

Corporate Governance Report

Introduction

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and clear rules for delegation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship.

The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act and the Swedish Annual Accounts Act, and the regulatory system of NASDAQ OMX Stockholm AB (Stockholm Stock Exchange).

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–4, are found at the following pages of the Administration Report for the Group in the Annual Report 2015:

- Annual Accounts Act Chapter 6, § 6, section 3 »see page 87.
- Annual Accounts Act Chapter 6, § 6, section 4 »see page 88.

Swedish Code of Corporate Governance

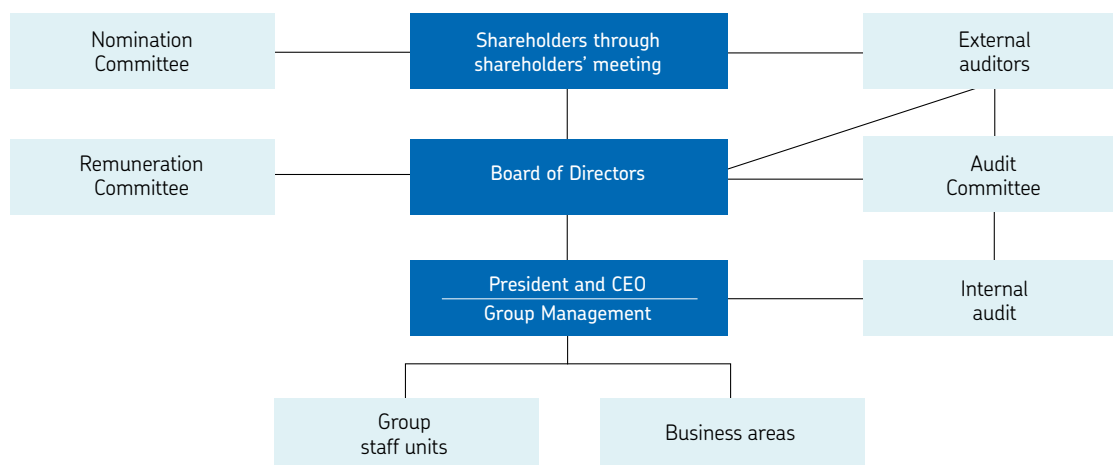
The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July 2005. The Code has been revised three times since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2015 was also held in accordance with the Code rules. The auditor of the company has read and performed a statutory examination of the Corporate Governance Report.

Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2015, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2015 would determine which shareholders are the largest with regard to the number of votes held. The names of the four shareholder representatives were to be published as soon as they had been elected, however not later than six months before the Annual General Meeting 2016. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 15 September 2015, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the



Board, had been appointed in preparation of the Annual General Meeting 2016:

- Claes Dahlbäck, FAM AB
- Ramsay Brufer, Alecta
- Anders Algotsson, AFA Försäkring
- Anders Jonsson, Skandia

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2016:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the auditors
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2017

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2016.

General information about how the company is managed

The shareholders' meeting is the company's highest decision-making body. The Annual General Meeting of shareholders shall be held within six months after the end of the financial year. At the Annual General Meeting the shareholders exercise their voting rights for e.g. the composition of the Board of Directors, adoption of principles of remuneration for Group Management and election of external auditors. SKF has issued A and B shares. An A share entitles the shareholder to one vote and a B share to one-tenth of a vote.

The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continuously monitoring SKF's vision, mission, values and drivers. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board annually adopts written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accord-

ance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF's business is divided into three business areas: Industrial Market, Automotive Market and Specialty Business. Each area supports the total life cycle of the customer's assets and delivers a full range of products, services and solutions to both original manufacturers (OEMs) and end users.

Each business area is, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

Further, there are four Group staff units: Group Finance and Business Transformation, Group Technology Development, Group Legal and Sustainability and Group People, Communication and Quality. See pages 176–177 in the Annual Report 2015. Each Group staff unit has its own defined area of responsibility and the task to define strategic directions and fundamental requirements within its area.

Each business area has operational responsibility for its business. Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.

The Board of Directors

Composition and remuneration of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of twelve Board members, with a maximum of five deputies. The Board members are elected each year at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

Eleven Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2015. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the President, is included in the management of the company.

Information on the remuneration of the Board members decided upon by the Annual General Meeting 2015 can be found in the Annual Report 2015, Consolidated Financial Statements, Note 23.

