

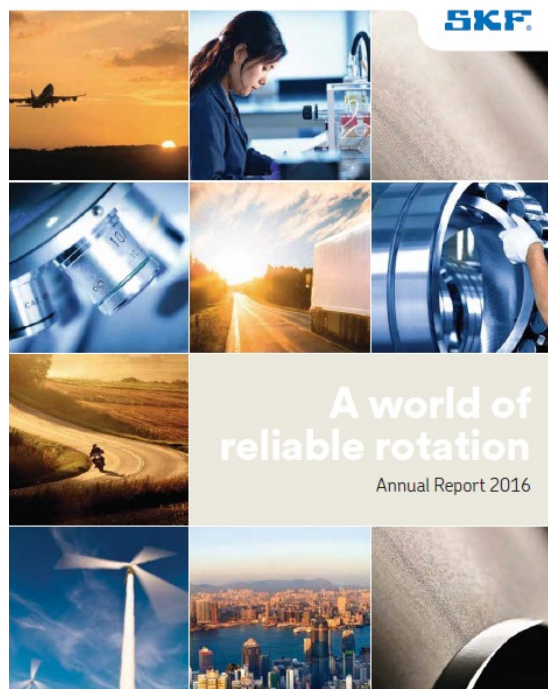
Report Pick

ReportWatch e.com

May 2017

SKF

Göteborg, Sweden



Report Facts

Company name: AB SKF

Fiscal year end: December 31, 2016

Report title: *A world of reliable rotation*

President and CEO: Alrik Danielson

Chairman: Leif Östling

Report length: 160 pages

Auditors: PricewaterhouseCoopers AB

Website: www.skf.com/group/investors/reports-and-presentations

Email: skf.ir@skf.com

Design and production: SKF and Solberg

Report Rating: ★★★★★

(To qualify for *Report of the Month*, the minimum rating required is ★★*(★). Rating scale below)

Profile

SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems... SKF works to reduce friction, make things run faster, longer, cleaner and more safely...

(Report excerpts. Italics are own company's words)

Key Figures

Net sales: SEK 72,787 million

Operating profit: SEK 7,527 million

Profit (before taxes): SEK 6,739 million

Earnings per share: SEK 8.75

Dividend: SEK 5.50

Return on equity: 16.5%

Net debt/equity: 84.4%

Employees: 44,868

(Source: figures sourced from the annual report only)

Competitors

- Schäffler
- NSK
- Minebea
- Timken
- NTN
-

Report Rating: ★★☆☆

Triple A

- > SKF overview clearly depicts the *why, what, where, how, to whom*.
- > From innovation to cost competitiveness to maximized cash flow, strategic priorities are well developed.
- > Transparency over directors and executives' details.

Double A

- > Rather compact 160-page report.
- > *How SKF creates value*, driving forces and trends, resources.
- > *Objectives and attainment* set forth.
- > Good segment information.
- > Description and management of risks. *Sensitivity* analysis.
- > Share indicators and shareholder information.
- > Comments next to financial statements.
- > *Actions over the value chain for environmental and social performance*, with related *specific standard disclosures*.
- > Historical figures and ratios.

Simple A

- > *CEO's message* short and to the point.
- > Primary segments defined too broadly?
- > Governance matters OK -e.g. a detailed *Auditor's report*- but not developed enough.

B sides

- > Key figures are much too short.
- > No HTML online report.

Rating Scale

★★★★★: World-class ★★★★★(★): First-rate ★★★★★: Excellent ★★★(★): Fine ★★*: Average
★*(★): Uneven ★*: Ordinary ★(★): Deficient ★: Unsatisfactory (★): Uncompetitive

The rating is based on ReportWatch internal desk research and does not take into account the independent Rating Panel's judgment. It may therefore differ from ratings (to be) published in the **Annual Report on Annual Reports**.

e.com-ReportWatch does not provide comments other than the ones published in Reports Picks.

How does the company report in key areas? What are the main report pluses and minuses? The **Report Scan** gives an overview of strengths and weaknesses, and scores each item. Contact e.com@reportwatch.net

Value creation and strategic priorities

Objectives and attainment

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

Prognosis: growth of SEK in local currencies.
In 2016, organic sales declined by 3.8%. Sales growth in Europe was offset by lower sales volumes primarily in North America and in Asia.

Operating margin of 12%
The 2016 operating margin was 10.3% which was below the 12% target but not in line with the more than 1 percentage point compared with 2015. In 2016, reduced costs improved the operating margin while lower sales volumes, higher costs for the United IT project and general cost inflation had a negative effect.

Return on capital employed of 14%
In 2016, the return on capital employed was 11.9% which was an improvement of 3 percentage points compared with 2015.

Net working capital of 25%
At the end of 2016, net working capital was 29.9% of sales, which was higher than the target but a significant improvement compared with the 100% at year-end 2015.

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

Achieved 2016

ORGANIC GROWTH -1.6%	OPERATING MARGIN 10.3%	RETURN ON CAPITAL EMPLOYED 11.9%
NET WORKING CAPITAL 29.9%	NET DEBT/EQUITY 84%	

Environmental and Social targets¹⁾
SKF identifies nine climate targets for 2025. Most have not been included in the Group's previous targets reporting in 2016 are included on pages 42 and 127.

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

Increase recycling rate
Increase recycling rate of printing material to 80% by 2016. Target 80%. Achieved 74%.

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

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

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

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

12 SKF Annual Report 2016

Value created

Customers
SEK 4 billion in savings approved by customers

Financial
Operating profit SEK 7.5 billion
Cash flow after investments before financing SEK 7.7 billion
Dividend SEK 2.6 billion

Employees
Benefits including social charges
Safe and respectful workplace
Positive and engaging workplace

Innovation
Invention disclosures: 220
First filings of patents: 191
New products and solutions: 15

Society
2.6 billion corporate income taxes
400,000 tonnes avoided CO₂ emissions enabled by SKF customer solutions

NET SALES SEK 72.8 bn

Government: Income taxes SEK 2.5 bn
Shareholders: Dividends SEK 2.6 bn
Value reinvested in the company¹⁾ SEK 1.6 bn
Suppliers: Material consumed SEK 23.0 bn
Providers of loans: Interest expense SEK 0.4 bn
Other: Remaining expenses, net SEK 19.9 bn
Employees: Benefits including social charges SEK 22.8 bn

¹⁾ Net profit, less proposed dividend.

SKF Annual Report 2016 13