



SKF
Care



Annual Report 2011

Financial, environmental and social performance



4

President's letter



8

Administration report

Key data

	2011	2010
Net sales, SEKm	66,216	61,029
Operating profit, SEKm	9,612	8,452
Operating margin, %	14.5	13.8
Profit before taxes, SEKm	8,932	7,549
Basic earnings per share, SEK	13.29	11.28
Dividend per share, SEK	5.50 ¹⁾	5.00
Cash flow, after investments and before financing, SEKm	3,848	-2,838
Return on capital employed, %	23.6	24.0
Equity/assets ratio, %	37.8	36.6
Additions to tangible assets, SEKm	1,839	1,651
Registered number of employees, 31 December	46,039	44,742
Average number of employees	42,886	40,206

Number of shares 31 December 2011: 455,351,068, of which 42,949,482 A shares and 412,401,586 B shares.

¹⁾ Dividend according to the Board's proposed distribution of surplus.

Vision

To equip the world with SKF knowledge

Mission

To strengthen SKF's global leadership and sustain profitable growth by being the preferred company:

- for our customers, distributors and suppliers
- for our employees
- for our shareholders

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork



82

Financial statements



138

Notes – Environmental and social performance

This year's annual report combines financial, environmental and social performance into one single report reflecting that sustainability, defined as SKF Care, is integral to the Group's processes and operations and way of doing business.

Content

- 2 This is SKF
- 4 President's letter
- 8 Administration report
- 16 Report on the business – Business Care
 - 20 New market offers 2011
 - 24 SKF's business
 - 47 Shares and shareholders
 - 50 Financial objectives and strategy
 - 52 Sensitivity analysis
 - 54 AB SKF's Board's proposal for principles of remuneration for Group Management
- 56 Report on the business – Environmental Care
 - 56 SKF Environmental, Health and Safety Policy, legal and regulatory compliance
 - 57 ISO 14001 Environmental Management System
 - 58 Climate change
- 63 Report on the business – Employee Care
- 67 Report on the business – Community Care
- 72 SKF – the knowledge engineering company
- 77 SKF's markets
- 82 Financial statements
- 138 Notes – Environmental and social performance
- 144 Corporate Governance Report
- 154 Group management
- 156 Glossary
- 158 Definitions
- 159 SKF's platforms
- 162 Awards
- 163 SKF's financial website
- 164 SKF's global campaign 2011
- 166 Seven-year review of the SKF Group
- 167 Three-year review of the SKF divisions and seven-year review of per-share data
- 168 General information

This is SKF

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 optimization and training.



SKF was founded in 1907 and rapidly grew to become a global company. As early as 1920, the company was well established in Europe, North and Latin America, Asia and Africa.

SKF has more than 130 manufacturing sites in 32 countries and is represented in over 130 countries through its own sales companies and over 15,000 distributor locations.

SKF is present in most industries, including cars and light trucks, aerospace, wind energy, railway, metal, machine tool, medical, and food and beverage.

SKF groups its technologies in **five platforms**: Bearings and units, Seals, Mechatronics, Services, and Lubrication Systems. By utilizing 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.

The Group has **global certification** to ISO 14001 (environmental management system) 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.

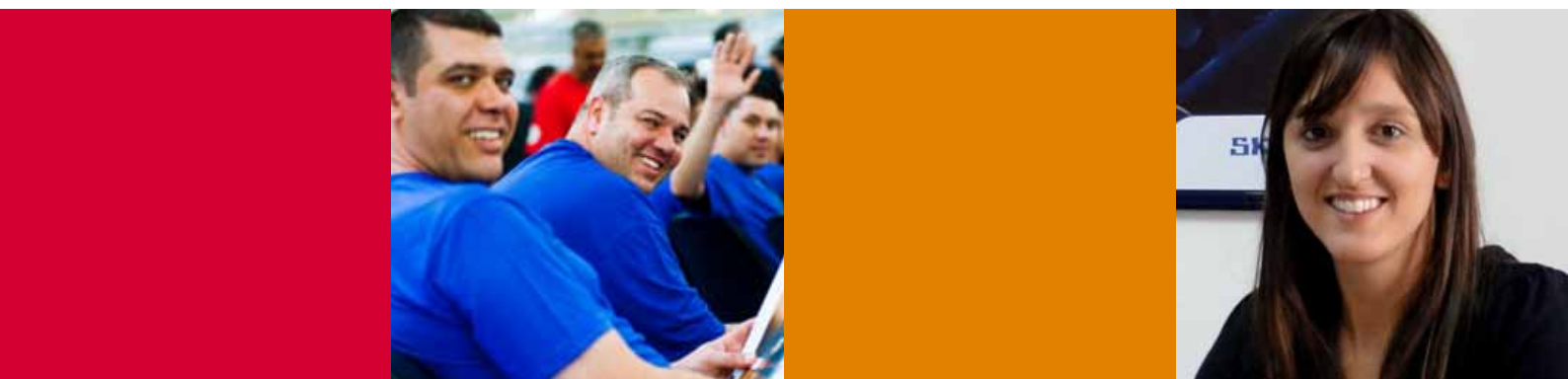
The Group's investments in **research and development** has resulted in numerous innovations, forming bases for new standards, products and solutions in the bearing world. There were 325 first filings of patent applications in 2011.

SKF is committed to Sustainability as one of its five strategic drivers, the others being Profitability, Quality, Innovation and Speed. SKF defines sustainability as **SKF Care** including Business Care, Environmental Care, Employee Care and Community Care.

BeyondZero is SKF's strategy to create a positive impact on the environment. It consists of two simultaneous approaches:

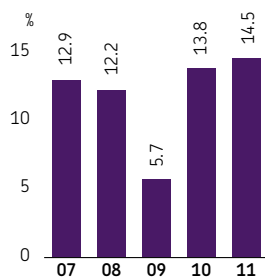
- to reduce the negative environmental impact resulting from SKF's operations
- to offer new innovative technologies, products, and services that provide customers with enhanced environmental performance.

BeyondZero influences all aspects of the Group's value chain, including sourcing, the development of products, services and solutions, the operation of existing facilities and the establishment of new ones.

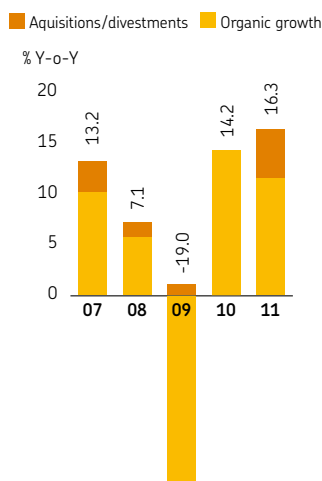


SKF's long-term **financial targets** are to have an operating margin level of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 27%.

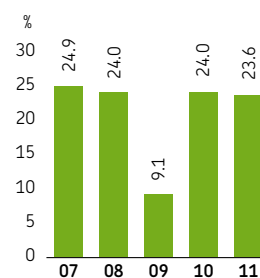
Operating margin



Changes in sales in local currency



Return on capital employed



President's letter

2011 was a very interesting and challenging year – one of two halves for the global economy. The first half was characterized by very broad-based growth both geographically and across nearly all industries. In the second half of the year, due primarily to the monetary challenges in many countries, growth slowed and while some areas like North America and Asia continued to grow we saw weakness developing in the European market.

2011 – a very interesting and challenging year

SKF benefited from this good demand situation from our customers and this, combined with the actions and initiatives which we have put in place, meant that we have been able to deliver a record result in terms of sales, operating profit and operating margin.

Our long-term financial targets are to have an operating margin around the 15% level, to grow by 8% per annum in local currencies and to achieve a ROCE of 27%.

The operating profit for the Group rose by 14% to SEK 9,612 million giving an operating margin of 14.5%. Earnings per share increased by nearly 18% to SEK 13.29.

Our organic sales grew by over 11% in local currencies and when we add the sales of Lincoln*, the company we acquired at the end of 2010, our growth was over 16%. However, in line with the global economy development we saw our sales growth slow significantly at the end of the year and we will see this continue into the start of 2012. While many industries saw a very good development during the year our sales to the renewable energy business and railway business in China and the automotive business in Europe weakened significantly in the second half of the year. Our ROCE finished the year at 23.6%.

It is clear that we made significant progress towards operating in line with our financial targets in 2011 and this we will continue in the coming years to ensure SKF continues to operate at these new higher financial levels.

The strong financial performance of the Group in 2011 coupled with the outlook for the world economy means that the Board is recommending to the annual shareholders' meeting to increase the dividend by 10%, giving a dividend of SEK 5.50 per share.

Last year I commented that we had started three main initiatives to strengthen the Group and to achieve our new financial targets. The initiatives are

- accelerate profitable growth
- reduce cost and eliminate waste
- invest in growth

I am pleased to report that we have made significant progress with all three initiatives and you can read a lot more about this in the annual report but let me just highlight a few key examples.

