



# Year-end report 2018

Press release 29 January



# Excellent result, strong cash flow; a record 2018

2018 was an excellent year for SKF, with record results and a significantly strengthened balance sheet. In recognition of this, the Board has decided to propose an increased dividend of SEK 6.00 per share to the Annual General Meeting.

During the fourth quarter, we delivered an organic sales growth of 5% for the Group, with net sales at SEK 21.2 billion.

Operating profit was SEK 2.9 billion. Operating margin was 13.7%, impacted positively by the divestment of SKF Motion Technologies. Impairments of assets and customer settlements and restructuring had a negative impact. The net of the above had a positive impact on operating profit of SEK 705 million.

Cash flow was very strong at SEK 4.3 billion, supported by strong operational performance, including continued reductions in finished goods inventories and the divestment of SKF Motion Technologies.

The industrial business had a strong organic sales growth of 9%. Operating performance remained strong, with a reported operating margin of 18.3% (12.8% in the previous year).

The automotive business also remained resilient, but due to costs for restructuring and customer settlements it reports an operating margin of 2.1%. Organic sales development was -3.7%, with European sales continuing to be impacted by the WLTP test cycles. In China, demand for trucks and cars softened.

The fourth quarter was a busy one in terms of our efforts to improve competitiveness in our manufacturing and consolidate

our footprint. We announced investments and footprint optimizations in France, Germany, China and UK.

Investments in automation and technology step-up continues, with a further investment in Schweinfurt, Germany announced in November, as well as the inauguration of an automated assembly line for LEAP aero-engine bearings in Valenciennes, France.

As presented at our Capital Markets Day in November, we now have around 4 million connected bearings, of which half are connected to our REP Centers around the world enabling us to provide customers with reliable rotation.

Entering the first quarter of 2019, we expect to see relatively unchanged volumes for the Group, slightly higher for Industrial and lower for Automotive.

Alrik Danielson  
President and CEO



Organic sales growth



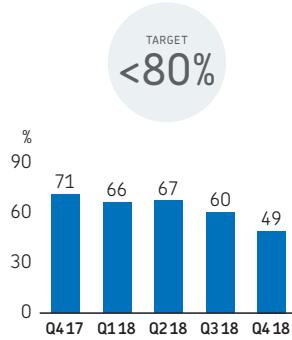
Operating margin



ROCE



Net debt/Equity



Net working capital/sales



Cover pictures are showing:

1. SKF Multilog IMx-16
2. SKF Multilog IMx-Rail
3. New logistics center in St Cyr, France
4. Palumbo Shipyards

# Key figures

SEKm unless otherwise stated

	Q4 2018	Q4 2017	2018	2017
Net sales	21,192	19,481	85,713	77,938
Operating profit	2,902	2,017	11,049	8,592
Operating margin, %	13.7	10.4	12.9	11.0
Profit before taxes	2,636	1,784	10,188	7,658
Net cash flow after investments before financing	4,259	1,704	8,326	4,753
Basic earnings per share	4.63	4.12	16.0	12.02

## Financial performance

### Fourth quarter 2018

Operating profit for the fourth quarter was SEK 2,902 million (2,017). It was positively impacted by the gain from the divestment of the L&AT business, increased sales volumes, sales price and customer mix as well as currency effects. It was negatively impacted by general inflation, material cost increases, manufacturing volumes, impairments and restructuring costs. It included SEK 1,261 million in result from divested/acquired companies, SEK -274 million (-172) related to ongoing restructuring and cost reduction activities mainly in the Americas and Europe and SEK -282 million (+96) related to impairments, customer settlements and gain/loss due to changed conditions in pension plans. The net of the above impacted positively by SEK 785 million compared to last year, adjusted for currency effects.

Operating profit bridge, SEKm	Q4
2017	2,017
Operational performance <sup>1)</sup>	-402
Currency impact	26
Divested/acquired companies, incl. gain/loss	1,261
2018	2,902

<sup>1)</sup> Operational performance includes the effects on operating profit related to changes in: organic sales, manufacturing volumes, manufacturing cost and changes in selling and administrative expenses.

- Financial income and expense, net in the fourth quarter was SEK -266 million (-233). Adjustment for hyperinflation in Argentina amounted to SEK -58 million in the quarter. Exchange rate fluctuations were in line with the fourth quarter 2017.
- Taxes in the quarter were SEK -453 million (+179) resulting in an effective tax rate of -17% (+10%). The tax rate was positively affected by the divestment, adjusted for this, the tax was 25%. Last year was positively impacted by the change in the tax rate in the US of approximately SEK 770 million.
- Net cash flow after investment before financing in the fourth quarter was SEK 4,259 million (1,704). Excluding cash flow related to divestments and acquisitions during the quarter it was SEK 1,937 million (1,799). The difference against last year is explained mainly by higher operating profit and lower working capital.
- Net working capital in percent of annual sales was 27.8% in the fourth quarter compared to 29.0% in the fourth quarter 2017. The ratio was positively impacted by exchange difference and the divestment in the quarter.
- Provisions for post-employment benefits net increased by SEK 1,095 million (433) in the fourth quarter mainly as a result of decreases in discount rates in Germany and in the US and due to changes in the value of plan assets.

### Full year 2018

Operating profit for the year was SEK 11,049 million (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 companies, impairments and restructuring costs. Operating profit 2018 included SEK 1,143 million in result from divested/acquired companies, SEK -369 million (-328) related to the restructuring and cost reduction program and SEK -283 million net (-176) related to settlements, impairments, and gain/loss due to changed conditions in pension plans. The net of the above impacted positively by SEK 946 million compared to last year, adjusted for currency effects.

