responsibility and clear rules for delegation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship.

The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act and the Swedish Annual Accounts Act, and the regulatory system of NASDAQ Stockholm AB (Stockholm Stock Exchange).

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–4, are found at the following pages of the Administration Report for the Group in the Annual Report 2018:

- Annual Accounts Act Chapter 6, § 6, section 3 and 4 » see page 51.

## Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July, 2005. The Code has been revised several times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2018 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.

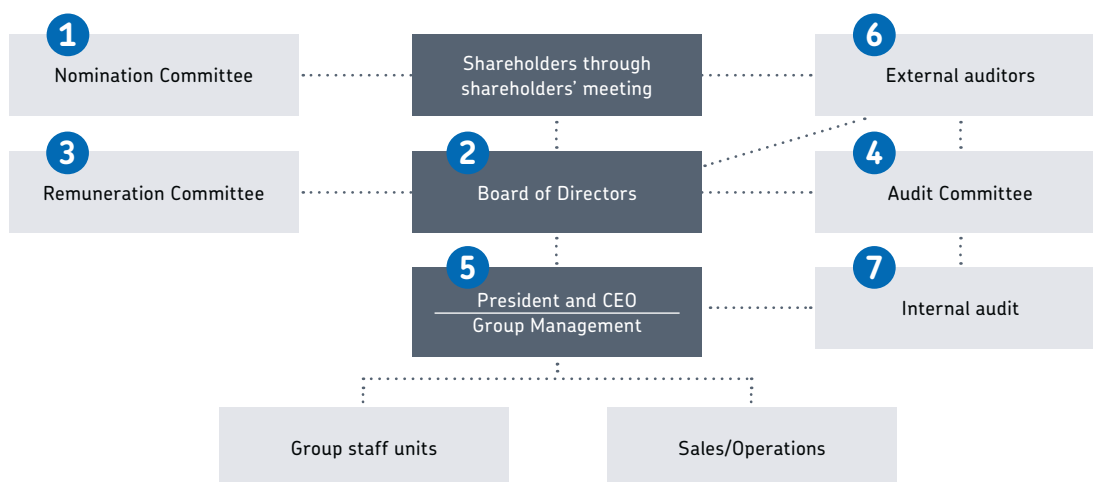
## General information about how the company is managed

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 organisation and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continuously monitoring SKF's vision, mission, values and drivers. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board annually adopts written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF is organised in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group People, Communication, Legal & Sustainability, see pages 160–161 in the Annual Report 2018. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area. Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.



## 1 Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2018, 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 2018 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 2019. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 14 September, 2018, 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 2019:

- Marcus Wallenberg, FAM
- Ramsay Brufer, Alecta
- Anders Jonsson, Skandia
- Anders Algotsson, AFA Försäkring

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2019:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2020

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2019.

## 2 The Board of Directors

### Composition and remuneration of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of twelve Board members, with a maximum of five deputies. The Board members are elected each year at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

The Nomination Committee proposes decisions to the Annual General Meeting regarding electoral and remuneration issues, including proposals for the composition and remuneration of the

Board. As reflected in the Nomination Committee's statement regarding the composition of the proposed Board and the proposed remuneration presented to the Annual General Meeting 2018, the Nomination Committee has applied the provisions in the Code as diversity policy. The objectives of the diversity policy is for the Board to have a composition appropriate to the company's operations, phase of development and other relevant circumstances; that the Board members elected by the shareholders' meeting collectively are to exhibit diversity and breadth of qualifications, experience and background; and that the company is to strive for gender balance on the Board. The Annual General Meeting resolved to appoint Board members in accordance with the Nomination Committee's proposal.

Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2018. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the President, is included in the management of the company.

Information on the composition and remuneration of the Board members decided upon by the Annual General Meeting 2018 can be found in the Annual Report 2018, Consolidated Financial Statements, Note 23.