* Lincoln Holdings Enterprises Inc. and its subsidiaries, referred to herein collectively as "Lincoln".



Tom Johnstone, President and CEO

- At the end of the year we were able to announce the largest ever order for the SKF Group which we gained from the Chinese heavy truck manufacturer CNHTC. This is to supply a newly developed hub unit for their new range of vehicles.
- We gained a number of orders for the renewable energy market with leading suppliers such as Vestas, Goldwind and Sinovel. These orders give us a very good position in what is a long-term strategic industry for the SKF Group.
- The integration of Lincoln, the lubrication systems company we acquired at the end of 2010, has gone according to plan and we are seeing real benefits in our lubrication business from combining their team with the existing SKF team. Together they have grown the business well ahead of the growth rate for the Group, profitability develops well and the combined R&D activities are stepping up the pace of innovation.
- For a number of years we have focused on helping our customers improve their asset efficiency. This is a key focus area for SKF, and we work not only to achieve this but also to quantify the improvements and savings for our customers. Last year we registered over SEK 3 billion in savings which were approved for our customers. This shows the value our knowledge in friction reduction and asset efficiency has for our customers.

“ Last year we registered over SEK 3 billion in savings which were approved for our customers. This shows the value our knowledge in friction reduction and asset efficiency has for our customers. ”

Tom Johnstone talking to some of the players at the inauguration of the Gothia Cup in Gothenburg, Sweden, the largest youth football tournament in the world. In 2011, SKF renewed its contract as the Gothia Cup's main sponsor for another three years.



- Last year I mentioned that we are extending the work we had underway on Manufacturing Excellence into other areas of the Group and supporting this with SKF Six Sigma. This we called Business Excellence. The roll-out and training is going well and I strongly believe that our customers and employees will see real benefits from this in the years ahead. An SKF Six Sigma Academy will be established in 2012 to help this development. Savings from SKF Six Sigma projects amounted to nearly SEK 400 million for the year.
- Innovation is the life blood of an engineering group such as SKF and we have steadily been stepping up our activities in this area. Last year we raised our investment in R&D by over 20%, increased the number of patents by nearly 30% and took some important steps for the future. We have established two new University Technical Centres in Sweden – one at Chalmers in Gothenburg and one at Luleå University. At Chalmers we will focus on sustainability and at Luleå we will focus on condition monitoring and asset management. In addition we opened our new Global Technical Centre in India strengthening our activities in this important market and region and fully supporting our global drive on innovation. The centre builds on the previously opened automotive development centre and testing centre and when fully ramped up will employ around 400 engineers.
- During the year we launched over 30 new products and solutions for our customers. As I mentioned last year an increasing number of our new offers are focused on improving environmental performance for our customers through reduced energy consumption, improved productivity and asset management.
- We opened our new bearing factory in Dalian, China in September which joins our other factory in the same region. This new factory will manufacture medium sized industrial bearings for the Asian markets. Two new factories are under construction. One is a seals factory in Mysore, India and the other is a bearing factory in Jinan, China. This will ensure that we have local manufacturing to supply our important customers in these markets. All these constructions are built to the LEED standard for environmental design and efficiency.
- Our work on sustainability, which we call SKF Care, is increasingly an integrated part in how we work within SKF and how we do business with our customers. I am very pleased that we were selected to be a member of the Dow Jones' Sustainability World Index for the 12th successive year and the FTSE4Good index for the 11th successive year. This confirms we have the right focus on our work in this very important area as reflected in our annual report.

“ The initiatives we started at the end of 2010 to support our new long-term financial targets are developing well, and we will continue to focus on them in the year ahead. This is a marathon, not a sprint and we have trained for it. ”

In this annual report you will be able to read a lot more about all the activities we have undertaken during the year. I believe it has been a very successful and active year for SKF with a strong financial performance.

Looking forward to 2012

It is very difficult to see how the total world economy will perform in 2012 but it is expected that it will have a much weaker development than last year. The main concern and uncertainty is around the sovereign debt situation especially in Europe and the likely implications of this on growth in the region and globally. It is vital that this uncertainty is quickly removed by the political leadership to give industry the base to build on. From a macroeconomic viewpoint, we expect to see positive growth continue in most regions of the world with Western Europe declining in the first half of the year and an uncertain second half.

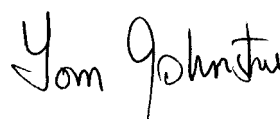
However, SKF is very well placed to manage and continue to develop our business in these uncertain times. We have taken many steps over a number of years to make the Group more robust. We have invested heavily in the faster growing regions and segments, in acquisitions to strengthen our total offer and in innovation. We also have invested in our people through our network of SKF Colleges, our increased training schemes and our greater focus on health and safety. The initiatives we started at the end of 2010 to support our new long-term

financial targets are developing well, and we will continue to focus on them in the year ahead. This is a marathon, not a sprint and we have trained for it.

In summary, 2011 was a very good year overall for the SKF Group and this would not have been possible without the strong support from all our stakeholders – customers and distributors, employees and shareholders. I want to thank them all for their support.

However, in particular I want to thank each and every SKF employee. People make business and I strongly believe we have the best people in the business.

SKF is on a journey to become “The Knowledge Engineering Company” – and we have made good progress on this in 2011 and will continue to do so in 2012.



Tom Johnstone
President and CEO

Content

10	SKF Care
11	Reporting approach and scope
12	This is SKF Care to us
14	Highlights of 2011
16	Report on the business – Business Care
20	New market offers 2011
24	SKF's business
47	Shares and shareholders
50	Financial objectives and strategy
52	Sensitivity analysis
54	AB SKF's Board's proposal for principles of remuneration for Group Management
56	Report on the business – Environmental Care
56	SKF Environmental, Health and Safety Policy, legal and regulatory compliance
57	ISO 14001 Environmental Management System
58	Climate change
63	Report on the business – Employee Care
67	Report on the business – Community Care
72	SKF – the knowledge engineering company
77	SKF's markets



Administration Report

In this report financial, environmental and social performances of the Group are presented in a fully integrated format under the four dimensions of SKF Care, the SKF approach to sustainability. The four dimensions are: Business Care, Environmental Care, Employee Care and Community Care. The principles of SKF Care guide both the business done by the Group and the way in which it is carried out. This administration report is structured according to these four Care areas and will present recent developments, as well as explanations of how SKF works with these issues.



● **Business Care** is built on a strong customer focus and on delivering a strong and sustainable financial performance and the right returns for shareholders. This should be achieved in accordance with the highest standards of ethical behaviour.

● **Environmental Care** focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment from its own operations and those of its suppliers. BeyondZero combines this with the strategy to improve customers' environmental performance through products and solutions that reduce environmental impact.

● **Employee Care** assures a safe working environment and promotes the health, education and well-being of SKF's employees.

● **Community Care** defines the Group's activities which make positive contributions to the communities in which it operates.

Reporting approach and scope

The SKF annual report for 2011 covers the reporting period 1 January to 31 December 2011, if no other information is given.

Sustainability reporting

Since 2000, SKF has applied the Global Reporting Initiative's (GRI) reporting guidelines in its sustainability reporting. SKF has reported 2011 in accordance with GRI, and as in previous years, part of the more detailed information is available at www.skf.com presented together with the annual report (Topics related to SKF Annual Report 2011).

SKF has been submitting its sustainability reports for third party verification for over ten years. The 2011 report will again enjoy a limited assurance, in accordance with FAR's (the institute for professionals in the accountancy sector in Sweden) recommendation RevR 6 (Assurance of Sustainability Reports) and the international ISAE 3000 assurance

engagement standard. The report of the review is on pages 142-143, integrated with the auditors' report.

With reference to the GRI G3 Application Level Criteria, the SKF Annual Report 2011 – financial, environment and social performance, is self-declared to having fulfilled the A+ application level, which is confirmed by the external auditors.

Actual environmental and social performance data can be found in Notes – Environmental and social performance, see pages 138-141. A comprehensive overview of SKF's sustainability policy, procedures and approach is included in the document Sustainability in SKF – Policies and practices, which can be found on www.skf.com.

Corporate Governance Report

SKF has selected to prepare its Corporate Governance Report separated from the Administration Report, see pages 144-153.

Over the years, SKF has endorsed or subscribed to a number of internationally recognized principles, charters and guidelines which promote sustainable, ethical business practices.

United Nations Global Compact

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

SKF's commitment

SKF has participated in the Global Compact since 2006. SKF commits to the defined principles within the Global Compact and to communicate its progress via its annual report.

International Labour Organisation

The International Labour Organisation (ILO) draws up and oversees international labour standards. It brings together representatives of governments, employers and workers to jointly shape policies and programs promoting decent work for all.

SKF adheres to the ILO Declaration on Fundamental Principles and Rights at Work. By doing so SKF commits to upholding basic human values established by the ILO.

International Chamber of Commerce

The International Chamber of Commerce (ICC) is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.

Its Business Charter for Sustainable Development issued in 1991 defines 16 principles for environmental management.

