



## AKTIEBOLAGET SKF

(a public company incorporated with limited liability in Sweden)

### €500,000,000 1.625 per cent. Notes due 2 December 2022

**Issue price: 99.568 per cent.**

The €500,000,000 1.625 per cent. Notes due 2 December 2022 (the **Notes**) will be issued by Aktiebolaget SKF (the **Issuer**) on 2 December 2015 (the **Issue Date**).

The Notes are subject to redemption at the option of the Issuer, as further described in “*Conditions of the Notes – Redemption and Purchase – Redemption at the Option of the Issuer*”. Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under the Conditions of the Notes. The Notes mature on 2 December 2022.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 (the **Luxembourg Act**) on prospectuses for securities, as amended, to approve this document (**this Document**) as a prospectus pursuant to Part II Chapter 1 of the Luxembourg Act and to the Luxembourg Stock Exchange for the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admission to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Articles 7(7) of the Luxembourg Act.

The Notes will be rated Baa1 by Moody's Deutschland GmbH (**Moody's**) and BBB by Standard & Poor's Credit Market Services Europe Limited (**S&P**). Moody's and S&P are established in the European Union and are registered under Regulation (EC) No. 1060/2009 (as amended). As such Moody's and S&P are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about the Issue Date with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 12 January 2016 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form, serially numbered in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000, each with Coupons attached on issue, only in certain limited circumstances - see “*Summary of Provisions relating to the Notes while represented by the Global Notes*”. No Notes in definitive form will be issued with a denomination above €199,000.

**An investment in Notes involves certain risks. Prospective investors should have regard to the risk factors described under the heading "Risk Factors" on page 6.**

#### Joint Lead Managers

**BofA Merrill Lynch  
Deutsche Bank**

**Citigroup  
SEB**

**Co-Manager  
Banca IMI**

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC of the Prospectus Directive and for the purposes of the Luxembourg Act. When used in this Prospectus, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus.

Save for the Issuer, no party has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY**

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and Sweden, see "*Subscription and Sale*".

### **STABILISATION**

**IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED AS STABILISATION MANAGER (THE "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

#### *The Notes may not be a suitable investment for all investors*

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Document, see "*Subscription and Sale*" below.

### **PRESENTATION OF INFORMATION**

All references in this Document to **U.S. dollars**, **U.S.\$** and **\$** refer to the currency of the United States of America, to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, and to **Swedish Kronor** and **SEK** refer to the currency of the Kingdom of Sweden.

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## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of risk factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such risk factors or to determine which risk factors are most likely to occur, as the Issuer may not be aware of all relevant risk factors and certain risk factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Prospectus the following risk factors which could materially adversely affect its business and ability to make payments due under the Notes.*

*In addition, risk factors which are material for the purpose of assessing the market risks associated with the Notes are described below.*

*Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

### **RISK FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES**

#### ***Litigation, arbitration, antitrust proceedings and unanticipated claims***

The Issuer is the parent company of the SKF group of companies (the **Group**). The Group is, and may continue to be, involved in litigation and arbitration both as plaintiff and defendant. Many of these disputes relate to claims arising in the ordinary course of business including, but not limited to, litigation relating to intellectual property, product warranty and product liability. Unanticipated claims could have a material adverse effect on the Issuer's business and results of operations.

SKF and other companies in the bearing industry are part of investigations by the U.S. Department of Justice and the Korea Fair Trade Commission regarding a possible violation of antitrust rules. In October 2014, an investigation against bearing manufacturers, including SKF, was launched in Brazil by the General Superintendence of the Administrative Council for Economic Defense regarding an alleged violation of antitrust rules. 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.

There can be no assurance that the Group will not become subject to additional legal proceedings, which may have an adverse effect on the Issuer's business, financial position and results of operation.

#### ***Business risks in general/Changes in economic conditions***

The Group operates in many different industrial and automotive segments, as well as in many geographical segments with different business cycles. A general economic downturn at a global level, or in one of the world's leading economies, or a change in the economic situation in any of the industry segments in which the Group operates, could affect customers' investment plans which in turn could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism, war, unrest and other hostilities, as well as potential impacts of climate change, water availability, natural disasters (including but not limited to earthquakes, tsunamis and ash clouds) and disturbances in the worldwide financial markets, could have a negative impact on the availability of raw materials and components necessary for the Group's manufacturing process and/or the demand for the Group's products and services. Under certain circumstances any of the risks identified above could have a material adverse effect on the Issuer's business, financial position and results of operations.

### *Political and regulatory risks*

There are political and regulatory risks associated with the wide geographical presence of the Group. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit or otherwise negatively impact the Group's operations.

### *Competition*

Competitive factors, including changes in market penetration, increased price competition, the development and introduction of new products, product designs and technologies by significant existing and new competitors and to a lesser extent small regional companies as well as changes in customer demand on sales, product mix, prices and service quality could have a material adverse effect on the Issuer's business, financial position and results of operations.

Also, the Issuer cannot give any assurance that its competitors do not or will not seek to utilise the Issuer's patents, trademarks and logos when they market their products. Such unauthorised use of the Issuer's intellectual property rights is an infringement of the Issuer's legal rights and may have a material adverse effect on the Issuer's business and brand image.

### *Changes in manufacturing costs as well as issues affecting manufacturing and production facilities of the Group or its suppliers and its ability to distribute its products*

Changes in the costs associated with the Group's various levels of operations including, but not limited to, the effects of unplanned work stoppages, severe interruptions in its production and damage to the equipment, the cost of labour, and the cost and availability of, for example, materials and energy supply from third party suppliers could have a material adverse effect on the Issuer's business, financial position and results of operations.

If critical equipment in the operating facilities is significantly damaged, or there are severe interruptions in its productions, the Group is likely to face setbacks in its ability to manufacture and distribute its products. Such circumstances, to the extent it is unable to find an alternative manufacturing and production facility or repair the damaged facilities or damaged equipment in a timely and cost-efficient manner, could have a material adverse effect on the Group's business, results of operations and financial condition.

### *Changes in costs for raw materials*

The annual cost of raw materials and components is approximately SEK 22 billion, of which steel-based products account for the majority. An increase/ decrease of 1 per cent. in the cost of raw materials and components would reduce/ increase the operating profit by approximately SEK 220 million. Steel scrap is a major ingredient in making bearing steel. A 10 per cent. increase/decrease of market scrap prices would decrease/increase SKF's operating profit by around SEK 65 million, which is already included in the figure for raw materials and components that impacts the operating profit. Calculations are based on the year-end figures for 2014 as well as on the assumption that everything else is equal.

### *Property and product liability insurance*

The Group has the customary insurance programmes with respect to the Group's property and product liability risks. Measures to limit the effect of damages are continually taken and standards for desired safeguard levels are established in order to reduce the probability of material damages and to ensure deliveries to the customers. While the Group holds customary insurance programmes in the amounts the Issuer believes to be appropriate, there can be no assurances that the Group will be able to fully recover such amounts or that recovered amounts will be sufficient to cover the Group's losses.

### *IT Risks*

The Group's operations are dependent on IT systems and solutions. The Group has initiated a programme to replace its enterprise resource planning systems in order to create a new common IT infrastructure. The implementation and roll-out will be carried out over a number of years. Routines and procedures are implemented to protect hardware, software and information from being damaged, manipulated, lost or misused. A major break-down of these systems with loss of information may have a material adverse effect on the Group's business, financial position and results of operations.

### *Retention of key employees*

The Group has, and is dependent on, highly knowledgeable and skilled people and it works actively on its ability to attract and retain its employees. Global processes have been developed for recruitment, employee performance and the overall skills of employees. These processes will enable the Group to further develop the skills within the Group to even higher levels. However, there can be no assurance that the Group will be able to retain and attract all of the key employees that it requires and a lack of highly qualified management and other skilled employees may have an adverse effect on the Group's business, financial position and results of operation.

### *Work stoppages or strikes*

Many of the Group's employees are covered by collective bargaining agreements. The Issuer cannot provide any assurance that it will not encounter strikes or other disturbances occasioned by its unionised labour force, or that, upon the expiration of existing agreements, it will be able to reach new collective bargaining agreements on satisfactory terms or without work stoppages, strikes or similar industrial actions.

Non-satisfactory terms on any collective bargaining agreements could cause the Group's labour costs to increase, which would affect its profit margins negatively. In addition, it is required to consult and seek the advice of its Employee Works' Council in respect of a broad range of matters, which could delay or prevent the completion of certain corporate transactions. While the Group has not experienced any major work stoppages in recent years and expects its current process to proceed amicably, the Issuer cannot provide any assurance that it will not experience lengthier consultations or even strikes, work stoppages or other industrial actions in the future. Any industrial action could disrupt its operations, possibly for a significant period of time, and result in increased wages and benefits or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

### *Environmental matters*

As an industrial company, the Group is subject to numerous environmental laws and regulations governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Group has a stringent process for preventing environmental pollution from its manufacturing processes. However, like other long-established industrial companies, the Group is involved in various action plans and remediation projects, resulting from historical activities. Because of stricter laws and regulations, some with retroactive effect, relating to landfill disposal, some of the Group companies are currently involved in the cleaning-up of old landfills, most of which have not been used for many years. The majority of these cases concern so-called superfund sites in the United States. A superfund site is an old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to federal law. In most of these cases the Group company was one of many companies contributing to waste disposal at landfill sites in the past and the Group's share is generally very low (a few per cent. or less). Other than this, a few on-going remedial activities are being carried out for soil and groundwater contamination. Although the Issuer believes that the ultimate resolution of these issues will not have a material impact on its financial position, it can give no assurance that it will not have a material adverse effect on the Group's business and results of operations. In addition, stricter environmental laws and



regulations, sometimes with retroactive effect, may lead to increased expenditure to comply with these laws and regulations. Furthermore, accidental environmental pollution may also expose the Group to substantial liability that could have a material adverse effect on the Issuer's results of operations.

#### *Environmental provisions*

The Group has made its best estimate of expected environmental provisions for a number of locations and several superfund sites designated by the U.S. Environmental Protection Agency and U.S. state agencies and the authorities in several other countries. The management believes that the ultimate resolution of these issues will not have a material impact on the financial position or results of operations of the Group, but no assurance can be given that actual costs will not exceed the estimates.