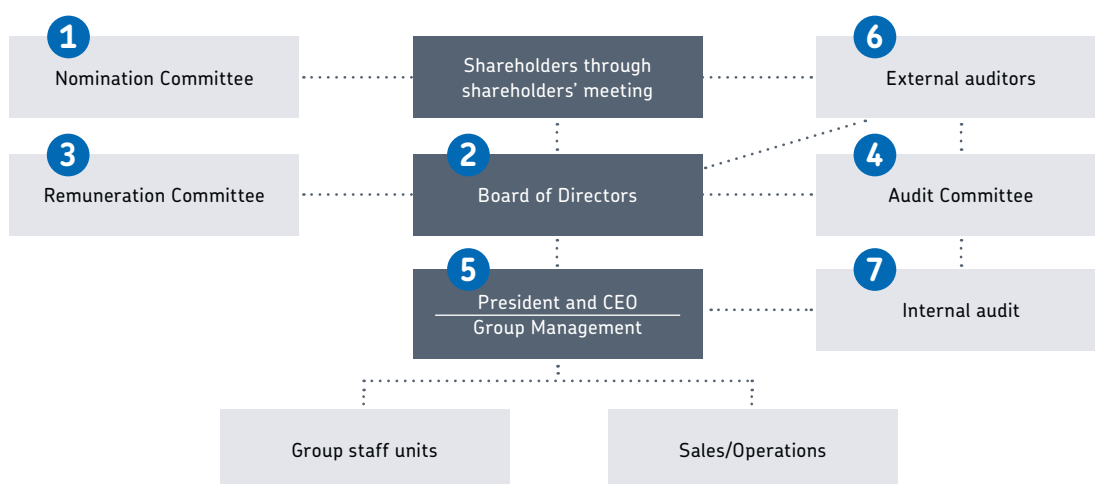
### Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Code. The table below shows the Board member's independence according to the requirements of the Code in relation to the company and 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
Hans Stråberg	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	•
Hock Goh	•	•
Alrik Danielson	•	•
Nancy Gougarty	•	•
Ronnie Leten	•	•
Barb Samardzich	•	•
Colleen Repplier	•	•

### Activities of the Board of Directors

The Board held eight meetings in 2018. The Board members were present at the Board meetings as described in the table on page 154.



Name of the Board member	Presence/total number of meetings
Hans Stråberg (chairman, elected March 2018)	6/8
Leif Östling (resigned March 2018)	2/8
Peter Grafoner	8/8
Lars Wedenborn	8/8
Baba Kalyani (resigned March 2018)	0/8
Hock Goh	8/8
Marie Bredberg (resigned March 2018)	2/8
Alrik Danielson	8/8
Nancy Gougarty	8/8
Ronnie Leten	8/8
Barb Samardzich	8/8
Colleen Repplier (elected March 2018)	6/8
Jonny Hilbert	8/8
Zarko Djurovic	8/8
Kennet Carlsson	7/8
Claes Palm	7/8

The Board adopts written rules of procedure annually for its internal work. These rules prescribe i.a.:

- the number of Board meetings and when they are to be held,
- the items normally included in the Board agenda, and
- 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, and
- the allocation of the tasks between the Board and the President.

Issues dealt with by the Board in 2018 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, antitrust related matters, 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. The Board visits on a regular basis different SKF sites in order to enhance knowledge about the SKF Group.

### 3 Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Hans Stråberg as chairman, and the Board members Peter Grafoner, Lars Wedenborn and Ronnie Leten.

The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President. The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval. The employment conditions for the President shall be approved by the Board.

The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than three weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held three meetings in 2018. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/ Total no. of meetings
Hans Stråberg (Chairman, elected March 2018)	2/3
Leif Östling (Chairman, resigned March 2018)	1/3
Peter Grafoner	3/3
Lars Wedenborn	3/3
Ronnie Leten	3/3

#### 4 Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Hans Stråberg and the Board member Ronnie Leten.

The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review and control of the financial reporting, and of the internal control, internal audit and risk management regarding the financial reporting.

The Audit Committee held eight meetings in 2018. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/ Total no. of meetings
Hans Stråberg (elected March 2018)	7/8
Leif Östling (resigned March 2018)	1/8
Lars Wedenborn (chairman)	8/8
Marie Bredberg (resigned March 2018)	1/8
Ronnie Leten	8/8

#### Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

#### 5 President and Chief Executive Officer Alrik Danielson

Alrik Danielson, President and CEO of AB SKF since 2015.  
Board member of AB SKF's Board since 2015. Born 1962.

#### Education and job experience

Bachelor of Science in Business Administration and International Economics, School of Business Economics and Law, University of Gothenburg. Several positions within the SKF Group 1987–2005 and President and CEO of Höganäs AB 2005–2014.

#### Other assignments

Board member of Association of Swedish Engineering Industries since 2015.