SKF has endorsed the ICC Charter since 1992 and consequently applies its principles in all its business activities.

As required by the ICC Charter, SKF applies a precautionary approach to the provision and calculation of products and services. This means that any technical claim made by SKF regarding product or operational performance shall be based on conservative assumptions.

Organisation for Economic Co-operation and Development

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world.

SKF endorse and apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

This is SKF Care to us

SKF Care is the common denominator for incorporating sustainability into the whole business. It is about care for the business, the environment, the employees and the communities. The objective is to integrate SKF Care into all aspects of the Group's activities and operations, to create long-term value in SKF.



All aspects of SKF Care are important when dealing with the railway industry. Two stand out in particular. One is the focus on safety, since the industry is not just about transporting goods but also people. The other is the industry being the most eco-friendly form of public transport. As there is a strong demand for reduced energy consumption and related CO₂ emissions from railway operators and train manufacturers, we can contribute to this demand with our innovative products including reducing the weight of axleboxes, or with low friction sealings in journal bearings.

Rutger Barrrdahl, *Director, SKF Railway Business Unit*



We develop knowledge to integrate environmental consideration into our work at SKF, such as developing energy management methods, supply chain assessment tools and design for environment procedures. Over the last four years, most of my time has been spent investigating the challenge to manage environmental issues in manufacturing.

We live at a time with alarming environmental challenges. The role of large companies to meet these challenges is becoming increasingly important.

Birger Löfgren, *Competence Area Leader, SKF Manufacturing Development Centre*



For our work in research and development, SKF Care is about creating the knowledge, products and solutions which will differentiate SKF in the eyes of its current and future customers in 5, 10 or 20 years from now. It could mean lower energy use and carbon emissions, reduced resource use, or avoiding the use of harmful substances. Our ability to look ahead and understand the future environmental challenges and technology needs, and translate those into research and development, is key.

Laura Montagna, *General Manager of SKF Engineering & Research Centre*



I have been working at SKF for 25 years in different parts of the Gothenburg factory. One thing the channels have in common is the way the teams look out after each other. Production doesn't start if we're not absolutely sure everything is safe. This is the way people come first at SKF, and the production managers take it very seriously. No one takes these issues lightly, escalations are always considered important. In turn, this leads to operators, technicians and others finding even more safety improvements. Our way of working with Business Excellence is really the tool for achieving these improvements.

Juan Mera, *Production Technician*

Considering SKF's rapid growth in China, with new factories, facilities and employees being added all the time, we face a challenge to ensure that our people have the right level of environmental, health and safety understanding and expertise. The company has developed a specific EHS training programme as part of SKF's sustainability academy and this will help us a lot in addressing this challenge.

Yunfeng Li, *Sustainability Manager, SKF China*



At an SKF Solution Factory, our customers can really see and understand how we create value by helping them reduce environmental impact. We help our customers to save money and energy and provide a range of services that deliver asset efficiency optimization. With asset efficiency comes resource efficiency, energy efficiency and therefore reduced environmental impact.

Heike Sengstschmid

Director, SKF Solution Factories



The adoption of the LEED standard by the Group was very much aligned with the principles of SKF Care. This has made a big difference to all aspects of my work, from site selection and managing the actual construction, to selecting the technologies and machines to be deployed. In the end we have facilities that have lower running costs, better places to work at and which we can feel proud of.

Åke Larsson

Senior Project Manager – new construction projects



We have consistently delivered strong financial results in this market, even during the difficult times of the last recession, and I would say that Employee Care has been key in doing this. When times were tough, we focused on core activities and made the needed efficiency savings, but we avoided significant redundancies. We focus strongly on individual development and the evolution of skills, steadily bringing people up in the organization based on their passion and potential. We really support people in the team wishing to engage in Community Care activities. This type of investment brings perspective and promotes teamwork. We have also been working with local schools to encourage kids to think about engineering as a future career.

Michael Crean, *Director, Service Division UK and Ireland.*



Highlights of 2011

Q1



Gothia Cup 2011 in Gothenburg, Sweden.

- SKF was awarded a contract worth around SEK 500 million with Goldwind, one of the leading turbine manufacturers in China.
- SKF signed a three-year strategic partnership agreement worth SEK 335 million with Sandvik Mining and Construction.
- SKF and Konkola Copper Mines Plc in Zambia signed a three-year contract worth USD 2 million covering a predictive maintenance solution.
- SKF signed a strategic partnership agreement with CITIC Pacific Special Steel Co., Ltd, which includes cooperating in purchasing, new product and technology development and developing human resources.
- SKF announced a new factory in Jinan, in the Shandong Province, China for tapered roller bearings for the truck industry.
- SKF signed an agreement to remain as the main partner of the Gothia Cup, the world's largest youth football tournament, for an additional three years. SKF will also continue to run the "Meet the World" qualifying tournaments held in around 20 countries globally.
- SKF divested non-core component manufacturing: the forging business OMVP in Villar Perosa, Italy and the cage factory in Gothenburg.

Q2

- SKF and Chalmers University of Technology agreed to establish a University Technology Centre to conduct research and development covering technology, manufacturing, business processes and business strategy in the areas of sustainability and the environment.
- AB SKF issued a EUR 500 million eurobond with a maturity of seven years.
- SKF Logistics Services was awarded "Best service provider" by the Belgian Shippers' Council Organization of Traffic Management.
- SKF and Bombardier Aerospace signed a long-term contract for SKF to supply over 40 different rod assemblies and titanium bearings for Bombardier's new C series aircraft.
- SKF signed a contract worth EUR 15 million with MAN Diesel Turbo for magnetic bearings and related electronic components to be used in two subsea sets of natural gas compressors.
- SKF launched a new series of virtually maintenance-free bearings with an extended service life in extreme temperatures. See page 20.
- SKF issued, and celebrated, its 100,000th certificate in the SKF Distributor College. By the end of the quarter the number of certificates issued was over 112,700.
- A strategic partnership agreement was signed between SKF and Maanshan Iron & Steel (MaSteel) in Nanjing, China. It will focus on service relationships, sustainability and improvements that reduce the total cost of ownership.
- SKF's Asset Management conferences are held regionally every other year and the most recent was arranged this quarter in Buenos Aires, Argentina with over 175 customers attending. The focus was on providing practical solutions to the complex problems customers experience at their factories.
- SKF gained new business in Colombia for the remanufacturing of large-size bearings. The establishment of the SKF Solution Factory in Colombia at the end of 2010, means that SKF now offers this service on site to customers in the country.
- SKF entered a project with the Volvo Car Corporation and Volvo Group aimed at evaluating industrialization of flywheel systems for energy recycling.
- SKF expanded the range of the SKF Hub Knuckle Module, adding the central nut clamping design on the wheel connection side. The Ferrari 458 Italia sports car is equipped with this new single nut hub bearing unit from SKF. The solution has proved to be durable against extreme forces in cornering and high side forces.
- Five new products were launched, including the SKF Low Weight Hub Bearing Unit and SKF Double Clutch Bearing Set, see page 22.

Q3



Inauguration of the new factory in Dalian, China.

- SKF opened a regional distribution centre in Montevideo, Uruguay, to strengthen service to customers and distributors in Latin America.
- SKF inaugurated a medium-sized bearing factory in Dalian, China.
- A number of products were launched during the quarter, see pages 20-23.
- SKF was named the leading global supplier in asset reliability software and services according to the ARC Advisory Group.
- The 120,000th SKF Distributor College certificate was issued in September.
- SKF's Service Division held three major conferences for its distributors in the quarter, with the key message of how to grow together on the aftermarket.
- For the 12th successive year, SKF was selected to be a member of Dow Jones' Sustainability World index and the FTSE4 Good Index Series for the 11th year in succession.



Q4

- SKF announced a long-term contract with China National Heavy Duty Truck Group Co., Ltd. (CNHTC), one of China's top three truck manufacturers. The contract, with an estimated value of around SEK 5.2 billion, calls for SKF to supply SKF Truck Hub Units, tapered roller bearings, and seals for CNHTC's latest truck models.
- SKF opened an extension to the automotive factory in Cajamar, Brazil, which will manufacture the second generation hub bearing unit with integrated ABS.
- SKF inaugurated its Global Technical Centre in Bengaluru, India (GTCL). GTCL will have a strong focus on serving customers in India and South-East Asia, as well as global projects. SKF invested around SEK 75 million in GTCL. It will employ about 400 engineers in the areas of product engineering and development, as well as laboratories for testing metallurgy, chemistry and bearing performance analysis.
- SKF signed a five-year contract to establish an SKF University Technology Centre with Luleå University of Technology in Luleå, Sweden, focused on developing advanced concepts in condition monitoring and asset management.
- SKF launched the 2012 Meet the World youth football tournament, which are held in 15-20 countries where SKF has a presence. The winning teams from each country will travel to Gothenburg, Sweden to participate in the Gothia Cup, the world's largest and most international youth football tournament.
- SKF secured an order worth SEK 20 million for bearings to the China Railway Materials Commercial Corporation for installation in 160 km/h passenger coaches for use throughout China.
- SKF introduced its Asset Efficiency Optimization programme at the Lithuanian paper company Grigiškės. The implementation of the programme will support this company to increase its output by 10%, by employing condition monitoring and looking after the machines more effectively.
- In 2011, SKF provided SEK 3.0 billion in verified savings for customers. By using the SKF Documented Solutions Program to measure and confirm value delivered, SKF can identify where opportunities exist for customer savings.
- SKF held an Asset Management conference in Phoenix, USA, in November with more than 185 customers sharing experience and industry knowledge, as well as the latest technology news.
- SKF supplied advanced technological products and solutions to the Bolloré Group for use in their innovative electric cars. These cars will be used in the car sharing program, Autolib, to be launched in Paris.
- SKF Automotive Division launched a number of products during the quarter, see pages 22-23.
- SKF was once again included in the Folsam Corporate Responsibility Index and ranked the best in the overall score of environment management.

Report on the business **Business Care**

Business Care is built on a strong customer focus and on delivering a strong and sustainable financial performance and the right returns for shareholders. This should be achieved in accordance with the highest standards of ethical behaviour.



The Group's sales reached record levels in 2011. The first half saw broad-based growth both geographically and across nearly all industries, while growth in the second half was not as strong, mainly due to the automotive industry in Europe and demand from the renewable energy sector and the railway industry in China.

Net sales rose by 8.5% in 2011, from SEK 61,029 million to SEK 66,216 million. This rise was attributable to volume 9.6%, price/mix 1.9%, structure 4.8% and currency effects -7.8%.

The acquisition of Lincoln* at the year-end 2010 contributed a structural effect of 5.1%. The stronger Swedish krona had a negative effect on net sales of around SEK 4.8 billion.

The operating profit was SEK 9,612 million (8,452), profit before taxes SEK 8,932 million (7,549) and earnings per share SEK 13.29 (11.28). The figures include expenses for restructuring activities of

around SEK 100 million (190). Net financial items were SEK -680 million (-903). Interest-bearing loans totalled SEK 12,851 million at year-end. Provisions for post-employment benefits, net, amounted to SEK 8,599 million.

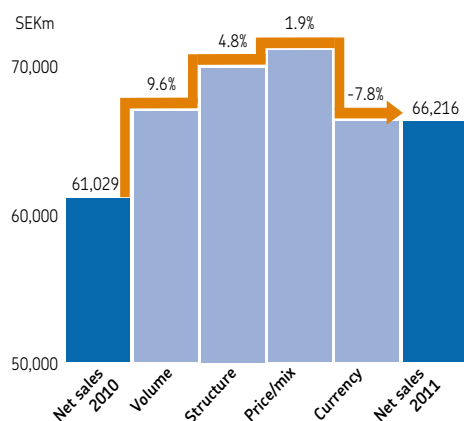
The cash flow after investments before financing was SEK 3,848 million (-2,838) and included SEK 6 million (6,799) for acquisitions.

Return on capital employed for the 12-month period ending 31 December was 23.6% (24.0).

Capital expenditure on property, plant and equipment amounted to SEK 1,839 million (1,651).

Depreciation was SEK 1,498 million (1,644), amortization was SEK 248 million (150) and impairments of intangible and tangible assets was SEK 44 (198) million.

* Lincoln Holdings Enterprises Inc. and its subsidiaries, referred to herein collectively as "Lincoln".



Net sales 2010 bridge to 2011

Sales volume: The sales figure without any affect from changes in price/mix, structure or currency.

Structure: The impact from acquiring or divesting a company or business.
Price/mix: The average price which the Group gets from the sale of its products. It is affected by price increases and the mix of sales of different products and services to different customer segments. For example, if a product or a customer with a higher margin has a larger proportion of the total sales figure the price/mix increases.

Currency: The translation of local sales figures into Swedish krona.

Main factors influencing the financial results in 2011

Market demand	SKF benefited from being able to rapidly respond to the better market demand. Volumes rose by 9.6%.
Price/mix	SKF delivered more value to customers and is receiving the benefits from this. The combination of price increases and mix of sales taken together was up by 1.9%.
Exchange rates	Exchange rates had a negative effect on SKF's operating profit of around SEK 1.2 billion, including the effect of translation and transaction flows.
R&D	Increased spending to strengthen the overall product portfolio, in particularly energy-efficient products and solutions.
Raw material prices	Prices of steel and steel-based components were significantly higher in 2011 than 2010.
One-off cost	Various restructuring activities and impairment of asset had a negative impact on the year of around SEK 100 million.
Manufacturing	While manufacturing during 2011 was higher than in 2010, as the year progressed the manufacturing level was adjusted down to reduce inventories and meet lower demand level, this held back results mainly in the fourth quarter.

SKF has gradually evolved into a more robust company over the past decade, showing an improved ability to generate profits and sales growth. The company's margin have continually improved over the years and the return on capital employed has shown a good track record, despite the fact that it includes important investments necessary for sales growth.

SKF has made important changes to its capital intensity over the years by divesting and outsourcing steel and component manufacturing. Important divestments were made covering the steel manufacturing operations in 2006 and various component manufacturing activities such as balls and rollers, cages and forged and turned rings.

Significant steps have also been taken to improve sales growth through increasing focus on faster growing segments and regions and the addition of additional technologies such as lubrication systems. A number of key acquisitions have been made in all the five technology platforms of the Group enabling it to be a better partner to its customers.

For example, SKF was not a major player in the automated lubrication systems business less than ten years ago and today is now a market

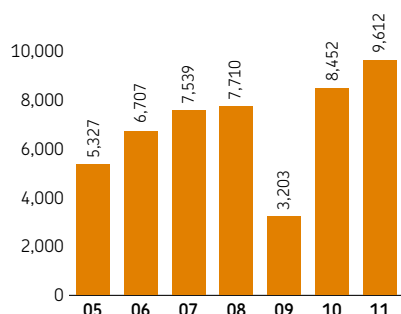
leader. From a geographical viewpoint, sales in Asia have doubled as a part of the SKF Group sales in the last eight years. SKF's sales to the industrial market have increased in the same period from under 60% of the Group's sales to over 70%.

SKF's strength comes from its customer focus and ability to continuously innovate to develop new products, solutions and services which meet the different customers' needs in the many different industries which SKF serves.

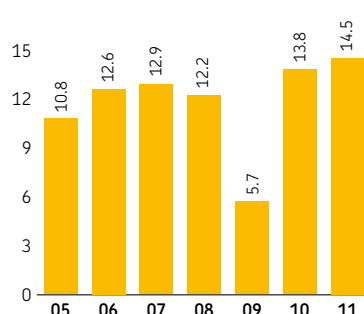
It is about creating and delivering products, solutions and services which bring real benefits and value to the customers and being paid for this. To support this, the Group has increased its frontline resources working with customers and during 2011 an additional six hundred people were added. The Group has also increased its spend on research and development and in new facilities bringing this closer to its customers in India and China.

Investments have been made in manufacturing in faster growing and best cost countries to support the growth and to improve the Group's competitiveness.

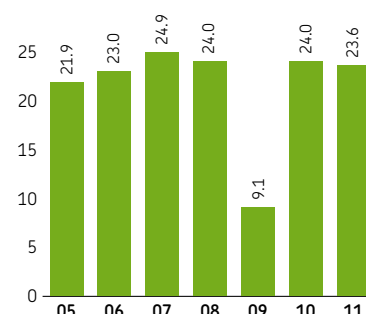
Operating profit, SEKm



Operating margin, %



Return on capital employed, %



Delivering value to customers

SKF's success lies in effectively developing and delivering value to its customers and receiving the benefits from this. Value can mean providing special technical solutions. For example, the SKF X-Tracker, a patented wheel hub unit for cars available in two versions. The first offers up to 20% more rigidity than standard hub units, thereby enabling a safer, smoother ride for premium cars. SKF X-Tracker Low Friction enables customers to achieve lower CO₂ emissions, helping vehicle manufacturers to meet environmental legislation. It provides 25% less friction than a comparable wheel end product and corresponds directly to the amount of reduced levels of CO₂ emissions achieved. Another example is the SKF eDrive Ball Bearing and SKF Rotor Positioning Sensor-Bearing Unit, used in a vehicle's powertrain, which helps enable new, more efficient and eco-friendly ways of powering a vehicle. For a typical electric vehicle application, an improvement of 1% of the car's range can be expected using a set of optimized SKF bearing, sealing and mechatronic solutions in the e-powertrain.

Value also comes from the way SKF uses its understanding of customer requirements to offer specific solutions to support these needs - an example is the SKF Agri solution. A leading global agricultural equipment manufacturer experienced persistent bearing failures in its axial combines. To tackle the dilemma, engineers from the manufacturer conducted extensive field tests using SKF's agricultural Y-bearing units. The bearings were exposed to 500 hours of field operation, running under varying load, speed, temperature and environmental conditions, and the solution delivered a faultless result. The agricultural Y-bearing units also give cost-saving opportunities for the farmer. The increased service life and relubrication-free design enable farmers to reduce time and money spent on repairs and lubrication.

Delivering value can also be achieved by offering customers the lowest total cost of ownership by eliminating wasted costs at customers' operations and through understanding the difference between lowest price products and lowest total cost of ownership. For example, operation and maintenance costs have a significant influence on the profitability of on- and offshore wind farms through their life cycle. The condition monitoring system, SKF WindCon, gives on-line supports to customers in analyzing the performance of their wind farm. One benefit can be preventing changing gearboxes via a remote monitoring

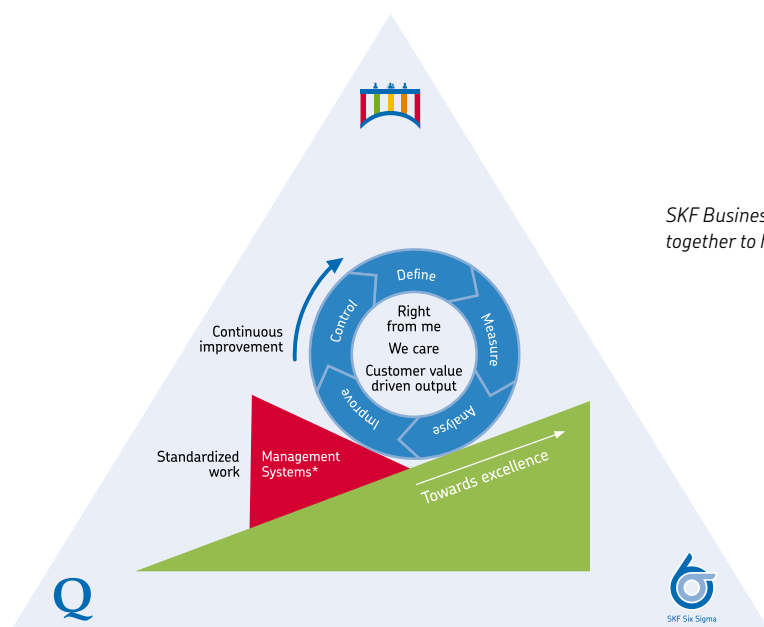
service. A gearbox can be repaired on the turbine for less than 10% of a complete gearbox change, which may be needed if it is not repaired in time.

From 2003 until today, SKF has provided around SEK 19 billion in verified savings for customers. In 2011, the figure was around SEK 3 billion. By using the SKF Documented Solutions Program to measure and confirm value delivered, SKF can find where the greatest opportunities exist for customer savings. SKF has over 24,500 accepted or verified cases that show proven quantifiable value in over 25 industrial segments. The following is an example of how it works:

A large industrial company wanted to find a way to reduce its main-tenance, repair and operation (MRO) spending. SKF proposed finding cost savings by applying the know-how from SKF's five technology platforms. The customer agreed and the outcome was measured using the SKF Documented Solutions Program. Some of the results achieved included reducing inventory, reducing energy and lubrication use, extending the life of numerous classes of machines, implementing a predictive maintenance programme that allowed operators to find problems before they materialized. The customer gained around 5% measurable cost savings annually and SKF has been able to expand its share of their business with products and solutions from its five technology platforms. For SKF this business contributed to greater net sales and higher margins. Once the implementation was finalized in one market SKF was able to help the customer replicate this at its facilities globally, creating more savings for the customer by using SKF's global reach.

Business Excellence

SKF will further strengthen its ability to deliver value to customers with the help of the Business Excellence initiative, which was launched in late 2010. Business Excellence is about delivering value to customers in the most effective and efficient way, by fully utilizing employees' and partners' expertise and the company's technology. SKF Business Excellence actively motivates the organization to consider whether it is achieving the right results in the best way possible. Business Excellence starts by focusing on customers and understanding where they are, where they want to go and how SKF can help them get there in the best way possible. For SKF this means using the Business



*Including Quality Management System and Environmental, Health & Safety System

SKF Business Excellence, SKF Quality and SKF Six Sigma work together to help SKF move towards excellence.

Excellence model (see figure below) and applying the model in the way work gives the desired results, which can be measured, followed up and continuously improved.

It is about eliminating activities and materials that add no value to our customers. SKF's approach to Business Excellence requires a significant shift from traditional leadership skills to more effectively utilizing the knowledge and commitment within the organization.

Leaders must balance their traditional leadership and management roles with active coaching of their teams. SKF is now investing in strengthening this mindset. The company has therefore embarked on an extensive training program for Business Excellence and amongst the first to be trained in 2011 were SKF's 180 top managers. This will continue with the training of additional managers in 2012. In 2011 SKF also trained around 100 Business Excellence Champions at "Business Excellence boot-camps". These boot-camps give the participants the necessary skills for deploying Business Excellence at SKF, using the best methodologies and tools. These methodologies and tools are mainly derived from SKF Six Sigma, Quality and Project Management communities. The Business Excellence Champions are trained for facilitating the Business Excellence journey by conducting local training and supporting local management in their efforts of the deployment.

SKF Six Sigma

SKF continued its Six Sigma activities during 2011 on reducing costs and deviations, as well as its support to Business Excellence. The number of Six Sigma Black and Green belts rose during 2011, which means by year-end, SKF had 484 (463) black belts and 2,154 (2,059) green belts. SKF Six Sigma will continue its deployment in the product and process development areas linking the customer's voice into this process. As part of SKF's plans to continue to increase the level of achieved savings utilizing SKF Six Sigma, SKF will focus on two areas in 2012. They are: increasing the number of Six Sigma projects that will be generated through the deployment of Business Excellence and jology. To further strengthen and support the step in SKF's Six Sigma deployment journey, an SKF Six Sigma Academy will be established in 2012. The creation of a Six Sigma Academy will help develop and run higher levels of content for product and process development, as well as for sales, application engineering and manufacturing. Savings

from SKF's Six Sigma projects produced a figure of SEK 392 million for 2011 (SEK 467 million)

BeyondZero strategy

BeyondZero is the name of the Group's strategy to have a positive impact on the environment. It was launched in 2005 and consists of two simultaneous approaches: to reduce the negative environmental impact resulting from SKF's operations, and to innovate and offer new technologies, products, and services that provide customers with enhanced environmental performance. The result of the two should give an overall positive impact on the environment - BeyondZero.

The first element of BeyondZero about reducing the environmental impact from SKF's operations, such as carbon emissions derived from manufacturing SKF's products, has been driven in many ways. An example is the adoption of the LEED building standard - assuring world-class environmental performance for all newly-built facilities around the world. Information about how SKF works to reduce all this negative environmental impact can be found in the Environmental Care section in this report.

The second element of BeyondZero recognizes that customers in all segments and industries face multiple (and increasing) pressure to deliver a reduced environmental impact from products, services and processes. The broad industrial and geographical scope of SKF, together with the Group's engineering knowledge, puts the company in an exceptionally strong position to add value by helping customers to address these demands.

The Parent Company

The Parent company performs services of a common Group character. Reported net sales refer to services invoiced to subsidiaries. Costs invoiced from subsidiaries are included in the reported cost of services provided and amounted to SEK 1,528 million (1,288). Dividend income from consolidated subsidiaries amounted to SEK 2,389 million (1,945). Additions to investments in subsidiaries amounted to SEK 535 million (5,089) of which SEK 1 million (2) is related to acquisitions from companies within the SKF Group and SEK 534 million (5,087) to capital contributions to existing units. Unrestricted equity in the Parent company amounted to SEK 9,724 million.



Reducing environmental impact by remanufacturing

SKF has established a global network of facilities specializing in inspecting and remanufacturing used bearings. SKF's bearing remanufacturing concept creates customer value by increasing machines' service life and reliability and reducing costs.

From an environmental perspective, reducing material and energy requirements that bearing remanufacturing generates, compared to replacing bearings with completely new ones, means a lower overall environmental impact. With large size bearings remanufacturing actually requires about 90% less energy than manufacturing a new bearing and saves around 50% of the cost.

In addition to large size bearings, SKF remanufactures other products including machine spindles, housings and railway bearing units.

The SKF's remanufacturing network is present in most parts of the world and is continually expanding with new remanufacturing service centres.

New market offers 2011

SKF's separable high-capacity cylindrical roller bearings for wind turbine gearboxes, reduce bearing failures and the risk of smearing and adhesive wear on high-speed shafts. The design, with black-oxidized rollers or complete oxidized bearings, improves sliding resistance and promotes lubricant film formation on all contact surfaces.



SKF Energy Efficient (E2) double row angular contact ball bearings run up to 30 °C cooler than standard bearings, which increases grease life and potentially bearing service life. This is achieved by an optimized internal geometry and new, low-friction grease that reduces the bearing's frictional moment by a minimum of 30%, when compared to an SKF basic design bearing.