#### *Difficulties integrating acquired businesses and achieving anticipated synergies*

The Issuer cannot provide any assurance that it will not experience problems in relation to the integration of acquired companies or that the expected synergies will be achieved within planned timeframes. In addition, the Group may bear expenses and liabilities undisclosed in its due diligence and acquisition processes. The Group cannot guarantee that the integration of acquired entities will occur within the planned timeframes. Moreover, integration costs could be higher than initially anticipated and expected synergies may not be fully achieved. The occurrence of any of the foregoing may have an adverse effect on the Group's business, financial position and results of operations.

#### *Tax risks*

The Group conducts its operations through companies in a number of different jurisdictions. Its operations, including intra-group transactions, are conducted in accordance with the Group's interpretation of applicable tax law, tax treaties and regulations in those jurisdictions and the requirements of the relevant tax authorities. Even though the Group and its advisers have processes and a structure prepared for transfer pricing and other transactions that may have tax effects, the possibility that the Group's interpretation of applicable laws, tax treaties and regulations may not be entirely correct, or may be different from the relevant authorities' interpretation or administrative practice, or that such regulations may change, potentially with retroactive effect, cannot be universally ruled out. The occurrence of any of the foregoing may have an adverse effect on the Group's business, financial position and results of operations.

#### *Reputational risk*

If the Group or one of the Group's suppliers, distributors or other partners take any action that is in conflict with its code of conduct or the values represented by its brands, the Group's reputation may be damaged, which ultimately could have an adverse effect on the Group's business, financial position, results of operations and the Issuer's ability to repay amounts due under the Notes.

#### *Financial risks*

SKF's operations are exposed to various types of financial risk. The Group's financial policy defines the main risks as currency, interest rate, credit and liquidity risks and defines responsibility and authority to manage them. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through active risk management. The responsibility for risk management and treasury operations are largely centralized to the SKF Treasury Centre, the Group's internal bank.

#### *Currency risk*

The Group is subject to both transaction and translation exposure. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia as well as intra-European business. The Group may hedge 75 per cent. of the estimated net U.S.\$ exposure for one to six months. At

year-end 2014, the hedging with derivatives conformed to the Group policy. Translation exposure on net assets of foreign subsidiaries is hedged to some extent by loans and derivatives in foreign currencies.

- Translation effects: Most of the operating profit is made outside Sweden, meaning that the Group is exposed to translation risks from all major currencies into the reporting currency SEK. Based on 2014 operating profits in local currencies, a weakening/strengthening of 5 per cent. of the SEK versus all relevant currencies would have caused an increase/decrease in the Group's reported operating profit in 2014 of some SEK 400 million.
- Transaction effects: With regard to commercial flows, the Group is primarily exposed to the U.S.\$ and EUR against SEK. Based on 2014's U.S.\$ currency flows, the operating profit in 2014 would have increased/decreased by around SEK 300 million with a strengthening/weakening of 5 per cent. of the U.S.\$ versus the SEK.

#### *Interest rate risk*

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates. Liquidity and borrowing are managed at Group level. By matching the maturity dates of investments made by subsidiaries with the borrowings of other subsidiaries, the interest rate exposure of the Group can be reduced. A decrease/increase of 1 per cent. in interest rates has a positive/negative effect on the Group's profit before tax of around SEK 240 million, based on the position on 31 December 2014. The Group had net interest bearing liabilities of SEK 30,150 million on 31 December 2014.

#### *Holding company risk*

The financial position of the Issuer, being the parent company, is dependent on the financial position and development of its subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower income for the parent company, as well as a need to write down the values of the shares in the subsidiaries.

#### *Price risks*

As of 31 December 2014, the Group held investments in equity securities with quoted stock prices, amounting to SEK 506 million, which are categorized as available-for-sale and is subject to risks associated with changes in stock exchange prices and indexes. If the market share prices had been 5 per cent. higher/lower as at 31 December 2014, the available-for-sale reserve in equity would have been SEK 25 million higher/lower.

#### *Liquidity risk*

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet its commitments.

Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. In addition to its own liquidity, as at 31 December 2014 the Issuer had three committed credit facilities, one of SEK 3,000 million with due date 2016, one of EUR 150 million with due date 2017 and one of EUR 500 million with a due date in 2019, which are currently unutilised.

#### *Credit risk*

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

in relation to trade receivables) and certain financing activities. With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The Group has signed ISDA (International Swaps and Derivatives Association, Inc.) agreements with nearly all of these approved counterparties. Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored. As of 31 December 2014, the Group had derivative assets of around SEK 1,400 million and derivative liabilities of around SEK 2,600 million subject to enforceable master netting arrangements.

The maximum exposure to credit risk for the Group amounted to SEK 21,196 million as at 31 December 2014. The exposure is represented by total financial assets that are carried on the balance sheet with the exception of equity securities. As at 31 December 2014, no granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed.

### ***General risks***

Ratings downgrades may increase the Issuer's funding costs and substantially reduce the Issuer's earnings

The long-term rating of the Group by each of S&P and Moody's is BBB with a negative outlook and Baa1 with a negative outlook respectively.

The Issuer's credit rating depends on many factors, some of which are outside of the Issuer's control. If the Issuer were to receive downgrades in its credit rating, it may become necessary to offer increased interest rates in the capital markets in order to obtain financing, which would likely substantially lower the Issuer's profit margins and earnings and negatively affect the Issuer's business and results of operations.

## **RISK FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE NOTES**

### ***Risks related to the Notes generally***

Set out below is a description of material risks relating to the Notes generally.

#### ***Meetings of Noteholders and Modification***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Fiscal Agent may, without the consent of the Noteholders, agree to any modification of any of the provisions of the Notes subject to what is described in the conditions of the Notes.

***The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes***

#### ***Withholding under the EU Savings Directive***

Under Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in that other EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

***The value of the Notes could be adversely affected by a change in English law or administrative practice***

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

***Denominations involve integral multiples: definitive Bonds***

The Notes have denominations consisting of a minimum of €100,000 plus one or more higher integral multiples of €1,000 in excess thereof up to and including €199,000. It is possible that the Notes may be traded in amounts that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to €100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

***Eligibility of the Notes for Eurosystem Monetary Policy***

The Notes are issued in New Global Note form and are intended upon issue to be held in a manner which would allow Eurosystem eligibility. This means that the Notes are, upon issue, deposited with one of the international central securities depositories (ICSDs) as common safekeeper. This does not mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by Eurosystem (**Eurosystem Eligible Collateral**) either upon issue, or at any or all times during

their life. Such recognition will depend on satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the European Central Bank from time to time. The Issuer does not give any representations, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, at any time during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

### ***Risks related to the market generally***

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

*An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an Investor could sell his or her Notes*

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

*If an investor holds Notes which are not denominated in the investor's home currency, such investor will be exposed to movements in exchange rates adversely affecting the value of such investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes*

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*The value of the Notes may be adversely affected by movements in market interest rates*

Investment in the Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Notes, this will adversely affect the value of them.

***Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in the Notes***

S&P and Moody's have assigned credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). This is subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus. S&P and Moody's are registered credit rating agencies under the CRA Regulation.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

- the auditors report and audited consolidated annual financial statements of the Issuer for the financial year ended on 31 December 2013 and 31 December 2014, including the information set out at the following pages:

	<b>2013 Annual Report</b>	<b>2014 Annual Report</b>
Consolidated Balance Sheets.....	Pages 120	Pages 122
Consolidated Income Statements .....	Pages 118	Pages 120
Notes to the Consolidated Financial Statements .....	Pages 125-171	Pages 127-173
Auditor's Report .....	Pages 180-181	Pages 182-183

Any other information incorporated by reference that is not included in the cross-reference lists above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, as amended (the **Prospectus Regulation**);

- the unaudited interim consolidated financial statements of the Issuer for the nine months ended 30 September 2015 attached to the Press Release dated 16 October 2015, including the information set out at the following pages:

Condensed Consolidated Balance Sheets.....	Page 10
Condensed Consolidated Income Statements.....	Page 9

Any other information incorporated by reference that is not included in the cross-reference lists above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Prospectus Regulation.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer, from the specified offices of the Paying Agents for the time being in Luxembourg and from the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## FINANCIAL INFORMATION

The audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2013 and 31 December 2014 and the unaudited interim consolidated financial statements for the nine months ended 30 September 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (**IFRS**).

## CONDITIONS OF THE NOTES

*The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:*

The €500,000,000 1.625 per cent. Notes due 2 December 2022 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes of Aktiebolaget SKF (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 2 December 2015 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and principal paying agent (the **Fiscal Agent**) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000, each with Coupons attached on issue. No Notes in definitive form will be issued with a denomination above €199,000.

#### 1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

#### 1.3 Holder Absolute Owner

The Issuer and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.



### 3. NEGATIVE PLEDGE

#### 3.1 Negative Pledge

So long as any of the Notes remains outstanding, the Issuer will ensure that no Relevant Indebtedness of the Issuer or any of its Subsidiaries (as defined below) will be secured by any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future property, assets or revenues of the Issuer or any of its Subsidiaries unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (i) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or
- (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Noteholders;

provided that the Issuer shall not be required to take such action where (i) the aggregate outstanding principal amount of the Relevant Indebtedness secured by such Security Interests shall not exceed 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries, as calculated by reference to the then latest audited consolidated accounts of the Issuer or (ii) the Security Interest is on the present or future property, assets or revenues of any company becoming a Subsidiary after the date of issue of the Notes which Security Interest exists at the time of such company becoming a Subsidiary (other than any Security Interest created in contemplation thereof).

#### 3.2 Interpretation

For the purposes of these Conditions:

- (a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures or other securities which are for the time being quoted or listed on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity in respect of any such indebtedness; and
- (b) **Subsidiary** means a subsidiary within the meaning of chapter 1, section 11 of the Swedish Companies Act (2005:551).

### 4. INTEREST

#### 4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 2 December 2015 at the rate of 1.625 per cent. per annum, payable annually in arrear on 2 December (each an **Interest Payment Date**). The first payment (for the period from and including 2 December 2015 to but excluding 2 December 2016 and amounting to €16.25 per €1,000 principal amount of Notes) shall be made on 2 December 2016.

## 4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption or purchase unless, upon due presentation, payment of the principal in respect of the Note, any purchase money due under Condition 6.4 is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11.