#### Shareholding (own and/or held by related parties)

29,627 SKF B

#### Material shareholdings or other holdings

(own and/or held by related parties) in companies with which the company has important business relationships: 0

#### 6 The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2017, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2021. Peter Clemedtson is the auditor in charge and Bo Karlsson is co-signing auditor.

Peter Clemedtson has many years of experience as the auditor in charge at a number of other listed companies, such as Nordea Bank AB (publ), AB Volvo, Ericsson, Electrolux and SEB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as ASSA ABLOY AB, Investment AB Latour and unlisted companies such as Scania AB.

The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.

PwC has during 2018 been involved in matters besides the audit and audit services other than the audit assignment for 2018. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2018 amount to SEK 11 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 2018 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with four Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.



# The Board of Directors as of 31 December, 2018

## 1 Hans Stråberg

Chairman, Board member since 2018  
Born 1957

### Education and job experience

Master of Science in Engineering from Chalmers University of Technology, Gothenburg. President and CEO of Electrolux AB 2002–2010. Several leading positions within the Electrolux Group in Sweden and USA since 1983. Former EU Co-Chair TABD, Trans-Atlantic Business Dialogue.

### Other assignments

Chairman of Atlas Copco AB, Roxtec AB, CTEK AB and Nikkarit AB, Vice Chairman of Stora Enso Oyj and Orchid Ortopedics Inc. Board member of Investor AB, N Holding AB, Mellby Gård AB and Hedson AB

**Shareholding** (own and/or held by related parties) 15,000 SKF B

## 2 Peter Grafoner

Board member since 2008  
Born 1949

### Education and job experience

Doctor's degree in Engineering, University of Dortmund. Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996–2000 and vice Chairman of the Management Board of Linde AG during 2000–2001.

### Other assignments

Chairman of the Board of Coperion GmbH.

**Shareholding** (own and/or held by related parties) 6,700 SKF B

## 3 Lars Wedenborn

Board member since 2008  
Born 1958

### Education and job experience

Master of Science in Economics, University of Uppsala. EVP and CFO of Alfred Berg 1991–2000, EVP and CFO of Investor AB 2000–2007, and CEO of FAM AB, wholly owned by the Wallenberg Foundations, since 2007.

### Other assignments

Board member of NASDAQ Group Inc., Höganäs AB, Nefab AB, IPCO AB and FAM AB.

**Shareholding** (own and/or held by related parties however not including FAM AB) 10,000 SKF A, 11,500 SKF B

## 4 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. 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

Member of the Board of Stora Enso Oyj since 2012, Santos Australia since 2012 and Vesuvius PLC since 2015.

**Shareholding** (own and/or held by related parties) 0

## 5 Alrik Danielson

President and Chief Executive Officer of AB SKF

For more details, see page 161

## 6 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. Several leading positions within TRW Automotive, 2005–2012, General Motors Corporation and Delphi Corporation from 1978–2005. President and Chief Operating Officer for Westport Innovations from 2013–2016.

### Other assignments

CEO and member of the Board of Westport Fuel Systems Inc. since 2016 and Board member of Trimas Corporation since 2013.

**Shareholding** (own and/or held by related parties) 0

## 7 Ronnie Leten

Board member since 2017  
Born 1956

### Education and job experience

Master of Science in Applied Economics, University of Hasselt, Belgium. CEO and Board member of Atlas Copco AB between 2009 and 2017.

### Other assignments

Chairman of Ericsson and Epiroc. Member of the Board of IPCO AB.

**Shareholding** (own and/or held by related parties) 10,000 SKF B

## 8 Barb Samardzich

Board member since 2017  
Born 1958

### Education and job experience

Bachelor of Science in Mechanical Engineering, University of Florida, Master of Science in Mechanical Engineering, Carnegie Mellon University, Master of Science in Engineering Management, Wayne State University. Various management positions at Ford Motor Company, 1990–2016, the latest as Chief Operating Officer of Ford Europe, 2013–2016. Engineer in the Commercial Nuclear Fuel Division at Westinghouse Electric Corporation, 1981–1990.

### Other assignments

Board member of Adient plc, Velodyne LidAR and Bombardier Recreational Products. Board of Trustee member of Lawrence Technological University.