Operating profit bridge, SEKm	2018
2017	8,592
Operational performance <sup>1)</sup>	1,384
Currency impact	-70
Divested/acquired companies, incl. gain/loss	1,143
2018	11,049

<sup>1)</sup> Operational performance includes the effects on operating profit related to changes in: organic sales, manufacturing volumes, manufacturing cost and changes in selling and administrative expenses.

- The financial net amounted to SEK -861 million (-934) in 2018. Exchange rate fluctuations were in line with 2017, interest expenses on pensions were lower and interest income slightly higher.
- Taxes in 2018 were SEK -2,603 million (-1,898) giving an effective tax rate of 26% (25%). The tax rate in 2018 was positively impacted by the divestments, adjusted for this, the tax rate was 28%. Last year's tax rate was positively impacted by the US tax reform by SEK 770 million and negatively by divestments of businesses by SEK -279 million. Excluding this, the effective tax rate in 2017 was 31%.
- Cash flow after investments before financing was SEK 8,326 million (4,753) and excluding acquisitions and divestments it was SEK 5,966 million (4,155). The difference against previous year is mainly explained by higher operating profit and lower working capital. Net cash flow used for financing activities in 2018 was impacted by SEK -378 million (-773) related to derivatives on external financing activities. In 2017, other financial items in financing activities included a payment of SEK 447 million, net of taxes, related to our contribution to the defined benefit retirement plan.

### Key figures

	31 Dec 2018	30 Sept 2018	31 Dec 2017
Net working capital, % of 12 months rolling sales	27.8	29.0	29.0
ROCE for the 12-month period, %	17.6	16.5	14.2
Net debt/equity, %	49.1	59.9	71.3
Net debt/EBITDA	1.3	1.6	1.9

### Dividend proposal

The Board has decided to propose an increased dividend of SEK 6.00 per share to the Annual General Meeting.

# Sales

Net sales, change y-o-y, %	Q4				Total	Full year 2018			
	Organic	Structure	Currency	Total		Organic	Structure	Currency	Total
SKF Group	5.0	-1.0	4.8	8.8		7.1	-0.6	3.5	10.0
Industrial	8.8	-1.4	5.6	13.0		9.4	-0.8	3.9	12.5
Automotive	-3.7	0.0	3.1	-0.6		2.1	0.0	2.3	4.4
Organic sales in local currencies, change y-o-y, %	Q4				Middle East & Africa	Full year 2018			
	Europe	North America	Latin America	Asia-Pacific		Europe	North America	Latin America	Asia-Pacific
SKF Group	1.5	10.8	-0.5	8.1	-3.4	5.9	6.6	-1.0	12.4
Industrial	+	+++	++	+++	--	+++	++	+/-	+++
Automotive	-	+/-	---	--	---	+/-	++	+/-	++
Customer industries	Q4				Middle East & Africa	Full year 2018			
	Europe	North America	Latin America	Asia-Pacific		Europe	North America	Latin America	Asia-Pacific
Organic sales in local currencies, change y-o-y:									
Light vehicles	--	++	+/-	--		+/-	++	+/-	++
Trucks	++	+++	+++	---		+++	+++	+++	--
Vehicle aftermarket	+/-	---	---	-	---	--	--	---	+++
Aerospace	+++	+++		--		+++	+++		++
Industrial drives	+++	+++		++		+++	+++		+++
Energy	--	+++	+/-	+++		+/-	--	---	+++
Heavy industries	++	+++	+++	+	+++	+++	++	+++	+++
Railway	+/-	+++		+++		+++	+++		+++
Agriculture, food and beverage	+/-	+++		+++		+++	+++		+++
Marine	---			+++		+++			+++
Electrical	++			+++		+++			+++
Other industrial	++	---		+/-		+	--		+/-
Industrial distribution	+	+++	++	++	---	++	++	+	+++
									+

## Comments on organic sales in local currencies in Q4 2018, compared to Q4 2017

### Europe

Industrial: Overall, sales were slightly higher in the quarter. By industry, sales to industrial drives and aerospace were significantly higher. Sales to heavy industries, electrical and other industrial were higher while sales to industrial distribution were slightly higher compared to Q4 2017. Sales to railway and to the agricultural, food and beverage industries were relatively unchanged. Sales to energy were lower and sales to marine were significantly lower.

Automotive: Sales in the quarter were slightly lower compared to last year with higher sales to trucks, lower sales to light vehicles and relatively unchanged sales to the vehicle aftermarket.

### North America

Industrial: Sales were significantly higher in the quarter compared to Q4 2017. By industry, sales to industrial drives, aerospace, energy, agricultural, food and beverage, railway, heavy industries and industrial distribution were all significantly higher. Sales to other industrial were significantly lower.

Automotive: Sales in the quarter were relatively unchanged. Sales to the truck industry were significantly higher and sales to light vehicles were higher while sales to the vehicle aftermarket were significantly lower.

### Asia-Pacific

Industrial: Sales were significantly higher in the quarter. By industry, sales to energy, railway, marine, electrical as well as to the agricultural, food and beverage industries were all significantly higher. Sales to industrial distribution and industrial drives were higher, sales to heavy industries were slightly higher and sales to other industrial were relatively unchanged. Sales to aerospace were lower compared to Q4 2017.