SKF food line Y-bearing units are a relubrication free solution, which provide extended service life despite high-pressure washdowns on food and beverage production lines.



The **SKF Fryer Bearing** improve reliability of auto-automatic fryers in the food industry. An innovative design enables process oil to lubricate the bearings, while at the same time it prevents ingress of process contaminants. The bearing's service life can be extended up to 16,000 hours.



SKF DryLube bearings contain a specially engineered graphite mixture, which eliminates the need for grease re-lubrication. This new solution is appropriate for numerous applications where bearings are exposed to constantly high temperatures and where the grease deteriorates quickly. This product received the IMPOvation award 2011.



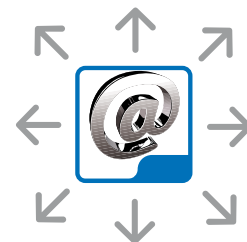
SKF Wind Gearbox Bearing kit includes replacement components for specific applications, which simplify the process of identifying and ordering components for wind farm operators. These customized kits can help ensure quick access to products, reduce downtime and inventory costs.



SKF Shaft Alignment System is designed to manage alignment for any rotating machinery. The system integrates a pre-defined alignment process into a portable instrument. It provides users with step-by-step instructions on how to carry out alignment in the most effective and efficient sequence. This can help operators extend operating life and reduce energy consumption.



SKF @ptitude Monitoring Suite is a scalable software solution that accommodates all features of current and future condition monitoring systems from SKF. The application maintains a plant-wide database of machinery data based on parameters including vibration, temperatures, pressures, flows, inspections, manual entry and oil analysis test results. It can provide customized reports diagnostic, inspection and transient event plots.



With supporting applications and add-ons, customers can add or remove functionality as their system expands, or is optimized to meet condition-monitoring needs.

An **upgraded range of SKF Explorer spherical roller bearings** offers at least twice the previous life when operating in a contaminated environment.

The improved wear and contamination resistance is primarily used in applications for areas such as the metals, mining, mineral and cement processing industries, industrial transmission and material handling.



SKF Endoscope TKES 10 helps minimize the requirement to disassemble machinery for inspection. A large backlit screen and variable LED lighting allows inaccessible objects to be easily viewed. Images and videos can be stored and recalled for viewing and sharing with others.



SKF Idler Sound Monitor kit uses acoustic enveloping technology to detect mechanical defects in idlers on conveyor systems. The SKF Idler Sound Monitor has a simple, visual display and headphones with audible condition alarm for detecting faults. It is also compatible with all SKF Microlog models.



SKF Agri Hub for seeding discs, a fully integrated unit for a wide range of seeding discs and machines. It features a robust, patented five-lip seal and can deliver a re-lubrication-free performance for up to 10 seeding seasons. A double-row deep groove ball bearing with a metal-sheet flange provides additional strength.



SKF Lubrication Management programme can be defined as the sum of all the activities performed in a given facility, to ensure the right lubricant is provided in the right quantity, to the right point, at the right time with the right method. The programme defines a structured process to help our customers build a strong lubrication programme. The process comprises five major steps.

SKF solar linear actuators have been designed to accurately track the sun from sunrise to sunset. They are virtually maintenance-free and designed for a 20-year service life.



SKF Stroboscope TKRS 20 enables the motion of rotating or reciprocating machinery to appear frozen. Applications such as fan blades, couplings, gear wheels, machine tool spindles and belt drives can be visually inspected while running. The powerful LED light source allows inspection even in sunlight, and the very high flash rate suits almost any application.



SKF Thermal Camera TKTI 20 allows troublesome hotspots to be visualized quickly and easily. The TKTI 20 is a feature-rich thermal camera, which offers extensive advanced thermal analysis possibilities. Thermal and visual images, or a blend of both, are displayed sharply on a large, bright display. Images stored in the camera's memory can be transferred to a PC, for further analysis or report writing, using the software suite provided.



SKF Multilog On-line System IMx-R delivers condition monitoring and diagnostics which helps move railway maintenance from time-based to condition-based maintenance and reduce maintenance cost. Along with early fault detection of different components, the SKF Multilog IMx-R offers protection against bogie instability with bogie hunting criteria, plus protection against hot axlebox.



SKF Remote Diagnostic Centre utilizes "cloud computing" for its IT infrastructure which offers a way to access, store, and manage any range of information, software programs or databases. A range of different remote monitoring solutions are available to meet customer needs.

A range of reinforced all-rubber radial shaft seals, made of SKF Duratemp (a hydrogenated nitrile rubber) are specially developed to protect bearings in wind turbine drive trains. These high-performance seals are very reliable and are easy to install and replace.



SKF Energy Efficient (E2) Y-bearings with reduced friction, are ready-to-use bearings equipped with a high performance contacting seal and filled with the correct amount of low friction grease. These new Y-bearings give a 50% reduction in the bearing frictional torque compared to conventional SKF Y-bearings. They are mainly used in industrial fans, textile equipment and conveyors.



SKF Energy Efficient (E2) tapered roller bearing for truck final drive is a solution that provides 30% reduced internal bearing friction, leading to fuel savings and CO₂ emission reductions.



Baker Dx series of SKF's static motor analyzers are designed for use in motor test/maintenance shops, industrial and OEM motor manufacturing environments. It can perform motor tests between 4 and 40 kV and can be configured with the specific test functions customers wish to have. It has a touch screen with graphical user interface that makes it easier to use.



SKF Microlog Inspector system enables collection and sharing of inspection data, such as velocity, acceleration and temperature. It is ideal for operations, inspection, safety and maintenance applications, helping to increase productivity, safety and efficiency. It is compatible with most Windows Mobile portable devices and links to the SKF @ptitude Inspector software package, where data can be further analyzed, reported and shared across the entire SKF @ptitude Asset Management System.



SKF Low Weight Hub Bearing Unit, with a weight reduction of around 20% to 40% depending on the specific design, contributes to lower fuel consumption and reduced CO₂ emissions. Main application areas are premium cars, light commercial vehicles and electric vehicles.



SKF's competitive and customized product range of **double clutch bearing sets** and **clutch support angular contact ball bearings** for double clutch transmissions enables greater energy efficiency while reducing CO₂ emissions.



SKF's robust MacPherson **suspension bearing unit** for the vehicle market will withstand severe conditions and extend the operating life of the suspension.



SKF Split Truck Hub Unit is a wheel-end solution with a split outer ring. The seals and grease are integrated and sealed for life and the unit is easy to mount.



SKF StopGo is a stop-start system with a sensor-bearing solution, enabling increased mileage with reduced fuel consumption and CO₂ emissions. It is designed for motorcycles and scooters with combustion engines.



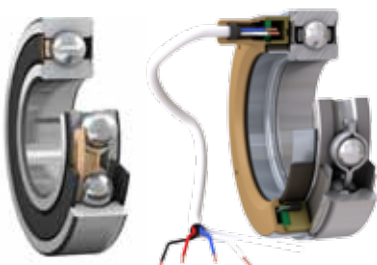
SKF Engine Fan Support Unit is part of the engine cooling system and is designed for use in commercial engines.



Two products for electric traction motors in electric and hybrid cars:

SKF eDrive Ball Bearing is a new bearing family for the electric powertrain market. The bearing features low friction and robustness at high speed, which enables higher electric motor efficiency and power density.

SKF Rotor Positioning Sensor-Bearing Unit integrates the SKF eDrive Ball Bearing. This compact and robust solution improves electric motor efficiency, energy recovery, electric noise and allows total cost reduction.



SKF's **high pressure valve stem seals** increase pressure resistance, thus minimizing wear and extending the life of the valve train.



SKF's high performance **fork seal solution** for motorcycles, improves feel and comfort, while increasing reliability through better dirt exclusion.



SKF Vehicle Environmental Performance Simulator calculates and translates the contribution of reduced bearing and seal friction and component weight into savings of CO₂ emissions for a vehicle.



SKF's business

SKF's business in 2011

SKF's business is primarily carried out by three divisions. The Industrial Division, the Service Division and the Automotive Division, each focusing on specific worldwide customer groups. The divisions are inter-dependent providing each other with products, services and know-how.

The Industrial Division serves industrial OEM customers and the Service Division mainly serves industrial distributors and industrial end-users. Together they make up two-thirds of SKF's sales. The Divisions together serve the industrial market but at different phases in a customer's asset life cycle.

The Automotive Division serves both OEM customers and the aftermarket.

Outside the divisions SKF has two other operations – PEER and SKF Logistics Services.

New business structure in 2012

As of 1 January 2012, SKF formed three new business areas to replace the former divisions:

- SKF Industrial Market, Strategic Industries
- SKF Industrial Market, Regional Sales and Service
- SKF Automotive

PEER and SKF Logistics Services are not affected by the new structure.