**Shareholding** (own and/or held by related parties) 0

## 9 Colleen Repplier

Board member since 2018  
Born 1960

### Education and job experience

Bachelor's degree in Electrical Engineering, University of Pittsburgh and MBA from the University of Central Florida. Vice president and general manager of Johnson Controls. Several leading positions within Tyco 2007–2016 and Home Depot 2005–2007, and in the energy industry within GE Energy 1994–2003, Bechtel Corporation 1992–1994 and Westinghouse 1983–1992.

### Other assignments

Board member of Kimball Electronics.

**Shareholding** (own and/or held by related parties) 0

## Auditors

### Peter Clemedtson

Authorised Public Accountant  
Auditor in charge  
PricewaterhouseCoopers AB

### Bo Karlsson

Authorised Public Accountant  
PricewaterhouseCoopers AB



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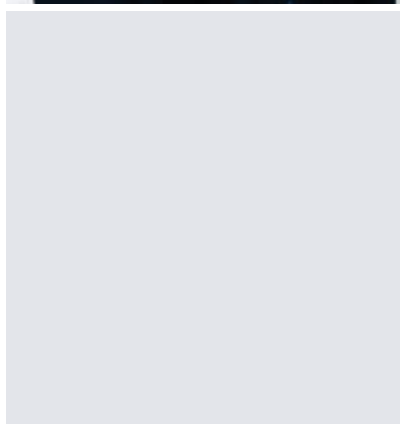
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## Employee representatives

### 10 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

### 11 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

### 12 Kennet Carlsson

Deputy Board member since 2015  
Born 1962

**Education and job experience**  
Employed in the SKF Group since 1979.  
Board member 2008–2015 and deputy  
board member 2001–2008.

**Other assignments**  
Chairman SKF World Union Committee

**Shareholding** (own and/or held  
by related parties) 100 SKF A

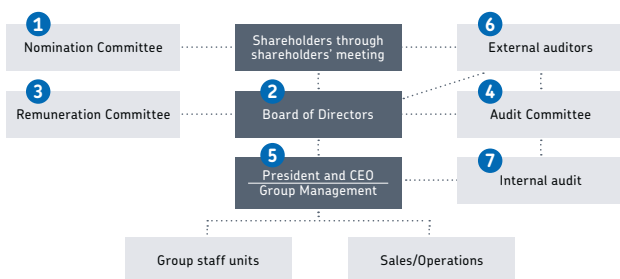
### 13 Claes Palm

Deputy Board member since 2016  
Born 1971

**Education and job experience**  
Employed in the SKF Group since 1989

**Other assignments**  
Board member of Unionen at  
SKF in Gothenburg.

**Shareholding** (own and/or held  
by related parties) 0



## 7 Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 1992 by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. SKF annually updates the review of the internal control framework to ensure alignment with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:

The control environment component is the foundation for the other components. Through its policies, instructions and organisational structure SKF has documented the division of responsibility throughout the SKF organisation. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year.

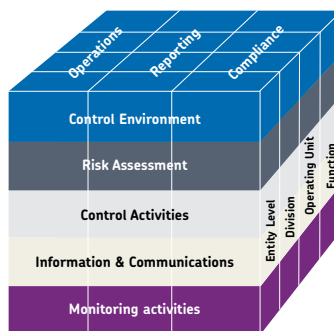
These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 5 March, 2019  
The Board of Directors



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# Auditor's report on the Corporate Governance Report

**To the general meeting of the shareholders in AB SKF (publ),  
corporate identity number 556007-3495**

## **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance report for the year 2018 on pages 152–158 and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the examination**