Automotive: Sales were lower compared to Q4 2017. Sales to light vehicles were lower and sales to trucks were significantly lower while sales to the vehicle aftermarket were slightly lower in the quarter.

### Latin America

Industrial: Overall, sales were higher in the quarter. By industry, sales to heavy industries were significantly higher and sales to industrial distribution were higher while sales to the energy industry were relatively unchanged compared to Q4 2017.

Automotive: Sales were significantly lower in the quarter. Sales to the truck industry were significantly higher, sales to light vehicles were relatively unchanged and sales to the vehicle aftermarket were significantly lower compared to Q4 2017.

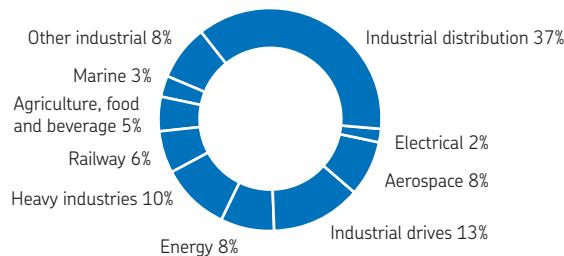
# Segment information<sup>1)</sup>

SEKm unless otherwise stated

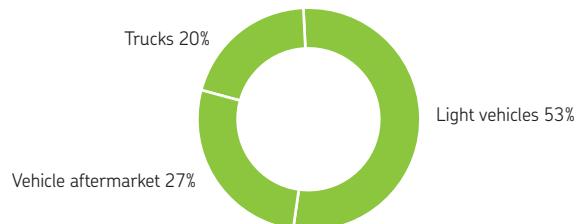
Industrial	Q4/2018	Q4/2017	2018	2017
Net sales	15,214	13,464	60,593	53,875
Operating profit	2,779	1,719	9,430	7,260
Operating margin, %	18.3	12.8	15.6	13.5
Automotive	Q4/2018	Q4/2017	2018	2017
Net sales	5,978	6,017	25,120	24,063
Operating profit	123	298	1,619	1,332
Operating margin, %	2.1	5.0	6.4	5.5

1) Previously published figures for 2017 have been restated to reflect a change in classification of customers between the segments.

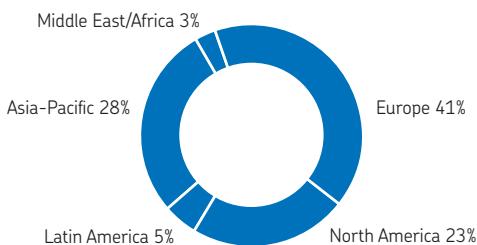
Full year net sales by customer industry for Industrial 2018



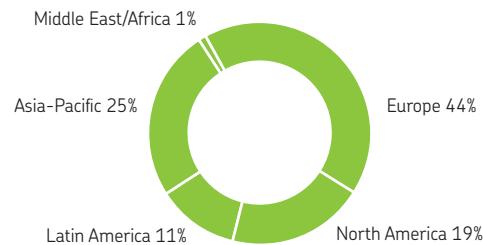
Full year net sales by customer industry for Automotive 2018



Full year net sales by region for Industrial 2018



Full year net sales by region for Automotive 2018



## Outlook and Guidance

### Demand for Q1 2019 compared to Q1 2018

The demand for SKF's products and services is expected to be relatively unchanged for the Group, including slightly higher demand for Industrial and lower demand for Automotive. Demand is expected to be higher in North America, slightly higher in Asia, relatively unchanged in Latin America and slightly lower in Europe.

### Guidance Q1 2019

- Financial net: SEK -200 million
- Currency impact on the operating profit is expected to be around SEK +140 million compared with Q1 2018, based on exchange rates per 31 December 2018.

## Previous outlook statement

### Demand for Q4 2018 compared to Q4 2017

The demand for SKF's products and services is expected to be slightly higher for the Group, including higher demand for Industrial and slightly lower demand for Automotive. Demand is expected to be significantly higher in North America, higher in Asia, relatively unchanged in Europe and slightly higher in Latin America.

### Guidance 2019

- Tax level excluding effect related to divested businesses: around 28%
- Additions to property, plant and equipment: around SEK 2,800 million

# Highlights

## Divestment of L&AT business completed

The previously announced divestment of the linear and actuation technology business to Triton has been completed. The closing of the divestment had a positive effect on the operating result for Q4 2018 of SEK 1.3 billion.

## SKF and KISSsoft AG deliver connected software

SKF and the Swiss gearbox design software developer, KISSsoft, have agreed to incorporate SKF's bearing calculation software within KISSsoft's software.

## Investment in St Cyr, France

To improve customer service levels and lead-times, SKF is investing SEK 200 million in upgrading and modernizing its logistics and remanufacturing centres in St Cyr, France.

## Investing in new facility in Changshan, China

To improve competitiveness and customer service levels for tapered roller bearings, SKF is investing around SEK 200 million in a new manufacturing facility in Changshan, China. It is expected to be fully operational during Q1 2019 and the existing sites in Ningbo, Shanghai and Changshan will be closed.

## Capital Markets Day in Schweinfurt, Germany

SKF hosted its Capital Markets Day in Schweinfurt, Germany and focused on its value propositions and delivering on financial targets. The Group's investments in manufacturing and product development initiatives were presented, as well as achievements and focus areas within the Automotive business.