Members of the Board of Directors as of 31 December 2015



Leif Östling

Chairman, Board member since 2005
Born 1945

Education and job experience: Master of Engineering (Chalmers University of Technology, Gothenburg), Bachelor of Economics (School of Business, Economics and Law, University of Gothenburg), various management positions at Scania since 1972, President and CEO of Scania AB between 1994 and 2012, Vice Chairman of Scania AB 2013–2015, member of the Board of Management of Volkswagen AG, responsible for Commercial Vehicles, 2012–2015.

Other assignments: Board member of EQT Holding AB and Supervisory Board of Volkswagen Truck/Bus GmbH.

Shareholding (own and/or held by related parties): 500,000 SKF B



Lena Treschow Torell

Board member since 2007
Born 1946

Education and job experience: Ph.D. (University of Gothenburg), Professor at University of Uppsala and then at Chalmers University of Technology. Vice President at Chalmers 1995–1998. Research Director of the Joint Research Centre, European Commission, Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of IVA 2009–2011. Chairman of the European Council of Academies of Applied Sciences and Engineering 2008–2012.

Other assignments: Board member of SAAB AB and Investor AB. Chairman of Chalmers University of Technology and of MISTRA, the Foundation for Strategic Environmental Research.

Shareholding (own and/or held by related parties): 5,000 SKF B



Peter Grafoner

Board member since 2008
Born 1949

Education and job experience: Doctor's degree in Engineering (University of Dortmund). Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996–2000 and vice Chairman of the Management Board of Linde AG during 2000–2001.

Other assignments: Board member of Symrise AG, President of the Board of Scania Schweiz AG and Chairman of Coperion GmbH.

Shareholding (own and/or held by related parties): 5,000 SKF B



Lars Wedenborn

Board member since 2008
Born 1958

Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991–2000, Executive Vice President and CFO of Investor AB 2000–2007, and CEO of FAM AB, wholly owned by the Wallenberg Foundations, since 2007.

Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group Inc., Höganäs AB, Alecta, The Grand Group AB, Nefab AB and FAM AB.

Shareholding (own and/or held by related parties): 10,000 SKF A, 11,500 SKF B



Joe Loughrey

Board member since 2009
Born 1949

Education and job experience: Bachelor of Science degree in Economics and African Studies (University of Notre Dame). Several managerial and executive positions within Cummins over 35 years, the last as vice Chairman of the Cummins Inc. Board 2008–2009, President and Chief Operating Officer of Cummins Inc. 2005–2008 and President of Cummins Engine Business 1999–2005.

Other assignments: Chairman of the board of Hillenbrand Inc. and of Oxfam America. Member of the board of the Vanguard Group, Hyster-Yale Materials Handling Inc., The V Foundation for Cancer Research and the Lumina Foundation for Education. Member (previous chairman 2009–2012) of the Advisory Council of the College of Arts and Letters and Chair of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.

Shareholding (own and/or held by related parties): 10,000 SKF B



Jouko Karvinen

Board member since 2010
Born 1957

Education and job experience: Master of Science (Tampere University of Technology, Finland). Executive and managerial positions at ABB Group Limited from 1987–2002, Member of Group Executive Committee 2000–2002. CEO of Philips Medical Systems Division 2002–2006, Member of Board of Management of Royal Philips Electronics 2006 and Group Management Committee 2002–2006. CEO of Stora Enso Oyj 2007–2014.

Other assignments: Member of the Supervisory Board of Directors of Nokia Corporation since 2011, Vice Chairman since 2013, Chairman of the Audit Committee, Member of the Corporate Governance and Nomination Committee. Member of the Foundation Board and Supervisory Board of IMD (Institute of Management Development) business school in Lausanne Switzerland since November 2015.

Shareholding (own and/or held by related parties): 0



Baba Kalyani

Board member since 2011
Born 1949

Education and job experience: Master of Science (Massachusetts Institute of Technology, USA) and a Bachelor of Mechanical Engineering (Birla Institute of Technology, India). Managing Director of Bharat Forge Ltd since 1993 and before that several senior positions in Bharat Forge Ltd since 1972.

Other assignments: Chairman of the Kalyani Group, Bharat Forge Ltd and number of companies in the Kalyani Group. Board member of number of companies in the Kalyani Group. Member of the World Economic Forum, the Confederation of Indian Industries and Founder Chairman of Pratham Pune Education Foundation, an NGO engaged in providing primary education to underprivileged children in the local community.