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of

the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

## **Opinions**

A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

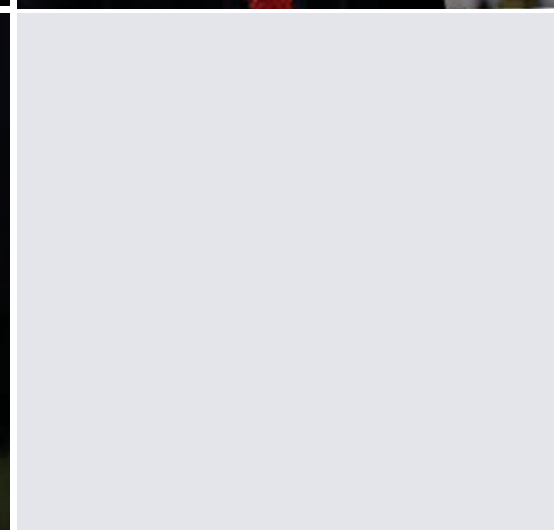
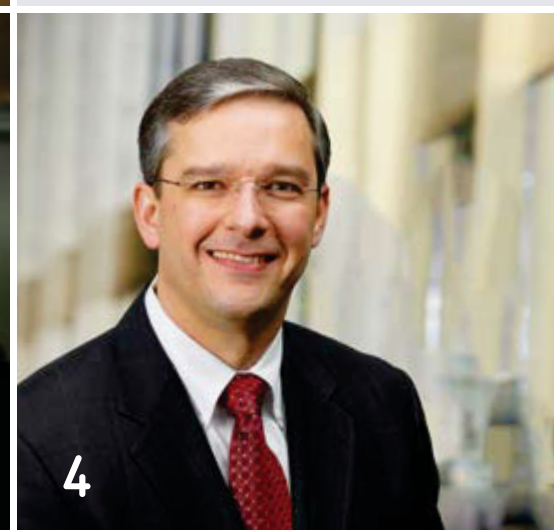
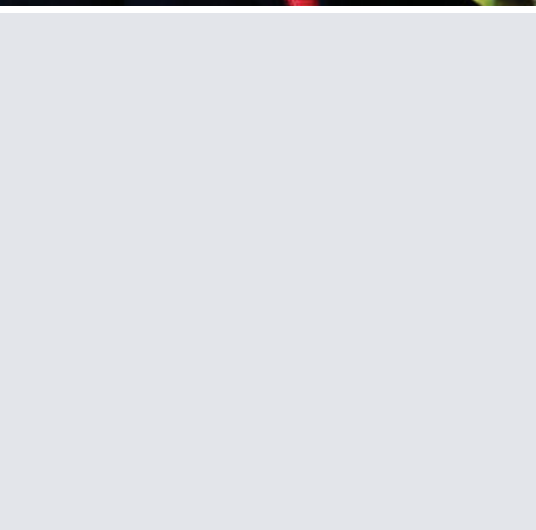
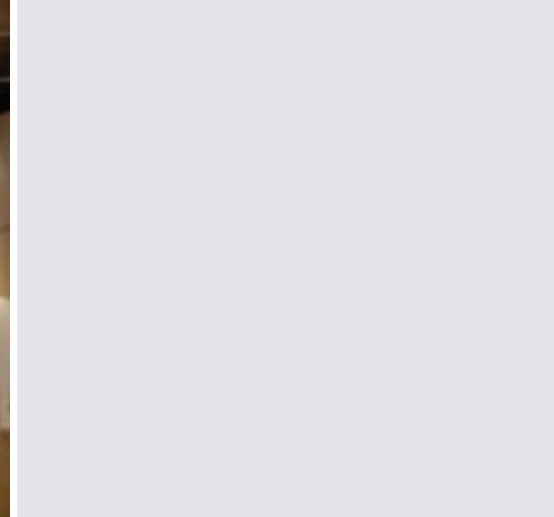
Gothenburg, 5 March, 2019  
PricewaterhouseCoopers AB

*Signature on Swedish original*

Peter Clemedtson  
*Auditor in charge*  
*Authorised Public Accountant*

Bo Karlsson  
*Authorised Public Accountant*







# Group Management as of 31 December, 2018

## 1 Alrik Danielson

President and CEO, SKF Group  
Born 1962

Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg.  
Employed since 2014 and 1987–2005

### Previous positions

President and CEO of Höganas AB 2005–2014,  
President SKF Industrial Division and several other positions within SKF.

### Board member

Association of Swedish Engineering Industries

### Shareholding in SKF

29,627 SKF B

## 2 Christian Johansson

Chief Financial Officer and Senior Vice President  
Born 1963

Bachelor of Science in Business Administration, Stockholm University, INSEAD, Fontainebleau, France.  
Employed since 2015

### Previous positions

CFO and CIO Gunnebo AB, CFO Volvo Trucks, Regional manager Central East Europe ABB Industrial Service and several other senior positions at Volvo Group, ABB and Alfa Laval.

### Board member

Advisory board, University of Gothenburg, School of Business, Economics and Law

### Shareholding in SKF

7,000 SKF B

## 3 Bernd Stephan

President, Automotive and Aerospace  
Born 1956

Bachelor of Engineering, Mechanical Engineering, Dipl.Ing., University of Essen.  
Employed since 1994

### Previous positions

Senior Vice President Group Technology and CTO, and several other positions within SKF.