## 4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated by applying the rate of 1.625 per cent. per annum to each €1,000 principal amount of Notes (the **Calculation Amount**) and on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent, half a cent being rounded upwards. The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

## 4.4 Change of Control Event

If there occurs (i) a Change of Control and within the Change of Control Period (if at the time that Change of Control occurs the Notes are rated by a Rating Agency) a Rating Downgrade in respect of that Change of Control occurs or (ii) a Change of Control (if at such time the Notes are not rated by a Rating Agency) (each a **Step-Up Event**), then from and including the date of the Step-Up Event the interest rate on the Notes shall be determined in Conditions 4.1, 4.2 and 4.3, except that that interest rate in Condition 4.1 shall instead be 6.625 per cent. per annum.

**Rating Agency** means Moody's Deutschland GmbH or Standard & Poor's Credit Market Services Europe Limited and their respective successors or any other rating agency or equivalent international standing specified by the Issuer.

A **Rating Downgrade** shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the rating previously assigned to the Notes by any Rating Agency is (a) withdrawn or (b) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (c) (if the rating assigned to the Notes by any Rating Agency shall be below an investment grade rating (as described above)) lowered one full rating category (from BB+ to BB or such similar lower or equivalent rating), provided that a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a particular Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply does not publicly announce or publicly confirm that the reduction was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control.

A **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of the Issuer) that any person or persons acting in concert or any person or

persons acting on behalf of any such person(s) (the **Relevant Persons**), at any time acquire(s) (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (B) such number of shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, provided that a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person(s) are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) pro rata interest in the share capital of the Relevant Person(s) as such shareholders have, or as the case may be, had in the share capital of the Issuer.

**Change of Control Period** means the period ending 90 days after the public announcement of the Change of Control having occurred.

## **5. PAYMENTS**

### **5.1 Payments in respect of Notes**

Payments of principal, any purchase moneys due under Condition 6.4 and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **5.2 Method of Payment**

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee with or, at the option of the payee, by euro cheque.

### **5.3 Missing Unmatured Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8).

### **5.4 Payments subject to Applicable Laws**

Payments in respect of principal, purchase moneys due under Condition 6.4 and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

### **5.5 Payment only on a Presentation Date**

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

**Presentation Date** means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place and **TARGET2 Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system is open.

## 5.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having a specified office in the place required by the rules and regulations of the relevant Stock Exchange or any other relevant authority; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union (other than Sweden) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any variation, termination, appointment and/or of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 11.

## 6. REDEMPTION AND PURCHASE

### 6.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 2 December 2022.

### 6.2 Redemption for Taxation Reasons

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 7), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 2 December 2015, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent to make available at its specified offices to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

### **6.3 Redemption at the Option of the Issuer**

The Issuer may at any time on or after 2 September 2022, on giving not less than 30 nor more than 60 days' notice to Noteholders and the Fiscal Agent in accordance with Condition 11 (which notices shall be irrevocable and shall specify the date fixed for redemption and the applicable record date), redeem all (but not some only) of the Notes at their principal amount, together with interest accrued to the date fixed for redemption.

At any time prior to 2 September 2022, the Issuer may at its option having given not less than 30 nor more than 60 days' notice to the Noteholders and the Fiscal Agent in accordance with Condition 11 (which notices shall be irrevocable and shall specify the date fixed for redemption and the applicable record date), redeem all (but not some only) of the Notes at any time after 2 December 2015 at the Make-Whole Redemption Price together with interest accrued.

The **Make-Whole Redemption Price** shall be either (i) par or, if higher (ii) the price per Note (as reported in writing to the Issuer and the Fiscal Agent by a financial adviser selected by the Issuer) equal to the sum of the prevailing yield of the Bundesrepublik Deutschland 1.5 per cent. due September 2022 and 0.25 per cent. provided, however that if a financial adviser approved by the Issuer advises the Issuer and the Fiscal Agent that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other issue of government securities as such financial adviser may recommend.

### **6.4 Purchases**

The Issuer or any of its Subsidiaries (as defined above) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

### **6.5 Cancellations**

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

### **6.6 Notices Final**

Upon the expiry of any notice as is referred to in paragraph 6.2 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

## 7. TAXATION

### 7.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) the holder of which is liable for Taxes in respect of such Note or Coupon by reason of having some connection with the Relevant Jurisdiction other than a mere holding of the Note or Coupon; or
- (b) presented for payment in Sweden; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to Council Directive 2003/48/EC on the taxation on savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 5).

### 7.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 11; and
- (b) **Relevant Jurisdiction** means Sweden or any political subdivision or any authority thereof or therein having power to tax any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

### 7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

## 8. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and purchase moneys due under Condition 6.4) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7.2) in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 5.

## 9. EVENTS OF DEFAULT

### 9.1 Events of Default

The holder of any Note may give written notice to the Issuer, effective upon the date of receipt thereof by the Issuer, that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

- (a) if default is made in the payment of any principal, purchase moneys due under Condition 6.4, or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 45 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money (as defined below) (other than under the Notes) of the Issuer becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment (subject to any originally applicable grace period therefor); (iii) any security given by the Issuer for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer in making any payment due (subject to any originally applicable grace period therefor) under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, provided that any such event shall not constitute an Event of Default unless the aggregate amount of the relevant Indebtedness for Borrowed Money and any liability under the guarantee or indemnity concerned in respect of which one or more of the events mentioned above in this paragraph have occurred during the immediately preceding 6 month period exceeds €40,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer otherwise than for the purpose of a merger, reconstruction or amalgamation on terms approved by an Extraordinary Resolution of Noteholders; or
- (e) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of a merger, reconstruction or amalgamation complying with the terms of Condition 9.1(d) above, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver,

manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the Issuer, is not discharged within 45 days; or

- (g) if the Issuer (or its respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

## 9.2 Interpretation

For the purposes of this Condition, **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any borrowed money, including without limitation any notes, bonds, debentures, debenture stock, loan stock or other securities or any liability under or in respect of any acceptance or acceptance credit.

## 10. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and the Fiscal Agent or the Paying Agent, as the case may be, may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 11. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and the rules of that exchange so require, published in one daily newspaper in Luxembourg or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that publication in a newspaper will normally be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

## 12. MEETINGS OF NOTEHOLDERS AND MODIFICATION

### 12.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for



passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes any matter defined in the Agency Agreement as a Basic Terms Modification including the modification of certain of these Conditions (including the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

## **12.2 Modification**

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification of the Notes, the Coupons or any of the provisions of the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law, or
- (b) any modification (except a Basic Terms Modification (being a matter in respect of which an increased quorum is required as mentioned above)) of the Notes, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders.

Any modification shall be binding on the Noteholders and the Couponholders and any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

## **13. FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount and date of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

## **14. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **14.1 Governing Law**

The Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons are governed by, and will be construed in accordance with, English law.

## **14.2 Jurisdiction of English Courts**

- (a) Subject to Condition 14.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons (a **Dispute**) and each of the Issuer and any Noteholders and Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent permitted by law, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction and (ii) concurrent proceedings in any number of jurisdictions.

## **14.3 Appointment of Process Agent**

The Issuer hereby irrevocably and unconditionally appoints SKF (U.K.) Limited at its registered office for the time being as its agent for service of process in any proceedings before the English courts in relation to any Dispute and agrees that, in the event of SKF (U.K.) Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

## **14.4 Other Documents**

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

## **15. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the **Global Notes**) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes. The Notes will be issued in new global note (NGN) form.*

### 1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if (each of the following being an **Exchange Event**):

- (a) an event of default (as set out in Condition 9) has occurred and is continuing; or
- (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or
- (c) the Issuer has or will, as a result of legislative changes in the domicile of the Issuer, become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. Thereupon, in the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes. Any exchange shall occur no later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent. Exchanges will be made upon presentation of the Permanent Global Note at the office of the Fiscal Agent on any day on which banks are open for general business in London.

In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes in bearer form, serially numbered, in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000 (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. No Notes in definitive form will be issued with a denomination above €199,000. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

In the event that (a) the Global Note (or any part of it) has become due and repayable in accordance with the Conditions or that the maturity date of the Notes has occurred and, in either case, payment in full of the amount due has not been made to the bearer, or (b) following an Exchange Event, the Permanent Global Note is not duly exchanged for definitive Notes by the day provided in the Permanent Global Note, then from 8.00 p.m. (London time) on such day each Accountholder will become entitled to proceed directly against the Issuer on, and subject to, the terms set out in the Global Note and the bearer will have no further rights under the Global Note (but without prejudice to the rights any person may have under Global Note).

## 2. **Payments**

On and after 12 January 2016, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, purchase moneys under Condition 6.4 and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer who is for the time being shown in the records of Euroclear or Clearstream Luxembourg as the holder of such Global Note on the Business Day prior to the date for payment (the **Record Date**) and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

## 3. **Notices**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relevant Accountholders rather than by publication as required by Condition 11, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notices shall also be published in accordance with the rules of the Luxembourg Stock Exchange. It is expected that publication will normally be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

## 4. **Accountholders**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 9) other than with respect to the payment of principal, purchase moneys due under Condition 6.4 and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or

Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

**5. Prescription**

Claims against the Issuer in respect of principal, purchase moneys due under Condition 6.4 and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

**6. Cancellation**

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by instruction to Euroclear or Clearstream, Luxembourg to make appropriate entries in their records in respect of all Notes which are cancelled.

**7. Euroclear and Clearstream, Luxembourg**

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes, including the refinancing of existing debt.

## DESCRIPTION OF THE ISSUER

### *History and Development of the Issuer*

Aktiebolaget SKF (the **Issuer**) was incorporated with registration number 556007-3495 under the laws of Sweden on 16 February 1907 and is a limited liability company with an indefinite duration. The Issuer is headquartered and has its registered office in Göteborg, Sweden and its principal offices are located at Hornsgatan 1, SE-415 50 Göteborg, Sweden. The Issuer's telephone number is +46 (0) 31 337 10 00.

The Issuer is the parent company of the global SKF group of companies (**SKF**, the **SKF Group** or the **Group**).

From the outset the Issuer has focused intensively on quality, technical development and marketing. The Group's investment in research and development (**R&D**) has resulted in numerous innovations, new standards, products, solutions and services. In 2014, SKF recorded 646 invention disclosures and successfully registered 488 first filings of patent applications. SKF's technical knowledge and capabilities are within bearings and units, seals, mechatronics, services and lubrication systems.

### *Organisational Structure*

The Issuer is, directly or indirectly, the ultimate holding company of all companies in SKF, and its assets are substantially comprised of shares in such companies. The Issuer is the entrepreneur within the Group, entitled to the residual profit and taking costs for R&D and management services. The Issuer's revenues are comprised of residual profits from its subsidiaries.