## Continued investment in automation

SKF continues to deliver on its strategy of implementing automated manufacturing technologies:

- An automated production line for rollers used in large-size bearings in Schweinfurt, Germany.
- An automated deep groove ball bearing assembly line in St Cyr, France.

Both investments, totaling SEK 150 million, contribute to increased competitiveness, flexibility and quality and are expected to be completed during the first half of 2020.

## Consolidates aerospace manufacturing in Europe

SKF has announced a consolidation of its aerospace manufacturing footprint in Europe. Consequently, and subject to consultation with local unions, SKF proposes to close its bearing manufacturing site in Stonehouse, UK.

## New products and solutions

### New device for single-line lubrication systems

SKF has introduced its Lincoln SLC metering device for grease. Developed for use in single-line lubrication systems, the device features a compact and modular design for less jointing and decreased risk of leaking.

### New railway condition monitoring system

Multilog IMx-Rail, is a multi-channel, on-line condition monitoring system based on new rail approved components. It allows operators to implement condition based maintenance that can help achieve goals such as TCO reduction, higher availability, the avoidance of unplanned stoppages and longer maintenance intervals.

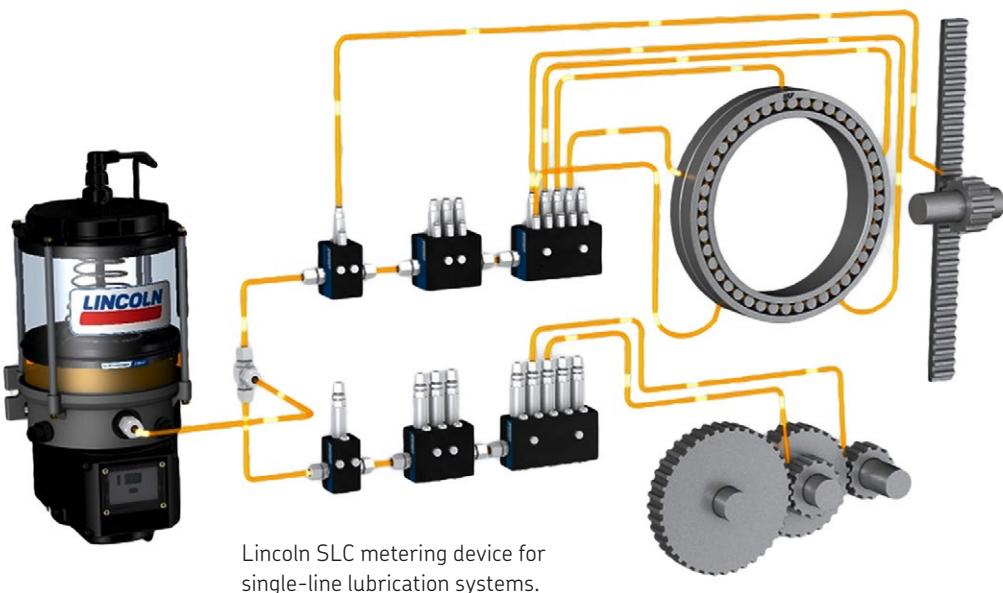
### Making condition monitoring available to wider applications

SKF has expanded its offering in condition monitoring with its SKF Multilog IMx-16Plus. It is a compact, competitively priced system that is flexible enough to be used across a broad spectrum of applications and industries.

## New business

### SKF signs agreement with Palumbo Shipyards

SKF has signed an agreement with Palumbo Shipyards, a major refit and repair site in the Mediterranean to provide high tech services and related products.



# Accounting principles

## Accounting principles

The consolidated financial statements of the SKF Group were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the Parent company were prepared in accordance with the "Annual Accounts Act" and the RFR 2 "Accounting for legal entities". With the exceptions below, SKF Group and the Parent company applied the same accounting principles and methods of computation in the interim financial statements as compared with the latest annual report.

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. 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 policies as of 1 January 2018

The following accounting policies have been issued by the Group and are applied from 1 January 2018.

### Revenue

Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the 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 recognized 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 recognized at a point in time. 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. Revenues from service and/or maintenance contracts where the service is delivered to the customer at a point in time are accounted for at a point in time.

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

### Financial assets, impairment losses

Impairment losses (primarily allowance for doubtful accounts) are recognized 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.

## Other new accounting principles issued but not yet effective

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 recognize, (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liabilities in the income statement.

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 sum of 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 has also been applied.

The estimated opening balance of the lease liability and the Right-of-use assets is around SEK 3.3 billion for current lease contracts. The largest asset class of leases is premises such as factories and offices.

### 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.

# SKF's Performance Share Programme

In order to continue to link the interests of the participants and the shareholders long-term, the Board proposes, that a decision be taken at the Annual General Meeting 2019 on SKF's Performance Share Programme 2019. The terms and conditions for the proposed SKF's Performance Share Programme 2019 are the same as for SKF's Performance Share Programme 2018, which was decided by the Annual General Meeting 2018.

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 Total Value Added (TVA) target level, as defined by the Board, for the TVA development for the

financial years 2019–2021 compared to the financial year 2018. Under the programme, not more than 1,000,000 SKF B shares may be allotted.

SKF's Performance Share Programme 2016, which was decided by the Annual General Meeting 2016, will be settled in the first quarter 2019. The outcome is that about 170 managers of the SKF Group will receive around 685,000 SKF class B shares (around 68.5% of the maximum number of shares approved by the Annual General Meeting), based on the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial years 2016–2018 compared to the financial year 2015. The total cost for the SKF's Performance Share Programme 2016 amounted to around SEK 132 million including administrative costs and social charges.