### Board member

SKF India Ltd., SKF GmbH – Germany, SKF Austria AG

### Shareholding in SKF

4,936 SKF B

## 4 John Schmidt

President, Industrial Sales Americas  
Born 1969

Bachelor of Science, Mechanical Engineering from the Pennsylvania State University.  
Employed since 2001 and 1993–1998

### Previous positions

President and CEO SKF USA Inc, Vice President Industrial Market NAM and several other positions within SKF.

### Shareholding in SKF

654 SKF B

## 5 Erik Nelander

President, Industrial Sales Europe and Middle East and Africa  
Born 1963

Master of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg.  
Employed since 1987

### Previous positions

Vice President SKF Industrial Market, President SKF China, Business Unit Director SKF Aerospace, and several other positions within SKF.

### Shareholding in SKF

5,228 SKF B

## 6 Patrick Tong

President, Industrial Sales Asia  
Born 1962

Executive Master Degree of Business Administration, Hong Kong University of Science and Technology.  
Employed since 1989

### Previous positions

President Specialty Business, President SKF Second Brands Bearings, as well as several other positions within SKF.

### Shareholding in SKF

4,703 SKF B

## 7 Victoria Van Camp

CTO and President, Innovation and Business Development  
Born 1966

Master of Science in Mechanical Engineering, PhD in Machine Elements; Luleå University of Technology, Sweden.  
Employed since 1996

### Previous positions

President Business and Product Development, Director Industrial Market Technology and Solutions, Director of Product Innovation Lubrication BU, as well as several other positions within SKF.

### Board member

BillerudKorsnäs AB and Amexci AB

### Shareholding in SKF

1,613 SKF B

## 8 Kent Viitanen

President, Bearing Operations  
Born 1965

Business and Economics, School of Business, Economics and Law, University of Gothenburg.  
Employed since 1988

### Previous positions

Senior Vice President People, Communication and Quality, Director Renewable Energy and several other positions within SKF.

### Board member

Chalmers University of Technology and Gothenburg University School of Executive Education.

### Shareholding in SKF

140 SKF A and 4,725 SKF B

## 9 Carina Bergfelt

General Counsel and Senior Vice President, Group People, Communication, Legal and Sustainability and Secretary to the Board  
Born 1960