The following operating subsidiaries have assets that exceed 10 per cent. of the Issuer's consolidated total assets or contribute more than 10 per cent. to SKF's net income.

<i>Company</i>	<i>Country</i>	<i> Holding per cent.</i>
SKF Industrie S.p.A.	Italy	100.0
SKF USA Inc.	USA	100.0

### *Business Overview*

#### **General Description**

The SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimisation, engineering consultancy and training.

SKF groups its core technologies on five platforms: bearings and units, seals, mechatronics, services, and lubrication systems. By utilising capabilities from all or some of the platforms, SKF develops tailor-made offers for each industry, helping customers improve performance, reduce energy use and lower total costs. SKF works with its customers at every stage in the asset life cycle, providing solutions from design right through to maintenance and back to design upgrades.

SKF primarily operates through three business areas: Industrial Market, Automotive Market, and Specialty Business. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to original equipment manufacturers and end-users.

SKF is present in nearly all industries, including cars and light trucks, marine, aerospace, renewable energy, railway, metal, machine tool, medical and food and beverage.

SKF is represented in over 130 countries through its own sales companies and over 15,000 distributor locations. The Group has around 120 manufacturing units in 29 countries.

The Group has global certification to ISO 14001 (environmental management system), ISO 50001 (energy management) and OHSAS 18001 (health and safety) standards. Its operations are also certified to either ISO 9001 or applicable customer industry standards, e.g. ISO/TS 16949 (automotive), AS9100 (aviation) or IRIS (railway) for quality management systems.

SKF is committed to sustainability which is defined by the Group as SKF Care including business care, environmental care, employee care and community care as further detailed on page 43 below.

SKF presented its climate strategy and targets in May 2012. This enhanced approach is built around the SKF BeyondZero strategy and broadens the scope of SKF's targets to include not only SKF's operations but also its suppliers, logistics and customers. In recognition of the comprehensive scope and ambitious nature of these targets, the World Wide Fund for Nature recognised SKF's strategy as being best in class in its industry when the world leading environmental group included SKF in their Climate Savers programme in May 2012.

At the same time SKF also launched the SKF BeyondZero portfolio. The SKF BeyondZero portfolio consists of solutions that help customers reduce their environmental impact. The environmental improvements provided by the various solutions in the portfolio are validated through a life cycle assessment-based methodology developed by SKF. In order to assure the accuracy and credibility of the portfolio and approach, the process, as well as reported results, are reviewed by external auditors. The growth of the SKF BeyondZero portfolio forms an important part of the Group's overall business and environmental strategy.

A total of 56 specific SKF solutions were included in the portfolio at year-end 2014, in addition to SKF's complete business in the renewable energy and electric vehicle industries. The total revenue of the portfolio in 2014 was SEK 5,493 million with a large part of this volume coming from SKF's renewable energy business. The growth is based on acquisition in the wind energy business, sales development of solutions included in previous years and the inclusion of additional solutions in 2014 – both new market offers and solutions from SKF's existing assortment for which new environmental assessments have been completed, such as hybrid bearings, electric cylinders, ball screws and roller screws. The calculated avoided greenhouse gas emissions enabled by specific SKF solutions sold in 2014 was 440,000 (83,000) metric tonnes per year. The increase is mainly explained by the inclusion of electric cylinders, ball screws and roller screws in the portfolio. In addition, the avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicle industries in 2014, was around 1,760,000 metric tonnes per year.

### **SKF's platforms**

The platform and customer industries approach is SKF-specific and based on combining strong technology focus from the platforms and strong customer focus from the industries

SKF has defined about 40 customer industries in which it operates. Examples of these industries include cars and light trucks, wind power, railway, machine tool, medical, food and beverage, and the pulp and paper industries. Based on a strong understanding of current and future customer needs and challenges, SKF utilises the capabilities of all, some of or only one of its platforms to develop tailor-made offers for each of its customer industries. In this way, SKF can offer its customers specific products and solutions with improved performance, reduced energy use and reduced total cost, while giving SKF greater added value and better price quality.

#### *Bearings and units*

The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customised solutions to critical and standard applications. Units



are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.

### *Seals*

SKF provides innovative solutions in elastomers or engineered plastics to meet the needs of various industries for static, rotating, reciprocating and bearing seals.

### *Services*

The service platform delivers value by addressing the entire life cycle of a particular asset. The design phase is covered by different aspects of engineering consultancy and R&D services. The operation stage, which is the main part of the asset's life cycle, is covered by a variety of solutions including services and service-related products focusing on maintenance strategy, predictive maintenance, maintenance and logistic services.

The last part of the life cycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismounting and mounting, alignment, balancing and post maintenance testing. A wide range of training is available for customers, on- and off-site, around the globe.

### *Lubrication systems*

SKF offers products, solutions and vast support within areas such as industrial lubricants, lubrication consultancy, lubricator equipment, lubrication assessment, lubricant analysis, lubricant recommendations and automatic lubrication systems.

### *Mechatronics*

The mechatronics platform enhances customer value by combining SKF's strong mechanical experience and electronic technology. The platform covers systems for precision multi-axis positioning, intelligent monitoring and by-wire applications, as well as components such as ball and roller screws, actuators, rail guides and sensor modules. A number of mechanical and electronic products are combined into modules and sub-systems addressing needs where SKF has industry-specific expertise.

## **Manufacturing**

SKF has around 120 manufacturing units in 29 countries worldwide. Manufacturing is a key element of SKF's business model and therefore management of, and investment in, this area is crucial for SKF's future growth and competitiveness. Today SKF's manufacturing operations are:

- focused on core manufacturing processes
- achieving globally consistent quality
- focused on being flexible to customer demands
- continually driving improvements in cost and efficiency
- supported by a highly competitive and flexible global supply chain taking environmental care into consideration, for example LEED building requirements

To meet market demand, and to balance the Group's manufacturing footprint better, SKF has invested in manufacturing capacity by opening new manufacturing sites, expanding existing ones, adding capacity and by acquisitions.

To enhance quality and provide better customer service, SKF is constantly developing its manufacturing processes to optimise investments in equipment and working capital per unit produced. Many initiatives for continually improving manufacturing are brought together by SKF Manufacturing Excellence, which ensures consistent implementation throughout the Group.

## **SKF's Business Areas**

From 1 January 2015 SKF operates through three business areas: Industrial Market, Automotive Market, and Specialty Business. Two previous industrial business areas, Strategic Industries and Regional Sales and Service were merged resulting in the single business area, Industrial Market. Additional reclassifications of units between business areas also occurred. The financial statements for 2013 and 2014 have been restated in the unaudited consolidated financial statements for the nine months ended 30 September 2015 to conform to the new structure.

### *SKF Industrial Market*

Industrial Market is responsible for sales of bearings, seals, lubrication systems and services to both original equipment manufacturers and end-users, primarily in the agriculture, food and beverage; drives and machine tools; energy; heavy industries; marine; and railway industry segments. The business area is also responsible for managing product development, manufacturing and customer service, and for developing customer relations in partnership with authorised SKF distributors. Industrial Market is present in more than 100 countries, divided into eight geographical regions, and represents around two thirds of SKF's total sales. Its focus is to address customer needs with products, services and solutions that help to improve productivity, reliability and energy efficiency.

### *SKF Automotive*

SKF Automotive consists of five business units that offer and deliver a full range of products, solutions and services to both original equipment manufacturers and aftermarket customers. The business units are: powertrain and electrical and two-wheelers, car chassis, trucks, sealing solutions and vehicle service market.

SKF Automotive serves manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket, supporting them with innovative and sustainable solutions. In addition, SKF Automotive provides energy-saving solutions for home appliances, portable power tools and electric motors.

SKF Automotive develops and manufactures bearings, seals and related products and services. Typical products include hub bearing units, tapered roller bearings, small deep groove ball bearings, steering column bearing, suspension bearing units, magnetic bearings, scotseals, shaft seals, bonded piston seals, valve stem seals, actuators and monitoring devices. Solutions customised for electric motors, driveline, e-powertrain, engine, steering, suspension and wheel-end applications. For the vehicle aftermarket, the business area provides spare parts to cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – packed together in one box for an easy and complete repair.

### *SKF Specialty Business*

SKF Specialty Business consists of the following units, Aerospace, Linear and Actuation Technology (**L&AT**), Kaydon Corporation (**Kaydon**), PEER Bearing Company (**PEER**), General Bearing Corporation (**GBC**).

SKF supplies a wide assortment of aerospace solutions encompassing bearings, seals, composite struts, precision elastomeric devices for airframe, aero-engines and gearboxes. With a worldwide presence, SKF Aerospace serves all the players in the aerospace industry and supports them in the development of their new programmes. SKF provides the aerospace industry with highly engineered customised solutions for aircraft,

helicopter, engine and system manufacturers including spherical plain bearing, main-shaft and transmission bearings, seals, precision elastomeric devices and composite solutions, supporting the customer throughout the product life cycle.

L&AT is an amalgamation of the previous linear motion and actuation system business lines. Within L&AT there are nine manufacturing units which are located around the world, these being in China, France, Germany, Sweden, Switzerland, Taiwan and USA. Primary segment areas of operation are in medical technology, industrial and manufacturing technology, automation and robot engineering, conveying and domestic technology, health care, hospital and nursing home beds, rehabilitation, furniture and for workplace ergonomics.

Kaydon is a designer and manufacturer of Kaydon thin section and slewing ring bearings and Cooper split roller bearings. Velocity control products include ACE industrial shock absorbers, Hahn gas springs and Fabreeka vibration isolation products. Specialty products include ITI custom balls and Kaydon rings and seals. Products and services cover solutions for a wide range of industries including aerospace, defence, medical, semicon, automation, wind energy, material handling and machine tool.

GBC manufactures, assembles and distributes a variety of bearing components and bearing products, including ball bearings, tapered roller bearings, spherical roller bearings and cylindrical roller bearings under the Hyatt and The General trademarks. GBC supplies original equipment manufacturers and the industrial aftermarket worldwide. GBC's products are used in a broad range of applications, including automobiles, railroad cars, locomotives, trucks, office equipment, machinery and appliances.

PEER serves industries such as agriculture, material handling, heating, ventilation, air conditioning and mechanical power transmission. PEER manufactures deep groove ball bearings, tapered roller bearings, agricultural bearings and mounted unit bearings.