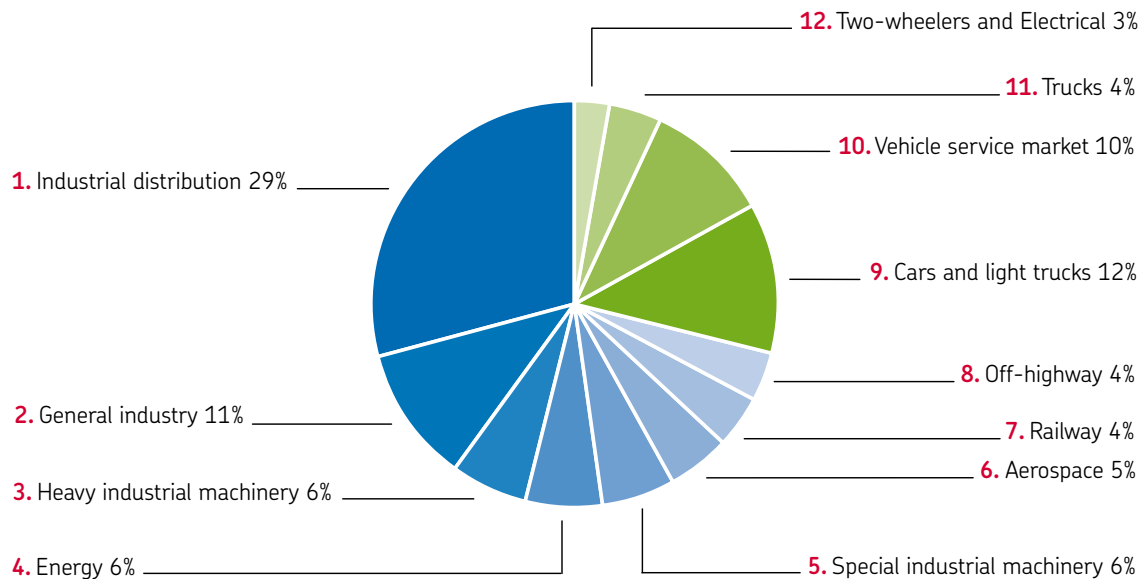
The main reason for this change is to create an organization which will be able to better serve the need of customers within the industrial market. Industrial Market, Strategic Industries and the Industrial Market, Regional Sales and Service will both focus on managing the total life cycle of the customers' assets and will deliver a full range of products, services and solutions to both OEMs and end-users within different industries. SKF Automotive Division is renamed to SKF Automotive.

SKF Industrial Market, Strategic Industries consists of seven business units with full responsibility for sales to both OEM and end-users, as well as business development, manufacturing, and engineering. The business units are: Aerospace, Renewable Energy, Industrial Drives (comprising the Industrial Electrical, Fluid, Transmission and Material Handling segments), Off-highway, Traditional Energy, Precision (comprising the Machine Tool, Medical & Automation segments), and Railways. In addition, the SKF Lubrication business unit is part of this business area.

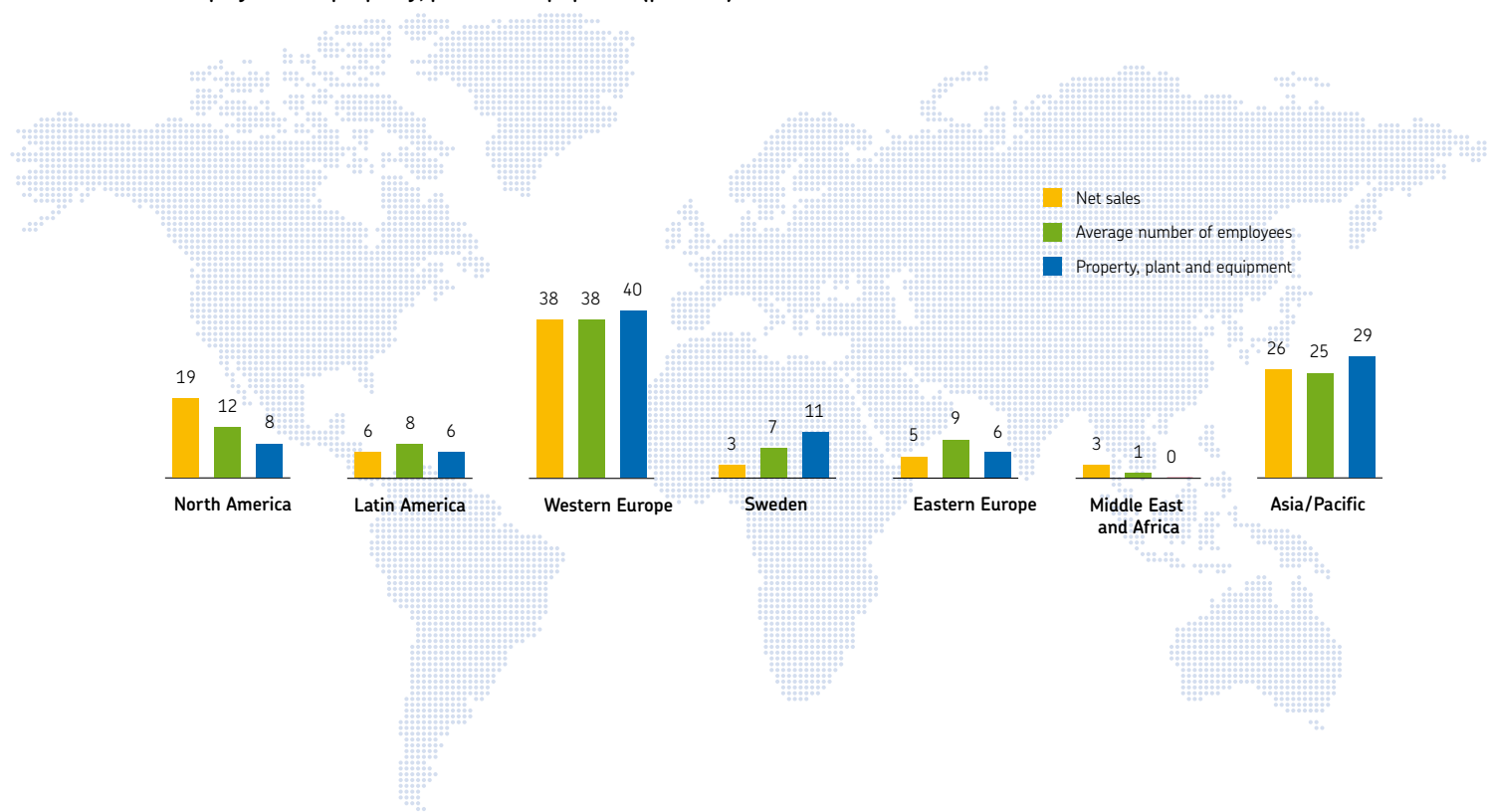
SKF Industrial Market, Regional Sales and Service is responsible for sales to both OEM and end-users, as well as business development and engineering for the Metals, Pulp and Paper, Mining and Cement, Food and Beverage, and Marine segments. It will also focus on developing advanced services and solutions that improve customer productivity, as well as on developing the SKF sales channels with primary responsibility for SKF distributors and channel partners.

SKF Automotive is supporting the Cars and light trucks, Trucks, Vehicle service market, Two-wheelers and Electrical markets. It is also responsible for SKF Sealing Solutions.

Net sales by customer segment 2011



Geographic distributions 2011 of net sales, average number of employees and property, plant and equipment (percent)



Customer segments 2011

Industrial distribution

Sales through authorized industrial distributors.

General industry

Fluid power, industrial gearboxes and material handling.

Heavy industrial machinery

Metalworking, mining, pulp & paper.

Energy

Renewable energy (wind, solar and ocean) and traditional energy (oil & gas, hydrocarbon processing, traditional electric power generation).

Special industrial machinery

Food & beverage, machine tools, marine, medical & health care, printing & packaging, and textile.

Aerospace

Bearings, structural components and seals to the aerospace markets with producers of both aero engines and airframes.

Railway

Axleboxes and sensorized bearing solutions for the railway industry, freight cars, locomotives, multiple units and high-speed vehicles.

Off-highway

Construction, farm & forestry, lift truck drives.

Cars and light trucks

Hub units for wheel-ends, steering and suspension applications.

Vehicle service market

Spare-part kits for cars, light trucks and two-wheelers.

Trucks

Medium and heavy trucks above 6 tons, buses and trailers.

Two-wheelers and electrical

Motorcycles, scooters and roller skates. E-powertrains, household appliances, power tools and electric motors.

SKF's customer segments 2011

Customer segments in order by size, divided into Industrial and Automotive.

1. Industrial distribution, 29% of net sales

SKF reaches customers in most industries in the global industrial aftermarket through its authorized distributors, which connect SKF to over one million customers. They represent the largest network of authorized distributors in the bearing industry. Over the years the network has also expanded with specialized distributors serving specific customer needs and industry segments. SKF's distributors add value in the overall supply chain. By their proximity to customers in all industries, they are well placed to work closely with both OEMs and end-users. SKF's distributors are knowledgeable in inventory management, helping customers reduce transactional costs and working capital, for example by taking care of spare part optimization and making logistics more efficient. Coupled with their product and application knowledge, this helps customers make the right choice for their business.