Master of Law, Lund University.  
Employed since 1990

### Previous position

Legal Counsel

### Board member

The Association of Exchange listed Companies

### Shareholding in SKF

5,618 SKF B

# Seven-year review, SKF Group

MSEK unless otherwise stated	2018	2017	2016	2015	2014	2013	2012
<b>Income statements</b>							
Net sales	85,713	77,938	72,589	75,788	70,778	63,423	64,395
Operating expenses incl. associated comp.	-74,664	-69,346	-65,062	-68,820	-62,977	-59,730	-57,081
Operating profit	11,049	8,592	7,527	6,968	7,801	3,693	7,314
Financial income and expense, net	-861	-934	-788	-1,134	-1,133	-872	-906
Profit before taxes	10,188	7,658	6,739	5,834	6,668	2,821	6,408
Taxes	-2,603	-1,898	-2,530	-1,760	-1,918	-1,777	-1,592
Net profit	7,585	5,760	4,209	4,074	4,750	1,044	4,816
<b>Balance sheets</b>							
Intangible assets	17,722	17,360	19,568	21,485	22,138	19,023	9,800
Deferred tax assets	3,563	3,633	3,806	3,185	3,350	2,015	1,835
Property, plant and equipment	16,688	15,762	15,746	15,303	15,482	14,095	13,086
Non-current financial and other assets	1,964	1,627	1,688	1,607	1,862	1,276	1,188
Inventories	17,826	17,122	15,418	14,519	15,066	13,700	12,856
Trade receivables	13,842	13,416	13,462	11,777	12,595	11,189	10,084
Other current assets	15,568	12,283	14,219	11,857	11,146	9,693	11,908
<b>Total assets</b>	<b>87,173</b>	<b>81,203</b>	<b>83,907</b>	<b>79,733</b>	<b>81,639</b>	<b>70,991</b>	<b>60,757</b>
Equity	35,452	29,823	27,683	26,282	24,404	21,152	22,468
Provisions for post employment benefits	12,894	12,309	13,945	13,062	13,978	9,902	9,881
Deferred tax provisions	1,118	1,100	1,380	1,373	1,717	2,207	481
Other provisions	2,541	2,275	2,224	2,095	2,083	5,011	1,676
Financial liabilities	17,157	18,508	23,650	23,825	26,105	21,344	15,675
Trade payables	7,831	7,899	7,100	5,671	5,938	4,740	4,189
Other liabilities	10,180	9,289	7,925	7,425	7,414	6,635	6,387
<b>Total equity and liabilities</b>	<b>87,173</b>	<b>81,203</b>	<b>83,907</b>	<b>79,733</b>	<b>81,639</b>	<b>70,991</b>	<b>60,757</b>
<b>Key figures<sup>1)</sup> (in percentages unless otherwise stated)</b>							
Operating margin	12.9	11.0	10.4	9.2	11.0	5.8	11.3
EBITA, MSEK	11,541	9,064	8,016	7,522	8,289	3,998	7,552
EBITDA, MSEK	13,522	10,916	9,895	9,826	10,192	5,586	9,145
Return on capital employed	17.6	14.2	11.9	10.9	13.9	7.5	16.2
Return on equity	22.8	20.4	16.5	15.7	21.4	4.6	21.6
Net working capital, % of sales	27.8	29.0	30.0	27.2	30.7	31.8	29.1
Net debt/equity	49.1	71.3	84.4	99.9	126.6	117.3	72.5
Turnover of total assets, times	1.00	0.96	0.89	0.92	0.95	0.97	1.07
Gearing	45.0	49.9	55.3	56.7	60.5	59.2	52.8
Equity/assets	40.7	36.7	33.0	33.0	29.9	29.8	37.0
Net cash flow after investments before financing, MSEK	8,326	4,753	7,717	6,416	2,137	-5,390	3,045
<b>Investments and employees</b>							
Additions to property, plant and equipment, MSEK	2,647	2,243	1,869	2,063	1,852	1,746	1,968
Research and development expenses, MSEK	2,591	2,395	2,246	2,372	2,078	1,840	1,607
Patents – number of first filings, MSEK	202	192	191	461	488	468	421
Average number of employees	42,565	43,814	43,508	44,305	46,509	45,220	44,168
Number of employees registered at 31 December	44,428	45,678	44,868	46,635	48,593	48,401	46,775

1) See page 164 for definitions. SKF has applied the guidelines issued by ESMA (European Securities and Markets Authority) on APMs (Alternative Performance Measures). These key figures are not defined or specified in IFRS but provides complementary information to investors and other stakeholders on the company's performance. The definition of each APM is presented at the end of the interim report. For the reconciliation of each APM against the most reconcilable line item in the financial statements, see [skf.com/group/investors/](http://skf.com/group/investors/).

## Three-year review

MSEK unless otherwise stated	2018	2017 <sup>1)</sup>	2016 <sup>1)</sup>
<b>Industrial</b>			
Net sales	60,593	53,875	50,518
Operating profit	9,430	7,260	6,128
Operating margin, %	15.6	13.5	12.1
Assets and liabilities, net	38,219	37,751	39,491
Registered number of employees	36,360	37,690	37,128
<b>Automotive</b>			
Net sales	25,120	24,063	22,071
Operating profit	1,619	1,332	1,399
Operating margin, %	6.4	5.5	6.3
Assets and liabilities, net	10,151	9,274	9,311
Registered number of employees	7,245	7,165	6,905

1) Previously published amounts have been restated to conform to the current Group structure. For more information refer to Note 2 in the consolidated financial statements.

## Per-share data<sup>1)</sup>

SEK per share unless otherwise stated	2018	2017	2016	2015	2014	2013	2012 <sup>3)</sup>
Earnings per share	16.0	12.02	8.75	8.52	10.10	2.0	10.23
Dividend per A and B share	6.00 <sup>2)</sup>	5.50	5.50	5.50	5.50	5.50	5.50
Total dividends, MSEK	2,504	2,504	2,504	2,504	2,504	2,504	2,504
Purchase price of B shares at year-end on NASDAQ Stockholm	134.5	182.2	167.6	137.2	164.9	168.7	163.2
Equity per share	74	62	57	54	51	44	47
Yield in percent (B)	4.5 <sup>2)</sup>	3.0	3.3	4.0	3.3	3.3	3.4
P/E ratio, B (share price/earnings per share)	8.4	15.2	19.2	16.1	16.3	84.2	16.0
Cash flow from operations, per share	18.3	14.1	15.7	17.0	10.5	11.6	12.5
Cash flow, after investments and before financing, per share	18.3	10.4	17.0	14.1	4.7	-11.8	6.7

1) See page 164 for definitions.

2) According to the Board's proposal for the year 2018.

3) 2012 restated for amended IAS 19.

## Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1–1,000	51,887	85.0	14,056,120	3.1
1,001–10,000	8,273	13.6	22,169,214	4.9
10,001–100,000	665	1.0	18,255,539	4.0
100,001–	217	0.4	340,779,509	74.8
Anonymous ownership	n/a	n/a	60,090,686	13.2
	<b>61,042</b>	<b>100</b>	<b>455,351,068</b>	<b>100</b>

Source: Monitor, Modular Finance as of 31 December, 2018.

# Definitions

## Average number of employees

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

## Basic earnings per share

Net profit less non-controlling interests divided by the ordinary number of shares.

## Currency impact on operating profit

The effects of both translation and transaction flows based on current assumptions and exchange rates compared to the corresponding period last year.

## Debt

Loans plus provisions for post-employment benefits, net.

## Diluted earnings per share

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares.

## EBITA (Earnings before interest, taxes and amortisation)

Operating profit before amortisations.

## EBITDA (Earnings before interest, taxes, depreciation and amortisation)

Operating profit before depreciations, amortisations, and impairments.

## Equity/assets ratio

Equity as a percentage of total assets.

## Equity per share

Equity excluding non-controlling interests divided by the ordinary number of shares.

## Gearing

Debt as a percentage of the sum of debt and equity.

## Net debt

Debt less short-term financial assets excluding derivatives.

## Net debt/EBITDA

Net debt, as a percentage of twelve months rolling EBITDA.

## Net debt/equity

Net debt, as a percentage of equity.

## Net worth per share (Equity per share)

Equity excluding non-controlling interests divided by the ordinary number of shares.

## Operating margin

Operating profit, as a percentage of net sales.

## Operational performance

Operational performance includes the effects on operating profit related to changes in organic sales, changes in manufacturing volumes and manufacturing cost and changes in selling and administrative expenses.

## Organic sales

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

## P/E ratio

Share price at year end divided by basic earnings per share.

## Registered number of employees

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

## Return on capital employed (ROCE)

Operating profit plus interest income, as a percentage of twelve months rolling average of total assets less the average of non-interest bearing liabilities.

## Return on equity (ROE)

Net income as a percentage of twelve months rolling average of equity.

## Turnover of total assets

Net sales in relation to twelve-month rolling average of total assets.

## Total value added (TVA)

TVA is the operating profit, less the pre-tax cost of capital. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 6% above the risk-free interest rate.

## Working capital as % of annual sales (NWC)

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

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## Contact information

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# General information

## Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Thursday, 28 March, 2019. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Friday, 22 March, 2019, and must notify the company at the latest on the same day via the internet, [www.skf.com](http://www.skf.com), or by letter to:

AB SKF  
c/o Computershare AB, "AGM 2019 of AB SKF"  
Box 610  
SE-182 16 Danderyd  
Sweden

or by telephone +46 31 337 25 50  
(weekdays 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 Annual General Meeting. Any such re-registration for the purpose of establishing voting rights shall take place so that the shareholder is recorded in the shareholders' register by Friday, 22 March 2019. 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 6.00 per share for 2018. Monday, 1 April 2019 is proposed as the record date for shareholders to be entitled to receive dividends for 2018. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Thursday, 4 April, 2019.

## Financial information and reporting

Publishing dates for financial reports 2019:

Annual Report 2018	6 March
First-quarter report	25 April
Half-year report	17 July
Nine-month report	22 October

The reports are available in Swedish and English on [skf.com/Investors](http://skf.com/Investors) and in the Investor Relations app. A subscription service for press releases and interim reports, sent via e-mail or SMS, is available on the website.



## Cautionary statement

This report contains forward-looking statements that are based on the current expectations of the management of SKF. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in the Administration Report in this Annual Report.

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