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

Gothenburg, 29 January 2019

Aktiebolaget SKF (publ)

Alrik Danielson

President and CEO

This report has not been reviewed by AB SKF's auditors.

# Condensed consolidated income statements

SEKm	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Net sales	21,192	19,481	85,713	77,938
Cost of goods sold	-16,490	-14,691	-64,829	-58,513
<b>Gross profit</b>	<b>4,702</b>	<b>4,790</b>	<b>20,884</b>	<b>19,425</b>
Selling and administrative expenses	-3,045	-2,762	-11,327	-10,812
Other operating income/expenses, net	1,245	-11	1,492	-21
<b>Operating profit</b>	<b>2,902</b>	<b>2,017</b>	<b>11,049</b>	<b>8,592</b>
Operating margin, %	13.7	10.4	12.9	11.0
Financial income and expense, net	-266	-233	-861	-934
<b>Profit before taxes</b>	<b>2,636</b>	<b>1,784</b>	<b>10,188</b>	<b>7,658</b>
Taxes	-453	179	-2,603	-1,898
<b>Net profit</b>	<b>2,183</b>	<b>1,963</b>	<b>7,585</b>	<b>5,760</b>
Net profit attributable to:				
Shareholders of the parent	2,107	1,878	7,285	5,475
Non-controlling interests	76	85	300	285

# Condensed consolidated statements of comprehensive income

SEKm	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
<b>Net profit</b>	<b>2,183</b>	<b>1,963</b>	<b>7,585</b>	<b>5,760</b>
Items that will not be reclassified to the income statement:				
Remeasurements	-1,180	-419	-529	359
Income taxes	203	-276	36	-512
	<b>-977</b>	<b>-695</b>	<b>-493</b>	<b>-153</b>
Items that may be reclassified to the income statement:				
Exchange differences arising on translation of foreign operations	339	772	1,115	-876
Available-for-sale assets	-67	-63	-63	-101
Cash-flow hedges	-3	0	1	0
Income taxes	-4	34	56	35
	<b>265</b>	<b>743</b>	<b>1,109</b>	<b>-942</b>
Other comprehensive income, net of tax	-712	48	616	-1,095
<b>Total comprehensive income</b>	<b>1,471</b>	<b>2,011</b>	<b>8,201</b>	<b>4,665</b>
Shareholders of AB SKF	1,334	1,867	7,881	4,446
Non-controlling interests	137	144	320	219

# Condensed consolidated balance sheets

SEKm	December 2018	December 2017
Goodwill	10,347	9,995
Other intangible assets	7,375	7,365
Property, plant and equipment	16,688	15,762
Deferred tax assets	3,563	3,633
Other non-current assets	1,964	1,627
Non-current assets	39,937	38,382
Inventories	17,826	17,122
Trade receivables	13,842	13,416
Other current assets	3,912	3,664
Other current financial assets	11,656	8,619
Current assets	47,236	42,821
<b>Total assets</b>	<b>87,173</b>	<b>81,203</b>
Equity attributable to shareholders of AB SKF	33,536	28,036
Equity attributable to non-controlling interests	1,916	1,787
Long-term financial liabilities	14,850	15,790
Provisions for post-employment benefits	12,894	12,309
Provisions for deferred taxes	1,118	1,100
Other long-term liabilities and provisions	1,972	1,662
Non-current liabilities	30,834	30,861
Trade payables	7,831	7,899
Short-term financial liabilities	2,307	2,718
Other short-term liabilities and provisions	10,749	9,902
Current liabilities	20,887	20,519
<b>Total equity and liabilities</b>	<b>87,173</b>	<b>81,203</b>

# Condensed consolidated statements of changes in shareholders' equity

SEKm	Jan-Dec 2018	Jan-Dec 2017
Opening balance 1 January	29,823	27,683
Total comprehensive income	8,201	4,665
Cost for performance share programmes, net	36	93
Other, including transactions with non-controlling interests	13	–
Total cash dividends	-2,621	-2,618
<b>Closing balance</b>	<b>35,452</b>	<b>29,823</b>