<i>Net sales by customer location</i> (SEK million calculated at the accumulated monthly average rates)		
Geographical area	<b>2014</b>	2013
Sweden .....	<b>1,746</b>	1,752
Europe excl. Sweden .....	<b>27,423</b>	25,265
North America (incl. Mexico) .....	<b>18,184</b>	15,276
Asia Pacific.....	<b>17,756</b>	15,422
Middle East/Africa .....	<b>1,813</b>	1,742
Latin America.....	<b>4,053</b>	4,140
<b>TOTAL .....</b>	<b>70,975</b>	63,597

<b>Net sales by business areas*</b>		
<i>(SEK million calculated at the accumulated monthly average rates)</i>		
Business Area	<b>2014</b>	2013
Industrial Market .....	<b>42,768</b>	39,439
Automotive .....	<b>18,330</b>	17,370
Specialty Business .....	<b>9,426</b>	6,381
Other (items not included in business areas) .....	<b>451</b>	407
<b>TOTAL</b> .....	<b>70,975</b>	63,597

\* Previously published amounts have been restated to conform to the current Group structure. The structural changes include business units being moved between the business areas and between other operations/Group activities and business areas.

### ***SKF's markets***

All competitive statements made in this description of the Issuer in terms of SKF, are based on information included in publicly available financial statements, analyst reports, news media and certain internal SKF estimates.

### **Bearing market**

The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units. For the 2014 calendar year SKF estimates that the global rolling bearing market size increased in volume by four per cent. year-over-year and reached between SEK 330 and 340 billion.

The industrial original equipment bearing markets accounted for almost 40 per cent. of world demand and included manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) maintained around 30 per cent. of world bearing demand, of which around 30 per cent. is related to the vehicle service market and around 70 per cent. to the industrial market.

The automotive original equipment bearing markets, including two and four-wheelers, accounted for more than 30 per cent. Europe accounts for 25 per cent. of the total world market with Germany alone accounting for almost 10 per cent. The Americas now represent slightly more than 20 per cent. of global demand, of which the USA, Canada and Mexico together account for about 80 per cent. In South America, Brazil is the major market and makes up more than 60 per cent. of regional demand.

Asia's share of the world bearing market was relatively unchanged and accounted for almost 50 per cent. compared with less than 30 per cent. ten years ago. China's share of the total world bearing market was slightly down to about 25 per cent. Japan's share of the world bearing market accounts for slightly more than 10 per cent. Other Asian markets with sizeable bearing production account for about 10 per cent., including

India, Thailand, Indonesia, Malaysia and the Republic of Korea. The Chinese bearing market, which remains the largest of the emerging markets, is very fragmented, with the main international bearing companies accounting for about one third of the market while the other two thirds of the market consists of a host of local manufacturers. Some of the largest include: Wafangdian, Luoyang, Harbin, Zhejiang Tianma, Wanxiang Qianchao, and C&U. The Indian bearing market accounts for less than five per cent. of the world bearing market. The players in that market include international manufacturers and several local manufacturers such as NEI, NRB, ABC and TATA.

SKF estimates that the top six world bearing manufacturers represent about 60 per cent. of the global rolling bearing market while the group of Chinese bearing companies, including small and larger ones, represents less than 20 per cent. in the world with more than 80 per cent. of their sales in Asia, less than 10 per cent. in Europe and less than seven per cent. in Americas. The remaining 20 per cent. of Chinese bearing companies includes many smaller regional competitors.

Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30 per cent. of the world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub ball bearing units. Roller bearings account for less than half of worldwide rolling bearing sales.

Roller bearings are named after the roller shape, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings and spherical roller bearings. All of these are available for loads acting across the shaft (radial bearings) and for loads that are parallel with the shaft (thrust bearings). The largest roller bearing family is the tapered roller bearing, with about 20 per cent. of the world bearing market.

### **Linear and actuation and motion control market**

This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion. SKF estimates that the global markets for linear and actuation technologies slightly increased in 2014 over the previous year, to around SEK 52 billion worldwide. More than half of the market is in Asia, one third in Europe and the remainder in the Americas. The market consists of many suppliers with different backgrounds and offers: from producers of basic mechanical components to specialists in motors, software or controls. The linear motion and actuation market embraces a wide range of products from pure mechanical components to fully integrated systems. Market growth is driven by the technology shift from pneumatic and hydraulic towards electromechanical systems, to meet the needs of higher precision, more flexibility, reliability and greater efficiency with reduced energy use. This trend of machinery that is more efficient is expected to continue and sustain the industry's growth especially in Europe and the Americas.

The market can be split in two main categories: linear motion and actuators.

Linear motion consists of various types of products and solutions required to obtain a linear movement. The major ones are linear guides and ball and roller screws. The linear guides market has been established for many years and represents two thirds of the global linear motion market, while ball and roller screws represent one third. Even if linear motion products are used in a very wide range of industries, the market is strongly influenced by machine tools, electronics, semi-conductor and production machinery.

The actuators market is at the core of the technology shift towards electromechanical solutions. For many years the main industries have been medical and healthcare, off-highway and the furniture industries, but as the sector is now growing more significantly, year-on-year, factory automation is driven by developments in the automotive and food & beverage production lines. An important consequence of these changes is a deep modification of the supplier base with new players from different backgrounds like automation, pneumatic, hydraulic, actuators etc.

SKF is active in developing and offering a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, which provide extensive customer benefits. SKF's main focus industries in this market include the medical industry, factory automation, semi-conductors, off-highway and the oil and gas industry. SKF is very active in the oil and gas industry and involved in developing products and solutions for sub-sea applications, which are considered tomorrow's new technological frontier of this industry. SKF is a supplier for light and medium industrial actuation systems, roller screws and magnetic system solutions, including magnetic bearings, controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and positioning tables. SKF's largest competitors include NSK, THK, Hiwin, Linak and Bosch Rexroth.

### **Polymer seals market**

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into industrial, automotive or aerospace seals. In 2014, the total polymer seals market experienced a fairly flat development, reaching an estimated SEK 75–80 billion.

Industrial seals can be segmented into power transmission seals and fluid system seals. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Fluid systems seals include fluid power seals and fluid handling seals. The majority of the fluid power seals are made for reciprocating motion and are used in both mobile and stationary fluid power applications, for example in off-highway, mining and other heavy industries. The off-highway applications represent the largest part of the market. Asia represents a major share of the industrial seals market with the remainder almost equally split between the Americas and Europe.

The technology trend for dynamic seals in the automotive industry is shifting to powertrain and driveline applications, with customised solutions meeting more demanding requirements for reducing weight and friction, for more driving comfort and less fuel consumption. While China became the biggest car market globally, automotive original equipment manufacturers are still developing core technology in their mature markets in North America, Western Europe and Japan. In 2014, Asian markets, except for China, suffered from a challenging economic environment while the mature markets and China continued to grow slightly.

In aerospace applications, products are required to withstand extreme conditions and are often critical to the system's operational reliability. In order to meet such requirements, aerospace seals are custom designed with light weight and corrosion resistant material solutions. North America and Europe are still the most important markets, but the demand in Asia is growing.

SKF has a strong offer in most applications across each industry. The German Freudenberg Group with its automotive-focused Japanese affiliate NOK (Nippon Oil Seal Co) is the largest supplier on the world polymer seals market across all industries. Trelleborg AB and Parker Hannifin are important players on the industrial seals market and Federal Mogul, Dana, ElringKlinger, Sabo and Bruss are significant suppliers of automotive seals. The aerospace seals market is fragmented and split between eight to nine companies. In addition to SKF the major players are Trelleborg AB, FNOK (Simrit), St Gobain and Greene Tweed.

In addition, Aerospace Sealing Solutions manufactures precision elastomeric vibration control products. These elastomeric bearings, isolators, dampers, and mounts are custom-engineered solutions, specifically designed for each application in fixed wing and helicopter applications. The Aerospace elastomeric vibration control market is split between five to six companies and in addition to SKF the major players are Lord Corp, Hutchinson, and ITT/Enidine.

## **Lubrication systems market**

The global lubrication market, consisting of automatic lubrication systems, design and installation and manual lubrication tools and equipment, was relatively unchanged over the previous year in local currencies, and remained at SEK 30 billion in 2014 worldwide.

Automatic or centralised lubrication systems provide precise amounts of lubricants – oil or grease – to moving parts, notably bearings, to minimise friction and wear. These systems are increasingly seen as mission-critical products aimed at improving the productivity, reliability, energy efficiency, environmental compliance and maintenance of vehicles and industrial machinery.

Automatic lubrication systems include pumps, reservoirs, valves, pipes, metering system connectors and controllers. Tools and equipment include grease guns, reels, meters, pumps and fluid drain systems. Design and installation services play a significant role.

The market trend is to move from manual solutions to automatic and centralised lubrication systems, this drives market growth above the underlying market growth. SKF estimate that only 20 per cent. of the lubrication points today have automated lubrication.

Large industrial processing equipment in the cement, mining and mineral processing, steel and paper industries accounts for almost 50 per cent. of global demand, while vehicles – agricultural, mobile mining and construction, trucks and trailers – and industrial machines, such as machine tools and printing machines, each account for around 25 per cent. of the market.

By region, European markets account for about 35 per cent., North and Latin America together make up about 35 per cent., and Asia and the rest of the world account for 30 per cent.

SKF has a strong presence in both the grease and the oil-based lubrication systems market globally. For tools and equipment SKF has a strong presence in the North American market. The remainder of the market is highly fragmented with few truly international suppliers and a large amount of small to mid-sized competitors. SKF's competitors include BEKA (Germany), Groeneveld Group (Netherlands), LUBE Corp (Japan), Bijur Delimon (USA), Graco (USA), and Samoa Group (Spain).

## **Mechanical power transmission market**

The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V and synchronous belt drives, chain drives and shaft couplings. SKF estimates the total size of the global power transmission market to be around SEK 150–170 billion. This market encompasses the industries covered by SKF's other markets.

Growth in the power transmission market over the last 10-15 years has been between 3 and 10 per cent. per year. In 2007, SKF began offering a new and comprehensive range of industrial power transmission products, which have seen continuous growth of around 20 to 30 per cent. year-on-year.

The global power transmission market is quite fragmented with competitors generally being regional and/or industry-specific suppliers generally providing only partial product offerings. Many competitors offer belts or chains (usually not both), and ordinarily they offer limited or no ironware such as pulleys, sprockets, couplings, etc. Other competitors offer only the ironware without the corresponding belts or chains. Regionally speaking, the more mature markets like Europe and North America have strong competitors covering specific but limited product ranges, while the emerging markets are less well attended.