Shareholding (own and/or held by related parties): 0



Hock Goh

Board member since 2014
Born 1955

Education and job experience: Bachelor's degree (honours) in Mechanical Engineering from Monash University, Australia, completed the Advanced Management Program at INSEAD. Operating Partner of Baird Capital Partners Asia, 2005–2012. Has held several senior management positions in Schlumberger Limited, 1995–2005, President of Network and Infrastructure Solutions division in London, President Asia and Vice President and General Manager China.

Other assignments: Chairman of the Board of Advent Energy Limited since 2007 and MEC Resources since 2005. Member of the Board of Stora Enso Oyj since 2012, Santos Australia since 2012, Vesuvius PLC since 2015 and Harbour Energy since 2015.

Shareholding (own and/or held by related parties): 0



Marie Bredberg

Board member since 2014
Born 1957

Education and job experience: Master of Science in Industrial Engineering and Management from the Institute of Technology at Linköping University. Vice President of AerotechTelub AB, 2004–2006 and CFO, 2000–2004. CEO of Combitech AB 2006–2015. Experience from several board assignments within the SAAB-Group.

Other assignments: Vice President Business development and Financial control in Business Area Industrial Products and Services of the SAAB Group since 2015. Board member in Combitech AB and Mjärdevi Science Park AB.

Shareholding (own and/or held by related parties): 1,000 SKF B



Alrik Danielson

President and Chief Executive Officer of AB SKF.

For more details, see page 176.



Nancy Gougarty

Board member since 2015
Born 1955

Education and job experience: MBA from Case Western Reserve University and a Bachelor of Science in Industrial Management from the University of Cincinnati. Experience from several leading positions within TRW Automotive, 2005–2012, General Motors Corporation and Delphi Corporation from 1978 to 2005.

Other assignments: President and Chief Operating Officer for Westport Innovations since 2013. Board member of Trimas Corporation since 2013.

Shareholding (own and/or held by related parties): 0

Employee representatives



Kennet Carlsson

Deputy Board member from 2015
Born 1962

Education and job experience: Employed in the SKF Group since 1979. Board member 2008–2015 and deputy board member 2001–2008.

Other assignments: Chairman SKF World Union Committee.

Shareholding (own and/or held by related parties): 100 SKFA



Virpi Ring

Deputy board member since 2012
Born 1967

Education and job experience: Employed in the SKF Group since 1987.

Other assignments: 2nd vice Chairman Unionen, SKF, Gothenburg. Board member in Higab, a property company within the City of Gothenburg.

Shareholding (own and/or held by related parties): 0



Jonny Hilbert

Board member since 2015
Born 1981

Education and job experience: Employed in the SKF Group since 2005.

Other assignments: Chairman Unionen, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0



Zarko Djurovic

Board member since 2015
Born 1977

Education and job experience: Employed in the SKF Group since 2006.

Other assignments: Chairman Metalworker's Union, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 0

Auditors

Peter Clemedtson

Authorized Public Accountant
Auditor in charge
PricewaterhouseCoopers AB

Bo Karlsson

Authorized Public Accountant
PricewaterhouseCoopers AB

Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Code. The table below shows the Board member's independence according to the requirements of the Code in relation to (i) the company and (ii) major shareholders.

Name of the Board members elected by the Annual General Meeting	Independence in relation to the company/senior management	Independence in relation to the major shareholders of the company
Leif Östling	•	•
Ulla Litzén (resigned March 2015)	•	•
Tom Johnstone (resigned March 2015)		•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•
Alrik Danielson (elected March 2015)		•
Nancy Gougarty (elected March 2015)	•	•

Activities of the Board of Directors

The Board held nine meetings in 2015. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	9/9
Ulla Litzén (resigned March 2015)	2/9
Tom Johnstone (resigned March 2015)	1/9
Lena Treschow Torell	9/9
Peter Grafoner	9/9
Lars Wedenborn	9/9
Joe Loughrey	9/9
Jouko Karvinen	9/9
Baba Kalyani	7/9
Hock Goh	7/9
Marie Bredberg	9/9
Alrik Danielson (elected March 2015)	7/9
Nancy Gougarty (elected March 2015)	7/9
Jonny Hilbert (appointed March 2015)	5/9
Kennet Carlsson	9/9
Niklas Thoresson (left March 2015)	4/9
Martin Björkman (left December 2015)	7/9
Zarko Djurovic (appointed December 2015)	1/9
Virpi Ring	7/9

The Board adopts written rules of procedure annually for its internal work. These rules prescribe i.a.