# Condensed consolidated statements of cash flow

SEKm	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017		
Operating activities:						
Operating profit	2,902	2,017	11,049	8,592		
Depreciation, amortization and impairment	754	623	2,472	2,323		
Net loss/gain (-) on sales of PPE and businesses	-1,313	-5	-1,518	-46		
Taxes	-655	-585	-2,711	-2,353		
Other including non-cash items	-429	-413	-483	-1,187		
Changes in working capital	1,452	797	-464	-900		
<b>Net cash flow from operations</b>	<b>2,712</b>	<b>2,434</b>	<b>8,345</b>	<b>6,429</b>		
Investing activities:						
Payments for intangible assets, PPE, businesses and equity securities	-876	-734	-2,834	-2,437		
Sales of PPE, businesses and equity securities	2,423	4	2,815	761		
<b>Net cash flow used in investing activities</b>	<b>1,547</b>	<b>-730</b>	<b>-19</b>	<b>-1,676</b>		
<b>Net cash flow after investments before financing</b>	<b>4,259</b>	<b>1,704</b>	<b>8,326</b>	<b>4,753</b>		
Financing activities:						
Change in short- and long-term loans	-520	-105	-2,101	-3,141		
Other financing items	-101	70	-482	-1,227		
Cash dividends	-22	-68	-2,621	-2,618		
Investments in short-term financial assets	-407	-458	-1,387	-1,369		
Sales of short-term financial assets	804	99	1,508	913		
<b>Net cash flow used in financing activities</b>	<b>-246</b>	<b>-462</b>	<b>-5,083</b>	<b>-7,442</b>		
<b>Net cash flow</b>	<b>4,013</b>	<b>1,242</b>	<b>3,243</b>	<b>-2,689</b>		
Change in cash and cash equivalents:						
Cash and cash equivalents at 1 October /1 January	6,364	5,791	7,112	9,939		
Cash effect excl. acquired/sold businesses	4,166	1,242	3,396	-2,679		
Cash effect of acquired/sold businesses	-153	-	-153	-10		
Exchange rate effect	13	79	35	-138		
<b>Cash and cash equivalents at 31 December</b>	<b>10,390</b>	<b>7,112</b>	<b>10,390</b>	<b>7,112</b>		
<b>Change in Net debt</b>	<b>Closing balance 31 December 2018</b>	<b>Other non cash changes</b>	<b>Sold busi- nesses</b>	<b>Cash changes</b>	<b>Translation effect</b>	<b>Opening balance 1 January 2018</b>
Loans, long- and short-term	16,149	3		-2,101	768	17,479
Post-employment benefits, net	12,833	1,183	-322	-792	535	12,229
Financial assets, others	-1,192	2		145	-17	-1,322
Cash and cash equivalents	-10,390		153	-3,396	-35	-7,112
<b>Net debt</b>	<b>17,400</b>	<b>1,188</b>	<b>-169</b>	<b>-6,144</b>	<b>1,251</b>	<b>21,274</b>

Financing activities to hedge short and long term loans using derivatives are reported as Other financing items. The opening balances amounted to SEK -340 million as of 1 October 2018 and the closing balance as of 31 December 2018 amounted to SEK -440 million. Of the change in the quarter, SEK 0 million affected cash and SEK -100 million was a non cash change.

## Number of shares

	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Total number of shares:	455,351,068	455,351,068	455,351,068	455,351,068
- whereof A shares	33,355,803	35,055,803	33,355,803	35,055,803
- whereof B shares	421,995,265	420,295,265	421,995,265	420,295,265
Weighted average number of shares in:				
- basic earnings per share	455,351,068	455,351,068	455,351,068	455,351,068
- diluted earnings per share	456,300,966	455,831,922	456,009,654	455,605,282

# Condensed consolidated financial information

SEKm unless otherwise stated

	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
Net sales	19,601	20,229	18,627	19,481	20,560	22,620	21,341	21,192
Cost of goods sold	-14,627	-15,129	-14,066	-14,691	-15,312	-16,895	-16,132	-16,490
<b>Gross profit</b>	<b>4,974</b>	<b>5,100</b>	<b>4,561</b>	<b>4,790</b>	<b>5,248</b>	<b>5,725</b>	<b>5,209</b>	<b>4,702</b>
Gross margin, %	25.4	25.2	24.5	24.6	25.5	25.3	24.4	22.2
Selling and administrative expenses	-2,691	-2,776	-2,583	-2,762	-2,700	-2,829	-2,753	-3,045
- as % of sales	13.7	13.7	13.9	14.2	13.1	12.5	12.9	14.4
Other, net	12	-9	-13	-11	77	29	141	1,245
<b>Operating profit</b>	<b>2,295</b>	<b>2,315</b>	<b>1,965</b>	<b>2,017</b>	<b>2,625</b>	<b>2,925</b>	<b>2,597</b>	<b>2,902</b>
Operating margin, %	11.7	11.4	10.5	10.4	12.8	12.9	12.2	13.7
Financial net	-170	-258	-273	-233	-200	-142	-253	-266
<b>Profit before taxes</b>	<b>2,125</b>	<b>2,057</b>	<b>1,692</b>	<b>1,784</b>	<b>2,425</b>	<b>2,783</b>	<b>2,344</b>	<b>2,636</b>
Profit margin before taxes, %	10.8	10.2	9.1	9.2	11.8	12.3	11.0	12.4
Taxes	-654	-837	-586	179	-638	-759	-753	-453
<b>Net profit</b>	<b>1,471</b>	<b>1,220</b>	<b>1,106</b>	<b>1,963</b>	<b>1,787</b>	<b>2,024</b>	<b>1,591</b>	<b>2,183</b>
Net profit attributable to								
Shareholders of the parent company	1,408	1,145	1,044	1,878	1,719	1,935	1,524	2,107
Non-controlling interests	63	75	62	85	68	89	67	76

## Reconciliation to profit before tax for the Group

SEKm	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
<b>Operating profit:</b>								
Industrial <sup>1)</sup>	1,879	1,918	1,744	1,719	2,140	2,330	2,181	2,779
Automotive <sup>1)</sup>	416	397	221	298	485	595	416	123
Financial net	-170	-258	-273	-233	-200	-142	-253	-266
<b>Profit before taxes for the Group</b>	<b>2,125</b>	<b>2,057</b>	<b>1,692</b>	<b>1,784</b>	<b>2,425</b>	<b>2,783</b>	<b>2,344</b>	<b>2,636</b>

1) Previously published figures for 2017 have been restated to reflect a change in classification of customers between the segments.

# Key figures

(Definitions, see page 15)

	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
EBITA, SEKm	2,419	2,437	2,076	2,132	2,739	3,044	2,717	3,041
EBITDA, SEKm	2,877	2,890	2,508	2,641	3,193	3,500	3,173	3,656
Basic earnings per share, SEK	3.09	2.51	2.29	4.12	3.77	4.25	3.35	4.63
Diluted earnings per share, SEK	3.09	2.51	2.29	4.12	3.77	4.25	3.34	4.62
Dividend per share, SEK	–	5.50	–	–	–	5.50	–	–
Net worth per share, SEK	61	57	58	62	68	69	71	74
Share price at the end of the period, SEK	177.3	170.7	177.5	182.2	170.5	166.7	175.4	134.5
NWC, % of 12 months rolling sales	30.9	29.8	29.4	29.0	31.7	31.1	29.0	27.8
ROCE for the 12-month period, %	12.5	13.3	13.2	14.2	15.0	15.8	16.5	17.6
ROE for the 12-month period, %	17.4	18.7	17.3	20.4	21.0	22.7	23.1	22.8
Gearing, %	52.9	52.5	50.9	49.9	48.3	46.0	45.4	45.0
Equity/assets ratio, %	34.5	34.3	35.5	36.7	38.2	38.7	39.8	40.7
Additions to property, plant and equipment, SEKm	616	464	531	632	621	537	656	833
Net debt/equity, %	76.0	85.7	79.4	71.3	66.4	66.9	59.9	49.1
Net debt, SEKm	22,465	23,466	22,143	21,274	21,889	22,238	20,368	17,400
Net debt/EBITDA	2.2	2.2	2.1	1.9	1.9	1.9	1.6	1.3
Registered number of employees	45,115	44,966	45,554	45,678	45,964	45,862	45,914	44,428

SKF applies 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 provide 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/).

## Segment information – quarterly figures<sup>1)</sup>

SEKm unless otherwise stated

Industrial	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
Net sales	13,463	14,010	12,938	13,464	14,241	15,930	15,208	15,214
Operating profit	1,879	1,918	1,744	1,719	2,140	2,330	2,181	2,779
Operating margin, %	14.0	13.7	13.5	12.8	15.0	14.6	14.3	18.3
Assets and liabilities, net	40,106	37,845	36,662	37,751	40,250	41,603	39,957	38,219
Registered number of employees	37,341	37,067	37,581	37,690	37,922	37,854	37,851	36,360

Automotive	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18
Net sales	6,138	6,219	5,689	6,017	6,319	6,690	6,133	5,978
Operating profit	416	397	221	298	485	595	416	123
Operating margin, %	6.8	6.4	3.9	5.0	7.7	8.9	6.8	2.1
Assets and liabilities, net	10,064	9,719	9,413	9,275	10,004	10,338	10,166	10,150
Registered number of employees	6,982	7,105	7,171	7,165	7,226	7,212	7,257	7,245

1) Previously published figures for 2017 have been restated to reflect a change in classification of customers between the segments.

# Parent company condensed income statements

SEKm	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Revenue	1,621	1,689	7,011	6,352
Cost of revenue	-1,301	-1,398	-5,729	-4,387
General management and administrative expenses	-546	-473	-1,572	-1,880
Other operating income/expenses, net	-23	43	-27	1
<b>Operating result</b>	<b>-249</b>	<b>-139</b>	<b>-317</b>	<b>86</b>
Financial income and expense, net	590	586	3,492	2,137
<b>Profit before taxes</b>	<b>341</b>	<b>447</b>	<b>3,175</b>	<b>2,223</b>
Appropriations	550	897	550	897
Taxes	-45	217	29	216
<b>Net profit</b>	<b>846</b>	<b>1,561</b>	<b>3,754</b>	<b>3,336</b>

# Parent company condensed statements of comprehensive income

SEKm	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Net profit	846	1,561	3,754	3,336
Items that may be reclassified to the income statement:				
Available-for-sale assets	-67	-65	-63	-103
<b>Other comprehensive income, net of tax</b>	<b>-67</b>	<b>-65</b>	<b>-63</b>	<b>-103</b>
<b>Total comprehensive income</b>	<b>779</b>	<b>1,496</b>	<b>3,691</b>	<b>3,233</b>

# Parent company condensed balance sheets

SEKm	December 2018	December 2017
Intangible assets	1,775	1,901
Investments in subsidiaries	21,934	22,349
Receivables from subsidiaries	13,724	14,705
Other non-current assets	1,171	973
<b>Non-current assets</b>	<b>38,604</b>	<b>39,928</b>
Receivables from subsidiaries	5,217	6,181
Other receivables	133	157
<b>Current assets</b>	<b>5,350</b>	<b>6,338</b>
<b>Total assets</b>	<b>43,954</b>	<b>46,266</b>
Shareholders' equity	20,535	19,278
Untaxed reserves	24	24
Provisions	552	566
Non-current liabilities	13,723	14,705
Current liabilities	9,120	11,693
<b>Total shareholders' equity, provisions and liabilities</b>	<b>43,954</b>	<b>46,266</b>

# 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/loss per share in SEK

Profit/loss after taxes less non-controlling interests divided by the ordinary number of shares.

## Currency impact on operating profit

The effects of both translation and transaction flows based on current assumptions and exchange rates compared to the corresponding period last year.

## Debt

Loans and net provisions for post-employment benefits.

## 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 amortization)

Operating profit before amortizations.

## EBITDA (Earnings before interest, taxes, depreciation and amortization)

Operating profit before depreciations, amortizations, and impairments.