As power transmission products greatly affect a customer's up-time and total cost of equipment ownership, they demand better availability, technical support and know-how, enhanced performance, reduced energy consumption, easier installation, smoother operation, reduced noise levels, and ultimately increased

reliability and service life. SKF has a unique understanding of rotating equipment and how machine components and industrial processes are interrelated in every major industry worldwide. SKF is therefore particularly well positioned to offer a complete range of power transmission products and solutions in parallel with the already broad industrial product and service platforms. Important players in the global market are ABB (Sweden/USA), Altra (USA), Emerson (USA), Tsubaki (Japan), Renold (UK), Rexnord (USA), Donghua (China), Gates (USA), Carlisle (USA), Optibelt (Germany), ContiTech (Germany).

### **Asset efficiency optimisation market**

The asset efficiency optimisation (AEO) market addresses customers' need to improve the productivity, efficiency and performance of their assets. It consists of products and services that enable customers to increase the availability and reliability of plant assets, reduce environmental impact and improve health and safety.

This area involves a range of products and services, including Asset Reliability Consulting, which helps companies set up the right maintenance programme, Remanufacturing Services, and high-technology Condition Monitoring products and services, which provides early diagnostics about equipment problems. The industrial internet is particularly relevant to this market and is shifting the market dynamics. As more industrial plants are fitting their equipment with sensors and companies are focusing on major data analytics to predict equipment performance, it will drive adoption of AEO products and services. SKF sees future growth in AEO, particularly in wireless condition monitoring and cloud-based monitoring, as companies increasingly start using these technologies. The market continues to shift from reactive to proactive maintenance, as existing and new facilities recognise the value of implementing AEO services and products to maximise productivity and take advantage of the vast amount of information available.

Growth in this market remains particularly strong in developing regions, especially Latin America and Asia, which continue to show double-digit growth, while established markets like North America and Europe were affected more by the weakened macro-economic conditions. More established markets such as North America and Europe show high growth potential, especially as older manufacturing sites seek to get more productivity from existing plant assets. As manufacturers scale back investment in new facilities, it will be more important than ever to maximise productivity of existing assets through new technology and services. The ageing workforce in many countries will drive the growth of outsourced maintenance and reliability activities that are non-core to manufacturers' business. Increasing regulatory requirements driven by health, safety and environmental concerns require customers to inspect and monitor a greater portion of their plant assets with increasing frequency. In most cases this includes traceable documentation. This is resulting in the greater use of mobile inspection and wireless devices.

All of the market factors above are leading to a greater emphasis on life cycle management of key plant assets. This is defined as a more integrated approach from the design, manufacture and delivery from the OEM to the installation, use and maintenance from the end-user.

SKF is one of the global market leaders in this rapidly expanding market and continues to hold a strong portfolio of products and services within its area. By combining its extensive knowledge of industrial machinery in economic, technical and environmental terms with its local service presence, SKF can deliver effective implementation of monitoring instrumentation and software solutions to customers worldwide. The competitive landscape remains dominated by a few key players with many small local suppliers and niche, technology-driven companies. The largest competitors in the market are Emerson CSI, Bently-Nevada, GE and Rockwell.

### **Customers**

SKF's customers can be found in various industries including material handling, mining and cement, pulp and paper, wind energy, food and beverage, medical and health care, aerospace, railway, construction, cars



and trucks. Addressing so many different industries enables SKF to develop specific products and services for each industry, and also to take knowledge from one industry and apply it to others.

## **Technology research and development**

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. In 2014, SKF recorded 646 invention disclosures and successfully registered 488 first filings of patent applications. R&D expenditure in 2014, excluding developing IT solutions, was SEK 2,078 million, corresponding to two point nine per cent. of annual sales. In 2014, capitalised product development expenditure was SEK 28 million. SKF's R&D spending, in local currencies, rose by eight per cent. in 2014 compared with 2013. The Group is increasing its activities in the R&D arena by focusing more on new products and services that have a positive impact on the environment. In addition there has been a greater concentration on strengthening core technologies, launching new products, increasing R&D activities in rapidly developing regions and further strengthening links with universities and technical colleges

### *Global Technical Centres*

Global Technical Centres are the backbone of SKF's global technical footprint. The aim of the centres is to assume a global and regional development role, matching innovation and technical knowledge with local customer needs. These Global Technical Centres allow SKF to exploit economies of scale, bringing together expertise from different technical areas and product platforms.

### *Relationship with the academic community*

SKF collaborates with the academic community and with renowned universities for establishing SKF University Technology Centres (UTCs). These complement SKF's in-house research, establishing long-term relationship for creating fundamental support and bringing new ideas in technical areas of strategic interest for SKF. The research programmes at the UTCs are defined to meet the needs of SKF technology developments, so that the results of the work carried out at the UTC is directly integrated into SKF's R&D programs. SKF has six UTCs: University of Cambridge for steel technology, Imperial College London, Great Britain for tribology, Chalmers, Göteborg, Sweden for sustainability, Luleå, Sweden for condition monitoring, Tsinghua, China for polymers and Singapore for manufacturing technologies. SKF actively involves strategic customers and suppliers in the UTCs, joining forces in areas of common interest. This ability to bridge academia and industry in common R&D networks allows SKF to access significant governmental R&D funding, increasing the leverage of R&D investment.

### *Innovation – from technology to market*

SKF's strategic approach to technology focuses both on bringing new ideas to the market and on developing its core technologies. A key factor for having a steady stream of innovative products and services is establishing a corporate process for continuously evaluating new ideas coming from different parts of the organisation. In recent years, SKF has successfully implemented a central corporate program for bringing innovative ideas to market. The most important projects in this program, involving several business units and technologies, receive the utmost focus and attention by the company's senior management.

Encouraging an innovative culture is vital to SKF and every year a number of projects are selected and rewarded for their exceptional contribution to business, innovation and sustainability. SKF's technology strategy focuses both on the development of its core technology areas and to bring new ideas to market.

## **Materials and heat treatment**

SKF leads the field in material knowledge and application, and is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations for meeting the ever-increasing demand

for load-carrying capabilities and energy efficiency. Through its unique heat treatment processes, SKF achieves exceptional steel properties by controlling its microstructures and residual stresses. The continuous strive for optimising the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications. New computer based techniques are used to understand deformation behaviour and the response of hardened steels under extreme load conditions.

Technological development in non-metallic materials, such as polymers and ceramics, is also important. SKF focuses strongly on their friction and weight reduction properties, enabling them to support market trends and maintain the sustainable strengths of SKF's products.

### ***Integrated sensing technology***

SKF has developed wireless, self-powered technologies for “smart” bearings by combining its core bearing design skills with its expertise in condition monitoring. Data can be transmitted to local devices and onwards via the internet using sensors embedded in the bearing. The bearing can also capture the operating conditions to which it is exposed, for example, loads, temperatures and lubrication. A smart bearing can therefore detect deviations from expected design conditions and initiate corrective action, before any damage is done. This can be done locally and automatically, for example changing lubrication conditions, or remotely, informing the operator about conditions requiring a certain intervention to ensure the machine's reliable operation. Results have successfully proved the applied technology and the values for the customers.

### ***Simulation engineering***

SKF has very comprehensive, powerful sets of modelling and simulation packages, ranging from easy-to-use tools based on the general catalogue formula, to more sophisticated calculation and simulation systems. The company's strategy is to develop a wide range of software packages that satisfy a large number of customer requirements; from simple design checks to complex investigations involving the most advanced simulations for bearing and machine design. One example is the interactive engineering catalogue, an easy-to-use online tool for bearing selection and calculation, for open use at skf.com. Some of these capabilities are also offered on apps for tablets and smartphones, supporting the increased use of these devices by SKF's customers to also perform engineering tasks.

### ***Life cycle management research leading to sustainable solutions***

SKF focuses strongly on new products and services that have a positive impact on the environment, and support the SKF BeyondZero strategy. The target is to improve the environmental performance of customer's applications, considering the environmental consequences of a product or manufacturing process, no matter where in the product's life cycle these consequences occur.

### ***Manufacturing R&D***

SKF is constantly developing its manufacturing processes for highly efficient and effective operations, resulting in enhanced quality and better customer service. Initiatives for continually improving manufacturing are brought together by SKF Manufacturing Excellence, which ensures consistent implementation throughout the Group. To support the technology strategy, R&D focuses on developing and implementing new technologies to increase reliability and flexibility, reduce costs and improve environmental performance. Some examples include:

- Improved product performance through advanced selection of steel and heat treatment combinations. In recent years considerable investment and implementations have been carried out in heat treatment equipment at many of SKF's factories.

- Improved material utilisation in all manufacturing processes resulting in less waste, manufacturing variations and allowances. Near net shape technologies aim at forming a component to almost its final shape, reducing the time for finishing operations.
- New processes for improving sustainability, while reducing the use of process media and energy consumption.
- Building intelligent factories of the future where information and communication technologies will play an important role
- Intelligent manufacturing systems integrating sensors and measuring equipment into machines, for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring, providing tighter control of manufacturing processes. Combining these with the use of non-destructive and artificial intelligence technologies makes it possible to detect material defects and improve process control, as well as defining and predicting a product's properties.

#### *Technology in motor racing*

SKF's cooperation with the Scuderia Ferrari Formula One team spans some 67 years – the longest technical partnership in the history of Formula One. A special focus in the last few years has been on supporting the Scuderia Ferrari Formula One team to develop energy recovery systems. Besides major Formula One championship teams, SKF also supplies most of the motorsport series, including the new full electrical series in the various fields of chassis, suspension, engine, gearbox and transmission.

The 2014 season marked SKF's 17th year in NASCAR as both a technical partner and sponsor. This has further strengthened the name recognition and exposure of the SKF brand particularly in North America. The partnership with Penske Racing has also enabled SKF to test products under the harshest conditions in both the NASCAR and IndyCar series.

#### *Acquisitions and divestments*

In 2014, SKF acquired two companies to strengthen its service offer, GLOi, a Swedish-based alignment technology solutions company and Hofmann Engineering North America, a specialist engineering services company located in Ontario, Canada.

Total cash outflow in 2014 for acquisition, net of cash, was SEK 69 million.

No divestments occurred in 2014.

Regarding acquisitions and divestments in 2015, please see “*Major Events After the Year Ended 31 December 2014*” below.

#### *Capital Expenditures*

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,852 million.

#### *Sustainability*

SKF is committed to sustainability, – not only as a responsibility, but also as one of its five strategic drivers – profitability, quality, innovation, speed and sustainability. SKF defines sustainability as SKF Care including business care, environmental care, employee care and community care (each as further described

below). The principles of SKF Care guide both the business completed by the Group and the way in which it is carried out.

### **Business Care**

Business care is built on a clear and dedicated customer focus and on delivering a strong, sustainable, financial performance and the right returns for shareholders. These results should be achieved in accordance with the highest standards of ethical behaviour.

### **Environmental Care**

Environmental care focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment. SKF takes specific actions to reduce the impact from its own operations and those of its suppliers and combines this with actions to significantly improve customers' environmental performance by offering products, solutions and services that have been verified to significantly improve energy efficiency and reduce the environmental impact. These products, solutions and services form the SKF BeyondZero portfolio.

A company like SKF can have an important impact on the environment, via everything from the raw materials selected, how these are utilised and processed, the energy used by SKF's products when running in customers' installations, to the way in which products are disposed of when they come to the end of their useful life.

To SKF this means that every stage in the value chain presents the possibility to reduce environmental impact. Doing so not only addresses SKF's responsibility towards society and future generations, it also enhances the ability for the business to do more with less and thereby creates sustained competitive advantage.

The SKF BeyondZero strategy reflects this. It requires action to reduce the impact resulting from SKF's operations and those of suppliers (reducing the negatives) while at the same time providing customers with SKF BeyondZero portfolio solutions that deliver reductions in the impact of their products (increasing the positives).

Environmental care starts "in our own backyard". In 1989, the Group increased its focus on operations by issuing the Environmental, Health and Safety Policy. The Group became the first international bearing manufacturer to receive global certification according to the ISO 14001 Environmental Management System in 1998.

Since then, SKF has been building on these foundations by continually taking steps which address environmental impacts at different stages of the product life cycle, and the entire value chain of the business. SKF's climate strategy is an example of how this is applied.

The steps which SKF takes to address environmental risks and opportunities are based on a solid understanding of environmental life cycle management. This is something the Group has invested in and built up over many years through numerous life cycle assessments and focused applied R&D in this area.

In 2014, SKF invested approximately SEK 118 million on internal and external environmental improvements.

### **Employee Care**

Employee care is about promoting a safe working environment, health, education and the wellbeing of SKF's employees. SKF's position has been established over many years through the commitment, knowledge and

passion of the Group's employees. SKF is powered by people and the company's ability to attract, retain and develop its employees is therefore critical for maintaining its position.

Assuring a safe working environment where an employee's rights are respected is fundamental to the Group and clearly stipulated in the SKF Code of Conduct. Over the years various tools and processes such as the SKF Code of Conduct compliance audits, the SKF Code of Conduct whistle-blower process and SKF world union council, have been introduced to ensure that this commitment is honoured.

The SKF Code of Conduct also requires that employees have opportunities to train for job enrichment and greater responsibility, for personal satisfaction and optimal leverage of individual strengths.

The global framework agreement between SKF and the SKF world union council (representing the various labour unions working with the company) was one of the first agreements of its kind. The framework helps promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realisation of employee care throughout the Group.

## **Community Care**

SKF aims to create long-term value in the communities where the Group operates, and for society at large. This value comes mainly as a result of the overall economic development that SKF helps to drive and the associated employment, revenue and tax receipts. SKF Care, the SKF Code of Conduct and related policies assure that the Group runs its business ethically and that potentially negative social impact is understood and avoided.

## ***Directors and Senior Management***

The board of directors of the Issuer shall, in addition to specially appointed members and deputies, according to SKF's Articles of Association, comprise of a minimum of five and a maximum of 12 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 the Issuer'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.

## **Directors elected by the Annual General Meeting 2015 and as at the date of this Prospectus**

### *Leif Östling*

Chairman, Board member since 2005

Born 1945

Positions/activities: Board member of EQT Holding AB and Supervisory Board of Volkswagen Truck & Bus GmbH.

### *Lena Treschow Torell*

Board member since 2007

Born 1946

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

### *Peter Grafoner*

Board member since 2008

Born 1949

Positions/activities: Board member of Symrise AG, Chairman of SAG Group GmbH, President of the Board of Scania Schweiz AG and Vice-Chairman of Coperion GmbH.

*Lars Wedenborn*

Board member since 2008

Born 1958

Positions/activities: 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.

*Joe Loughrey*

Board member since 2009

Born 1949

Positions/activities: Chairman of the board of Hillenbrand Inc. and 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 (previously 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.

*Jouko Karvinen*

Board member since 2010

Born 1957

Positions/activities: Vice Chairman of Nokia Oyj.

*Baba Kalyani*

Board member since 2011

Born 1949

Positions/activities: Chairman of the Kalyani Group, Bharat Forge Ltd and a number of companies in the Kalyani Group. Board member of a 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.

*Hock Goh*

Board member since 2014

Born 1955

Positions/activities: 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.

*Marie Bredberg*

Board member since 2014

Born 1957

Positions/activities: CEO of Combitech AB since 2006 and Vice President Business development and Financial control in Business Area Industrial Products and Services of the Saab Group since 2015.

*Alrik Danielson*

Board member since 2015

Born 1962

Positions/activities: President and chief executive officer of AB SKF.

*Nancy Gougarty*

Board member since 2015

Born 1955

Positions/activities: President and Chief Operating Officer for Westport Innovations since 2013. Board member of Trimas Corporation since 2013.

*Employee representatives (not elected by the Annual General Meeting)*

*Kennet Carlsson*

Board member since 2008 and deputy board member 2001-2008

Born 1962

Positions/activities: Chairman SKF World Union Committee.

*Martin Björkman*

Deputy board member since 2011

Born 1970

Positions/activities: Board member Metalworkers' Union, SKF, Gothenburg.

*Virpi Ring*

Deputy board member since 2012

Born 1967

Positions/activities: 2nd vice Chairman Unionen, SKF, Gothenburg. Board member of Higab, a property company within the City of Gothenburg.

*Jonny Hilbert*

Board member since 2015

Born 1981

Positions/activities: Chairman Unionen, SKF, Gothenburg.

## **Group Management as at the date of this Prospectus**

*Alrik Danielson*

President and Chief Executive Officer, SKF Group and President, Industrial Market

Born 1962

Employed since 2014 and 1987-2005

Previous positions within SKF: President of the Group's Industrial Division and member of the SKF Group's Executive Committee from 2003 to 2005 as well as several other positions across Europe and the Americas.

*Christian Johansson*

Chief Financial Officer and Senior Vice President

Born 1963

Employed since 15 June 2015

*Stephane Le-Mounier*

President, Automotive Market

Born 1965

Employed since 1988

Previous positions within SKF: Business Unit Director, Aerospace, as well as several other positions.

*Patrick Tong*

President, Specialty Business

Born 1962

Employed since 1989

Previous positions within SKF: President of SKF Second Brands Bearings, as well as several other positions

*Bernd Stephan*

Senior Vice President, Group Technology Development

Born 1956

Employed since 1994

Previous positions within SKF: Business Unit Director, Renewable Energy, as well as several other positions

*Carina Bergfelt*

General Counsel and Senior Vice President, Group Legal and Sustainability

Born 1960

Employed since 1990

Previous positions within SKF: Legal Counsel, Secretary to the Board since 1996

Board member: The Association of Exchange-listed Companies

*Kent Viitanen*

Senior Vice President, Group People, Business Excellence and Communication

Born 1965

Employed since 1988

Previous positions within SKF: Director, Renewable Energy and several other positions.

To the best of the Issuer's knowledge there are no conflicts of interest between the duties to the Issuer of the persons listed above in this section (**Directors and Group Management**) and their private interests or other duties.

The business address of the Directors and Group Management is Hornsgatan 1, SE-415 50 Göteborg, Sweden.

**Auditors**

PricewaterhouseCoopers AB (**PwC**) authorised accountants and members of FAR SRS, have audited the Issuer's financial statements, without qualification, in accordance with IFRS for each of the financial years ended on 31 December 2013 and 31 December 2014. PwC's registered address is Torsgatan 21, 113 97 Stockholm, Sweden.

**Employees**

As at 31 December 2014, the Group had 48,593 registered employees (48,401 as at 31 December 2013).

Temporary employees, if on the payroll of a SKF company, are included in the number of employees presented by the Group but are not significant in number. Temporary employees on subcontract from a temporary services firm are not included in the figures.

**Geographic specification of average number of employees**

	2014	2013
Sweden .....	2,891	2,861
France .....	2,867	2,796
Italy .....	3,202	3,301
Germany .....	6,534	6,242
Other Western Europe excluding Sweden .....	3,770	3,679
Central/Eastern Europe .....	4,043	3,821
USA .....	6,237	5,438
Canada .....	236	220



	2014	2013
Mexico.....	1,566	1,410
Latin America.....	2,417	2,602
China .....	6,323	6,211
India.....	2,959	3,054
Other Asian countries/Pacific.....	3,134	3,255
Middle East and Africa.....	330	330
<b>Total</b> .....	<b>46,509</b>	<b>45,220</b>

#### Registered number of employees by business area\*

	2014	2013
Industrial Market .....	22,617	22,265
Automotive Market .....	13,952	14,151
Specialty Business.....	8,719	8,908
<b>Total</b> .....	<b>45,288</b>	<b>45,324</b>

\* Previously published amounts have been restated to conform to the current Group structure. The structural changes include business units being moved between the business areas and between other operations/Group activities and business areas.

At the end of 2014, 84 per cent. of the Group's employees were covered by trade union agreements. Most of SKF's employees are unionised. The right of all employees to form and join trade unions and to bargain collectively is expressed in the SKF Code of Conduct. The Group considers its relationship with its employees to be good.

#### Major Shareholders

The following table sets forth, as of 30 September 2015 the largest shareholders known by SKF to be owners of any class of the Issuer's voting securities. The information in this table is based on information furnished to SKF by SIS Ägarservice AB and Euroclear Sweden AB.

	The ten largest shareholders according to voting rights	Number of A shares	Number of B shares	In per cent. of voting rights	In per cent. of share capital
1	Foundation Asset Management AB	19,050,000	39,800,000	29.5	12.9
2	Alecta	2,192,404	7,674,148	3.8	2.2
3	Harris Associates Funds	0	24,072,200	3.1	5.3
4	AFA Insurance	1,573,300	5,179,944	2.7	1.5
5	Skandia Life Insurance Company Ltd.	1,675,222	813,198	2.3	0.6

	<b>The ten largest shareholders according to voting rights</b>	<b>Number of A shares</b>	<b>Number of B shares</b>	<b>In per cent. of voting rights</b>	<b>In per cent. of share capital</b>
6	SEB Trygg Life Insurance	1,349,516	71,347	1.7	0.3
7	Didner & Gerge Funds	0	10,193,654	1.3	2.2
8	Norges Bank Investment Management	0	9,703,089	1.2	2.1
9	Swedbank Robur Funds	0	9,020,532	1.2	2.0
10	SEB-Foundation	700,000	550,000	1.0	0.3

Each A Share entitles the holder to one vote and each B Share to one-tenth of one vote. It was decided at SKF's annual general meeting on 18 April 2002 to insert a share conversion clause in the articles of association which allows owners of A Shares to convert A shares into B shares.

The total number of issued and outstanding A shares and B shares of the Issuer as of 20 August 2015 was 36,298,533 (8.0 per cent.) and 419,052,535 (92.0 per cent.) respectively. The total number of shares was 455,351,068.

#### ***Major Events After the Year Ended 31 December 2014***

As of 1 January 2015, SKF has merged its two industrial business areas, Strategic Industries and Regional Sales and Service. The change enables the benefits of the SKF asset life cycle to be applied to industrial customers in a more efficient manner, through a simplified organisational structure. SKF now operates through three business areas:

- Industrial Market will include the business units handling Industrial distribution, Industry General, Industry, Heavy and Special, Energy, Railway and Off highway.
- Automotive Market will include the business units handling Cars and Light trucks, Heavy trucks, Vehicle Service Market and Two-wheelers and Electrical business.
- Specialty Business will include: Kaydon Corporation, PEER Bearing Company, General Bearing Corporation and the Aerospace and Linear Actuation Technology business units.

SKF completed the divestment of:

- Canfield Technologies, Inc. to Gen Cap America, a private equity firm headquartered in Nashville, Tennessee. Canfield Technologies is a metal joining business and joined SKF as part of the acquisition of the Kaydon Corporation. The total consideration of the divestment was around U.S.\$ 23 million, on a cash-free and debt-free basis. Sales amounted to around U.S.\$ 17 million in 2014.
- Erin Engineering and Research Inc. to Jensen Hughes, a US-based engineering consultancy. The total purchase price was around U.S.\$ 28 million on a cash-free and debt-free basis. Erin Engineering is a consulting firm specialising in security and maintenance services in the nuclear sector. Sales amounted to around U.S.\$ 30 million in 2014.
- Two filtration businesses, Purafil and Kaydon Custom Filtration, to Filtration Group Corporation, an affiliate of Madison Industries. The total consideration for the divestment is a fixed payment of

U.S.\$ 90 million on a cash-free and debt-free basis, and an earn-out of up to U.S.\$ 5 million, based on achievement of certain financial targets by the end of 2015. Purafil and Kaydon Custom Filtration had combined sales of approximately U.S.\$ 40 million in 2014.

## **Glossary**

### *SKF Business Excellence*

SKF Business Excellence was launched in 2010. It is about delivering value to customers in the most effective and efficient way possible, through utilising the knowledge of employees, partners and the company's technology. Business Excellence builds on many of the initiatives started by the SKF Group over a number of years. With Business Excellence, SKF is expanding the experience from the manufacturing area into other processes and operations within the SKF Group. Business Excellence is more than just about results – it actively challenges the organisation to consider whether it is achieving the right results in the best way possible.

### *SKF Care*

Sustainability is one of SKF's five business drivers, alongside profitability, quality, innovation and speed. SKF's approach to sustaining financial and operational excellence centres on the SKF Care concept, which consists of business care, environmental care, employee care, and community care.

### *SKF Code of Conduct*

The SKF Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN global compact principles. The SKF Code of Conduct constitutes the ethical foundation for all activities at SKF. It defines at the highest level, how ethical considerations related to economic, environmental and social aspects should be applied within the Group and along its value chain. All other policies are subordinate to the SKF Code of Conduct.

### *SKF Manufacturing Excellence*

SKF Manufacturing Excellence is a concept that focuses on reducing waste and eliminating non-value adding activities. SKF bases this on the following five principles: standardised way of working, right from me, we care, demand driven flow and continuous improvement. The heart of the system is the people in the production process, who use these principles every day to continuously improve their work.

### *SKF BeyondZero*

SKF's environmental strategy – SKF BeyondZero – is an integral part of SKF Care and its objective is to create a positive impact on the environment. This is done both by reducing the environmental impact from SKF's own operations, its suppliers and logistics and by providing customers with products and solutions offering superior environmental performance.

## TAXATION

*Persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisors concerning the tax consequences to any particular Noteholder.*

*The following summary describes tax consequences of the ownership of the Notes but does not purport to be comprehensive. Except where expressly stated, the summary relates only to the position of those persons who are the absolute beneficial owners of their Notes and the interest thereon and may not apply to special situations, such as those of dealers in securities.*

### **A. SWEDISH TAXATION**

*The following summary outlines certain Swedish tax consequences of the acquisition, ownership and disposal of Notes. The summary is based on the laws of the Kingdom of Sweden as currently in effect and is intended to provide general information only. The summary is not exhaustive and does thus not address all potential aspects of Swedish taxation that may be relevant for a potential investor in the Notes and is neither intended to be nor should be construed as legal or tax advice. In particular, the summary does not address the rules regarding reporting obligations for, among others, payers of interest. Specific tax consequences may be applicable to certain categories of corporations, e.g. investment companies and life insurance companies, not described below. In addition, the summary does not address Notes that are held on an "investment saving account" (Sw: investeringssparkonto) that are subject to a specific tax regime. Investors should consult their professional tax advisors regarding the Swedish and foreign tax consequences (including the applicability and effect of double taxation treaties) of acquiring, owning and disposing of Notes in their particular circumstances.*

#### **(i) Non-resident holders of Notes**

As used herein, a non-resident holder means a holder of Notes who is (a) an individual who is not a resident of Sweden for tax purposes and who has no connection to Sweden other than his/her investment in the Notes, or (b) an entity not organised under the laws of Sweden.

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a non-resident holder of Notes should not be subject to Swedish income tax provided that such holder does not carry out business activities from a permanent establishment in Sweden to which the Notes are effectively connected. Under Swedish tax law, no withholding tax is imposed on payments of principal or interest to a non-resident holder of Notes.

Private individuals who are not resident in the Kingdom of Sweden for tax purposes may be liable to capital gains taxation in the Kingdom of Sweden upon disposal or redemption of certain financial instruments, depending on the classification of the particular financial instrument for Swedish income tax purposes, if they have been resident in the Kingdom of Sweden or have lived permanently in the Kingdom of Sweden at any time during the calendar year of disposal or redemption or the ten calendar years preceding the year of disposal or redemption.

#### **(ii) Resident holders of Notes**

As used herein, a resident holder means a holder of Notes who is (a) an individual who is a resident in Sweden for tax purposes or (b) an entity organised under the laws of Sweden.

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) that are resident holders of Notes, all capital income (e.g. income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable.

If the Notes are registered with Euroclear Sweden AB or held by a Swedish nominee in accordance with the Swedish Financial Instruments Accounts Act (SFS 1998:1479), Swedish preliminary taxes are withheld by Euroclear Sweden AB or by the nominee on payments of amounts that are considered to be interest for Swedish tax purposes to a private individual (or an estate of a deceased individual) that is a resident holder of any Notes.

## **B. LUXEMBOURG TAXATION**

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

### **Withholding Tax**

#### **(i) Non-resident holders of Notes**

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Luxembourg has abolished the withholding system with effect from 1 January 2015, in favour of automatic information exchange under Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income.

#### **(ii) Resident holders of Notes**

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the **Relibi Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg or to a residual entity (within the meaning of the laws of 21 June 2005 implementing Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), as amended) established in an EU Member State (other than Luxembourg) or one of the Territories and securing such payments for the benefit of such individual beneficial owner will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law will be subject to a withholding tax at a rate of 10 per cent.

## **C. THE PROPOSED FINANCIAL TRANSACTION TAX**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

#### **E. EU SAVINGS DIRECTIVE**

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), Member States are required to provide to the tax authorities of other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Luxembourg is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 10 November 2015, the Council of the European Union adopted a Council Directive repealing the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes.

## SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Merrill Lynch International, Skandinaviska Enskilda Banken AB (publ) (the **Joint Lead Managers**) and Banka IMI S.p.A. (the **Co-Manager** and together with the Joint Lead Managers, the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 27 November 2015, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.568 per cent. of the principal amount of Notes, less a combined selling concession and management and underwriting commission. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### The Kingdom of Sweden

Each Manager has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in circumstances



that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansiella instrument*).

### **General**

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 16 October 2015.

### Listing and admission to trading

2. Application has been made to the CSSF to approve this Document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Luxembourg Stock Exchange's regulated market. The listing and admission to trading of the Notes is expected to be granted on or before 2 December 2015. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive. The estimated total expenses related to the admission to trading are €4,065.

### Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1327531486 and the Common Code is 132753148.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### No significant change

4. There has been no significant change in the financial or trading position of the Issuer or the Group since 30 September 2015 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2014.

### Litigation

5. The Group is, and may continue to be, involved in litigation and arbitration both as plaintiff and defendant.

SKF and other companies in the bearing industry are part of investigations by the U.S. Department of Justice and the Korea Fair Trade Commission regarding a possible violation of antitrust rules. In October 2014, an investigation against bearing manufacturers, including SKF, was launched in Brazil by the General Superintendence of the Administrative Council for Economic Defense regarding an alleged violation of antitrust rules. 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.

Save as disclosed above, neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Document with an outcome (or expected outcome) which is likely to have or has in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

## **U.S. tax**

6. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

## **Documents Available**

7. For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the specified offices of the Paying Agent for the time being in Luxembourg:
  - (a) the constitutional documents (with an English translation thereof) of the Issuer;
  - (b) the annual reports and the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2013 and 31 December 2014. The Issuer currently prepares audited, consolidated and non-consolidated accounts on an annual basis;
  - (c) the most recently published audited annual financial statements of the Issuer (together with the audit reports prepared in connection therewith) and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof). The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis; and
  - (d) the Agency Agreement.

In addition, copies of this Prospectus and each document incorporated by reference is available on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu).

## **Yield**

8. The yield relating to the Notes is 1.691 per cent. per annum based on the issue price of the Notes and the rate of interest applicable at the Issue Date.

## **Conflicts**

9. In the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or their affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**THE ISSUER**

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