- the number of Board meetings and when they are to be held
- the items normally included in the Board agenda
- the presentation to the Board of reports from the external auditors.

The Board has also issued written instructions on:

- when and how information required for the Board's assessment of the company's and the Group's financial position shall be collected and reported to the Board
- the allocation of the tasks between the Board and the President.

Issues dealt with by the Board in 2015 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, antitrust investigations, the strategic direction and business plan of the Group and management issues.

The Board continuously evaluates economic, environmental and social aspects for the Group's performance and reviews specific issues such as accident rates, greenhouse gas emissions and Code of Conduct adherence.

Each new Board member has to go through a general introduction training about the SKF Group and the Board visits on a regular basis different SKF sites in order to enhance knowledge about the SKF Group.

Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Leif Östling as chairman, and the Board members Peter Grafoner, Lars Wedenborn and Jouko Karvinen. The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President. The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval. The employment conditions for the President shall be approved by the Board. The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than three weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held three meetings in 2015. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	3/3
Peter Grafoner	3/3
Lars Wedenborn	3/3
Jouko Karvinen	3/3

Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Leif Östling and the Board member Marie Bredberg.

The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review and control of the financial reporting, and of the internal control, internal audit and risk management regarding the financial reporting.

The Audit Committee held seven meetings in 2015. The members of the committee were present at the meetings as follows:

<u>Name of the Board member</u>	<u>Presence/total number of meetings</u>
Leif Östling	6/7
Lars Wedenborn	7/7
Ulla Litzén (resigned March 2015)	2/7
Marie Bredberg (from May 2015)	5/7

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

President and Chief Executive Officer

Alrik Danielson

Board member of AB SKF's Board since 2015.

Born 1962

Education and job experience: Bachelor of Science in Business Administration and International Economics, School of Business, Economics and Law, University of Gothenburg. Several leading positions within the SKF Group 1987–2005 and President and CEO of Höganäs AB 2005–2014.

Other assignments: President and CEO of AB SKF.

Shareholding (own and/or held by related parties): 20,000 SKF B
Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 0

The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2013, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2017. Peter Clemedtson is the auditor in charge and Bo Karlsson is co-signing auditor. Peter Clemedtson is the auditor in charge at a number of other listed companies, such as Nordea Bank AB (publ), AB Volvo and Ratos AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as ASSA ABLOY AB, Investment AB Latour and unlisted companies such as Scania AB. The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice. SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, according to rules adopted by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF. PwC has during 2015 been involved in matters besides the auditing for 2015. These matters have primarily concerned tax services. The total fees for PwC's services besides auditing in 2015 amount to SEK 12 million.

Financial reporting

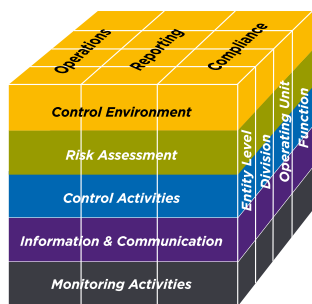
The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2015 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with five Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In May 2013 COSO launched an updated version of the framework, COSO 2013. SKF has during 2015 reviewed the internal control framework to ensure that it is in line with the 17 fundamental principles of COSO 2013. SKF applies a subset of the CobiT standard for IT security. The COSO framework consists of five interrelated components, where a number of objectives have to be met in each component:



COSO website, © 2013 Internal Control-Integrated Framework Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually by the responsible function based on the need to adapt these to changes in requirements and legislation.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has documented all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these require-

ments as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require that relevant controls in the business processes are described and performed. When deficiencies in individual controls are identified formal action plans are created to remediate control gaps. A selection of defined control activities are tested annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year. These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables access to individual control documentation and analysis of results from the annual testing of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework and putting in place a comprehensive system for management testing of the controls. SKF applies a risk-based annual testing programme of selected units and critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function report to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

Gothenburg, 7 March 2016
The Board of Directors

Auditor's report of the Corporate Governance Report

To the annual meeting of the shareholders of AB SKF, corporate identity number 556007-3495

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2015 on pages 168–174 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinion.

This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

In our opinion, the Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 7 March, 2016
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant