

# Corporate Governance Report

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# 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 3–5, are found at the following pages of the Administration Report for the Group in the Annual Report 2014:

- Annual Accounts Act Chapter 6, § 6, section 3 »see page 109
- Annual Accounts Act Chapter 6, § 6, section 4 »see page 111
- Annual Accounts Act Chapter 6, § 6, section 5 »see page 115

## 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 twice 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 2014 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

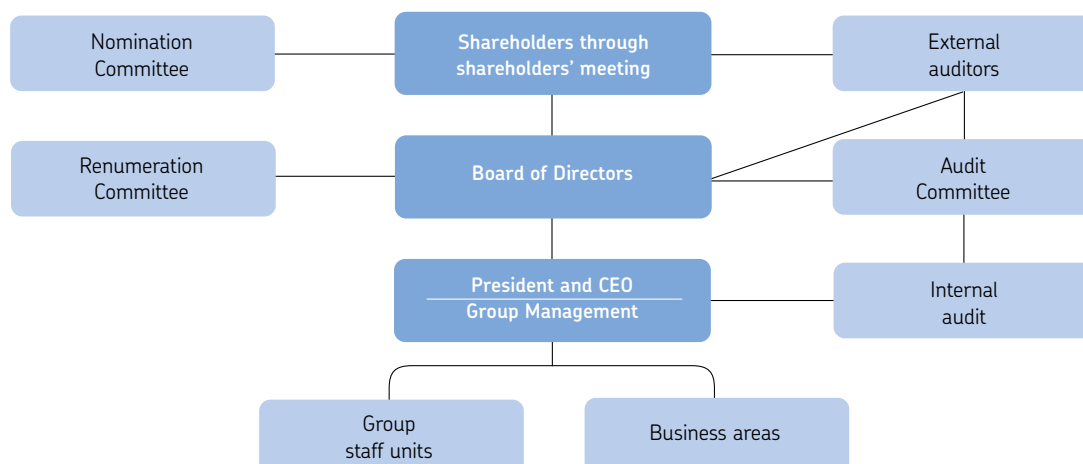
At the Annual General Meeting of AB SKF held in the spring 2014, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2014 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 2015. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 11 September 2014, 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 2015:

- Claes Dahlbäck, FAM AB
- Ramsay Brufer, Alecta
- Caroline af Ugglas, Skandia
- Anders Algottsson, 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 2015:

## Governance structure



- 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 2016

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2015.

In relation to the Annual General Meeting held in the spring of 2014, information regarding one new candidate was missing at the time when the notice was published. This is a deviation from rule 2.6 in the Code, which states inter alia: "The Nomination Committee's proposals are to be presented in the notice of a shareholders meeting where the election of Board members or auditors is to be held and on the company's website." The Nomination Committee's proposal in the notice was later supplemented with details of the new candidate in a separate press release.

#### **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 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 primarily operates with three business areas: SKF Industrial Market, Strategic Industries; SKF Industrial Market, Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and

services to OEMs and end-users. A fourth business area named Speciality Business with complementary business was formed on 1 January 2014. Each business area is further, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

Further, there are as from 18 November 2014 four Group staff units: Group Finance and Business Transformation, Group Technology Development, Group Legal and Sustainability and Group People, Business Excellence and Communication. See pages 196–197 in the Annual Report 2014. 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 2014. 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 2014 can be found in the Annual Report 2014, Consolidated Financial Statements, Note 25. It should be noted that the Annual General Meeting decided, in accordance with the proposal of the Nomination Committee, that a part of the remuneration to the Board members is to be received as a variable allotment corresponding to the value of a certain number of SKF B shares after the publication of the press release for the financial year 2014. The variable allotments will be paid out in April 2015. This is a deviation from Rule 9.8 in the Code, which states, inter alia: "The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years". By Instruction 1–2010 the Rule's scope of application has been extended to include also synthetic options and other types of incentive programmes that do not involve the acquisition of shares. The Nomination Committee has informed the company that it is of the opinion that the proposal presented for decision by the Annual General Meeting is appropriate particularly considering that the Nomination Committee has told the Board of Directors that it is an appropriate principle that each Board member elected by the Annual General Meeting during a period of three years should invest an amount equal to the annual board allotment after tax in shares in SKF, and keep these shares as long as the relevant person is a Board member of SKF.

## Members of the Board of Directors as of 31 December 2014



**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, member of the Board of Management of Volkswagen AG, responsible for Commercial Vehicles, since 2012.  
 Other assignments: Vice Chairman of Scania AB, Board member of EQT Holding AB and MAN SE.  
 Shareholding (own and/or held by related parties): 20,000 SKF B



**Tom Johnstone**

Board member since 2003  
 Born 1955  
 President and Chief Executive Officer of AB SKF.  
 For more details, see page 191.



**Ulla Litzén**

Board member since 1998  
 Born 1956  
 Education and job experience: Master of Science in Economics (Stockholm School of Economics), MBA (Massachusetts Institute of Technology), Managing Director and member of the Management Group of Investor AB 1996–2001, and President of W Capital Management AB (wholly owned by the Wallenberg Foundations) 2001–2005.  
 Other assignments: Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB.  
 Shareholding (own and/or held by related parties): 34,000 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, Gothenburg, 1995–1998, and Research Director of the Joint Research Centre, European Commission in Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of the Academy 2009–2011. Chairman of the European Council of Academies of Applied Sciences, Technologies and Engineering 2008–2012. Vice Chairman of AB ÅF 2006–2014.  
 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): 3,100 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, Chairman of SAG Group GmbH, President of the Board of Scania Schweiz AG and vice Chairman of Coperion GmbH.  
 Shareholding (own and/or held by related parties): 1,000 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 presently CEO of FAM AB, wholly owned by the Wallenberg Foundations.  
 Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group Inc., Höganäs AB, Alecta, The Grand Group AB, ELK Entertainment AB and FAM AB. Member of the council of the Stockholm Chamber of Commerce.  
 Shareholding (own and/or held by related parties): 10,000 SKF A, 1,500 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. Co-chairman of the Chicago Council on Global Affairs Independent Task Force on Immigration Reform. Member (previous chairman 2009–2012) of the Advisory Council of the College of Arts and Letters and 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). Employed by ABB Group Limited from 1987 and served in several international positions; head of the Automation Technology Products Division, and member of the ABB Executive Committee from 2000–2002. President and CEO of Philips Medical Systems, USA, 2002–2006, and appointed to the Board of Management of Royal Philips Electronics in the Netherlands in 2006. CEO of Stora Enso Oyj 2007–2014. Board member of the Finnish Forest Industries Federation and of Confederation of European Paper Industries (CEPI) 2007–2014. Member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU Russia Industrialist Round Table (IRT) 2007–2014.  
 Other assignments: Vice Chairman of Nokia Oyj.  
 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 other 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 and BPH Energy since 2007.

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. Experience from several board assignments within the SAAB-Group.

Other assignments: CEO of Combitech AB since 2006.

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

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## Employee representatives

**Niklas Thoreson**

Board member since 2012  
Born 1974

Education and job experience: Employed in the SKF Group since 1995.

Other assignments: Chairman Unionen, SKF, Gothenburg.

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

**Kennet Carlsson**

Board member since 2008 and deputy board member 2001–2008  
Born 1962

Education and job experience: Employed in the SKF Group since 1979.

Other assignments: Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Committee. Shareholding (own and/or held by related parties): 100 SKF A

**Martin Björkman**

Deputy board member since 2011  
Born 1970

Education and job experience: Employed in the SKF Group since 1989.

Other assignments: Board member Metalworkers' Union, SKF, Gothenburg.

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

**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, and board member Higab.

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

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## 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	•	•
Tom Johnstone	•	•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	•
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•
Hock Goh	•	•
Marie Bredberg	•	•

### Activities of the Board of Directors

The Board held ten meetings in 2014. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	10/10
Ulla Litzén	10/10
Tom Johnstone	10/10
Lena Treschow Torell	10/10
Peter Grafoner	10/10
Lars Wedenborn	10/10
Joe Loughrey	10/10
Jouko Karvinen	10/10
Baba Kalyani	7/10
Hock Goh	8/10
Marie Bredberg	8/10
Kennet Carlsson	10/10
Niklas Thoresson	8/10
Martin Björkman	10/10
Virpi Ring	7/10

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 2014 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 two 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 five meetings in 2014. The members of the committee were present at the meetings as follows:

<b>Name of the Board member</b>	<b>Presence/total number of meetings</b>
Leif Östling	5/5
Peter Grafoner	5/5
Lars Wedenborn	5/5
Jouko Karvinen	5/5

#### **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 Ulla Litzén.

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 six meetings in 2014. The members of the committee were present at the meetings as follows:

<b>Name of the Board member</b>	<b>Presence/total number of meetings</b>
Leif Östling	6/6
Ulla Litzén	6/6
Lars Wedenborn	6/6

#### **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**

##### **Tom Johnstone**

Board member of AB SKF's Board since 2003

Born 1955

Education and job experience: Master of Arts degree (the University of Glasgow), Honorary Doctor's degree in Business Administration (the University of South Carolina, USA), and Honorary Doctor's degree in Science (Cranfield University, UK). Several management posts within the SKF Group, the latest as Executive Vice President of AB SKF and President of Automotive Division.

Other assignments: Board member of Investor AB and Husqvarna AB.

Shareholdings (own and/or held by related parties) in the company: 142,192 SKF B

Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 1,000 ABB Ltd, 3,500 Volvo B, 600 Electrolux B, 4,800 Husqvarna B and 990 Husqvarna A.

#### **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 AB Volvo, Ratos AB and unlisted companies such as Stena AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as AB Fagerhult och ASSA ABLOY 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 2014 been involved in matters besides the auditing for 2014. These matters have primarily concerned tax and audit related services. The total fees for PwC's services besides auditing in 2014 amount to SEK 7 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.

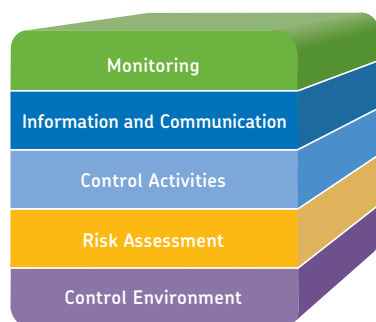
The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2014 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 six 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 1992 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 is currently in the process of reviewing the current internal control framework to ensure that it is in line with the 17 fundamental principles of COSO 2013. This is expected to be completed during 2015. The description below refers to SKF’s internal control framework based on the COSO 1992 release. SKF applies a subset of the CobiT standard for IT security focused on control over financial reporting. 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 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 in detail, 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 high 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, 3 March 2015  
The Board of Directors



# Auditor's report of the Corporate Governance Report

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

It is the board of directors which is responsible for the Corporate Governance Report for the year 2014 on pages 185–192 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 opinions.

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 Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 3 March 2015  
*PricewaterhouseCoopers AB*

Peter Clemedtson  
*Authorized Public Accountant*  
*Auditor in charge*

Bo Karlsson  
*Authorized Public Accountant*