## Equity/assets ratio

Equity as a percentage of total assets.

## 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.

## Net working capital as % of 12 month rolling sales (NWC)

Trade receivables plus inventory minus trade payables as a percentage of twelve months rolling net sales.

## Operating margin

Operating profit/loss, 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.

## 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/loss plus interest income, as a percentage of twelve months rolling average of total assets less the average of non-interest bearing liabilities.

## Return on equity (ROE)

Profit/loss after taxes as a percentage of twelve months rolling average of equity.

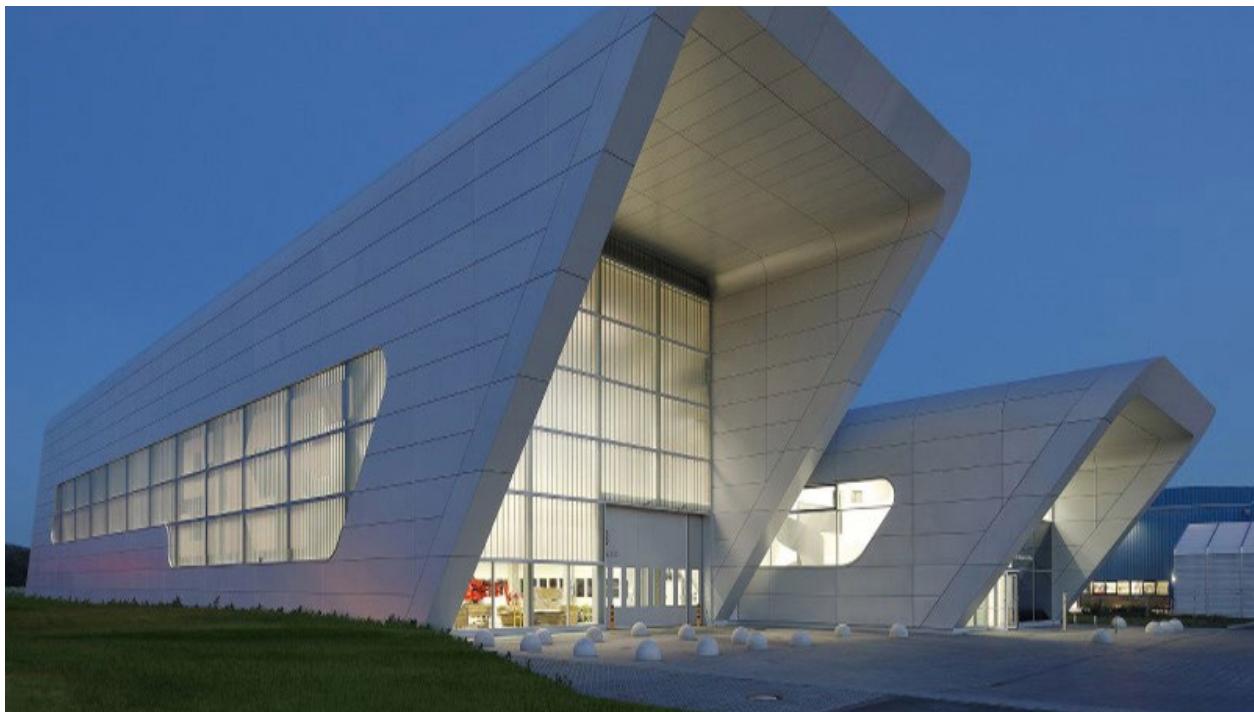
## SKF demand outlook

The demand outlook for SKF's products and services represents management's best estimate based on current information about the future demand from our customers. The demand outlook is the expected volume development in the markets where our customers operate.

# 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 SKF's latest annual report (available on [investors.skf.com](http://investors.skf.com)) under the Administration Report; "Risk management" and "Sensitivity analysis", and in this report under "Risks and uncertainties in the business."



## This is SKF

SKF is a leading global supplier of bearings, seals, mechatronics, lubrication systems and services, which include technical support, maintenance and reliability services, engineering consulting and training.

### Quick fact

Founded 1907

Represented in more than 130 countries

Net sales in 2018 were SEK 85,713 million and the number of employees were 44,428

15 technical centers

103 manufacturing sites

More than 17,000 distributors

AB SKF (publ)

Postal address: SE-415 50 Gothenburg, Sweden

Visiting address: Hornsgatan 1

tel. +46 31 337 10 00

[www.skf.com](http://www.skf.com)

Company reg.no. 556007-3495

### Vision

SKF works to reduce friction, make things run faster, longer, cleaner and more safely. Doing this in the most effective, productive and sustainable way contributes to the vision  
– A world of reliable rotation.

### Mission

To be the undisputed leader in the bearing business.

### Strategic priorities

Based on SKF's vision and mission, the company focuses on five strategic priorities:

1. Create and capture customer value
2. Application driven innovation
3. World-class manufacturing
4. Cost competitiveness
5. Maximizing cash flow over time

## For further information, please contact

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### Conference call

29 January at 14.00 (CET), 13.00 (UK),

### Conferene ID: SKF or 3596435

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Website: <http://investors.skf.com/en/result-centre>

Webcast access on mobile devices



### Calendar

6 March, Annual Report 2018  
28 March, Annual General Meeting  
25 April, First-quarter report  
17 July, Half-year report

The information in this press release is information which AB SKF is required to disclose under the EU Market Abuse Regulation (EU) No 596/2014. The information was provided by the above contact persons for publication on 29 January 2019 at 13.00 CET.