SKF works continuously with the authorized network in order to increase knowledge levels that can benefit the customer. This is done through activities such as conventions, workshops and online training, the latter being for example the SKF Distributor College where users can attend various product and industry training schemes online.

The "More with SKF" programme was developed to strengthen all stages in the supply and value chains, from SKF and its distributors all the way to customers. The SKF Distributor Value Programme is a tool

developed by SKF, based on the same methodology as the SKF Documented Solutions Program (DSP), helping distributors identify and measure the value they deliver to customers. The SKF Certified Maintenance Partners programme helps qualified distributors provide added value to customers by offering entry-level maintenance and reliability services. SKF Certified Rebuilders undergo specialized training in motor repair with an emphasis on conformance to exact SKF specifications and standards, root cause failure analysis, bearing installation, lubrication and condition monitoring. They are audited and re-certified regularly, and repairs are carried out using SKF's products and tools. This is to offer customers a higher quality and standard of performed work.

In 2011, SKF focused on assuring that authorized distributors understand and accept the principles and requirements defined in the SKF Code of Conduct. Given the crucial role in satisfying customer needs, it is essential that SKF's authorized distributors act in accordance with these requirements, and the Group actively supports and facilitates this. SKF Code of Conduct for distributors was launched in 2009, and it covers areas such as responsibility towards customers and employees, business ethics, the environment, health and safety, and communication. SKF continued to focus on joint customer visits, on-site product and service training and launching new offers such as the upgraded SKF Explorer self-aligning roller bearings.



Participants at the Distributor Development Conference in Beijing, China, testing SKF Thermal Camera TKTI 20, which has an infrared detector. Thermal imaging is used by many industries as a predictive maintenance technique.

2. General industry, 11% of net sales

Fluid power (compressors, pumps and industrial fans)

In the fluid power industries, SKF's knowledge is found in applications such as compressors, pumps and industrial fans.

The compressor market is seeing technological changes and is turning to magnetic bearings for the centrifugal compressor market, and new rolling bearing and seal technology for the screw compressor market. SKF is supporting these technological changes.

The pump market is driven primarily by market development in the oil and gas, hydrocarbon processing, mining, and water industries. The total cost of ownership associated with energy use and maintenance plays an increasing role, because of environmental standards, requirements of high operational efficiency of assets and legislation.

SKF released a series of new solutions in 2010 for special pumps such as bearings for deep sub-sea pumps and cryogenic pumps for handling liquified gases. These solutions provide customers with outstanding performance and reliability in extremely demanding and remote environments, as in the case of sub-sea oil reserves and in handling of liquified gases.

A large petrochemical factory in Western Europe switched to SKF's special hybrid cryogenic pump bearings to improve pump performance. Reliability was essential to the customer because these pumps were used to pump -100 °C liquid ethylene through start-stop cycles around the clock. After nearly two years in service, SKF's cryogenic pump solution bearings were still performing well, with no signs of damage. The customer achieved an almost 400% return on investment for each installation of the SKF cryogenic pump bearing solution after the first year.

Industrial gearboxes

Gearboxes in critical positions, especially in heavy industry, must operate reliably under harsh, demanding conditions. In these applications there is a limited possibility of improving the lubricating and/or contaminated condition without costly investment. SKF launched the new SKF Explorer upgrade for self-aligning roller bearings in 2011, in response to market demand for both high performance and robust products. By combining the attributes of the existing SKF Explorer bearings with the latest improved wear resistance technology, the new SKF Explorer upgrade enables customers to increase the service life and the power output of their equipment.

Material handling (conveyor, cranes in processing industry, container terminals, elevators and escalators)

Market development in the conveyor industry is driven to a large extent by increased demand for mining and mineral output to meet Asian infrastructure development and power supply needs. The bulk conveyor industry uses large amounts of energy to move material over many kilometers of conveyor systems. Around 6,000 bearings are needed to support one kilometer of conveyor transport and the friction between belt and idler rollers accounts for a large part of the total energy use. SKF energy efficient (E2) deep groove ball bearing for idle rollers features higher energy efficiency performance and reduces idle roller friction.

A Chinese mining company replaced less efficient solutions with the SKF energy efficient (E2) deep groove ball bearing and it is estimated that with SKF's solution, the customer can cut up to 4,000 tonnes of CO₂ emissions in a typical 6.3 km conveyor installation over a five-year period.



3. Heavy industrial machinery, 6% of net sales

With increasing urbanization and an expanding middle class in the growth economies, the outlook for heavy industries is positive. While urbanization drives demand for commodities like steel, cement and copper, growing wealth increases the desire for things like household

appliances, cars and tissue products. Heavy industries are all highly capital intensive, therefore it is very important that assets are both productive and reliable.



SKF supplies China's biggest steel company, Baosteel, with sealed and relubrication-free roll units, SKF ConRo, for their continuous casters. SKF ConRo improves the reliability of casting lines, cuts grease consumption and can significantly reduce roll line operating costs.

Metalworking

SKF is a major supplier of bearings, seals and lubrication systems to the metalworking industry and has developed its service business over the last decade to help customers increase productivity and reliability.

SKF DryLube Bearings were launched in 2011. These bearings are designed for extended life in high temperature environments. In addition, they can help cut maintenance costs and reduce environmental impact due to the fact that no relubrication is needed.

Mining

SKF provides the industry with products and services for predictive maintenance and reliability, including power transmission products.

A recently launched predictive maintenance tool is the SKF Idler Sound Monitor. It uses acoustic measurements to allow maintenance workers to safely detect faults in conveyor systems early. This helps to avoid costly damage and repairs. Another recent innovation is the SKF Engineering Simulation Service, a consultancy service that helps

customers solve structural problems by using field measurements from operating machinery as input for numerical simulations. It helps customers reduce their maintenance costs and can reduce vibration and energy use.

SKF signed a three-year strategic partnership agreement worth SEK 335 million in 2011, with Sandvik Mining and Construction. SKF will handle their inventories of SKF's products, which will enable Sandvik to reduce capital costs and be more responsive to their customers' needs. The key area in the partnership is a new, global logistics model, delivering reduced stock-keeping, fixed lead times, high availability and an automated electronic order-processing solution.



The Argex plant in Antwerp, Belgium has been mining raw clay since 1965. The clay is mixed, prepared, chopped and then baked in a two-part rotary kiln that produces expanded clay granules. The Argex kiln is the largest of its kind in Europe and is supported by eight support roller units, each containing two bearings. Argex was looking for a better, more modern solution and chose SKF. The bearings were supplied with a superior lubrication system that reduces friction and helps to lower costs. SKF was also asked to supply new support rollers equipped with an SKF automatic lubrication system, shafts, housings and base plates. SKF provided a more reliable solution and reduced the unit's energy consumption by up to 10%.

Pulp and paper

SKF has a long history of involvement with – and product development for – the pulp and paper industry. Traditionally, a leading supplier of bearings and associated products for both machinery builders and pulp and paper producers, SKF has developed into a major player in the service and lubrication system business.

SKF's experience, knowledge and technologies help customers maximize their productivity and reliability.

Examples of two contracts signed in 2011 to support customers in improving their maintenance programmes.

One of the customers was Grigiškės Joint Stock Co. in Lithuania, where SKF was contracted to carry out a maintenance strategy review, implement an enterprise asset management system and help implement best practices for their predictive maintenance and lubrication programmes.

The other contract was with a Brazilian cellulose mill where SKF will implement its Integrated Maintenance Solution programme in order to improve reliability and reduce costs through predictive maintenance and lubrication.

4. Energy, 6% of net sales

Renewable energy

With the world's population continually increasing, access to energy is one of the greatest challenges to be solved and the energy industry is often subject to government regulations and incentives. SKF primarily supplies solutions and services for wind turbines, related to the main shaft, generator and gearbox applications. Globalization of the wind energy industry is continuing at a rapid rate, with installations of wind farms accelerating in new emerging markets and off-shore on mature markets. As wind energy is a relatively new power source, growth in the aftermarket sector is developing, and SKF is strengthening its position in this important market. SKF was selected as a supplier to the new Vestas V-112 wind turbine, the largest turbine from the leading manufacturer in the wind energy market.

With ocean energy still at an early phase of development, SKF's product and service knowledge can be found in prototype tidal stream

turbines and wave energy converters around the world. With the power generating applications being submerged or floating on the ocean surface, SKF's solutions are answering the technological challenges as well as equipment's reliability and durability requirements.

In the rapidly expanding solar energy industry, SKF's solutions are commonly found in applications for solar tracking in photovoltaics, concentrating photovoltaics and concentrating solar power. SKF offers integrated solutions for solar tracking where equipment is subjected to harsh temperatures, sand and heavy wind conditions. SKF's solar solutions provide improved reliability, reduced maintenance while maximizing the solar field up-time.

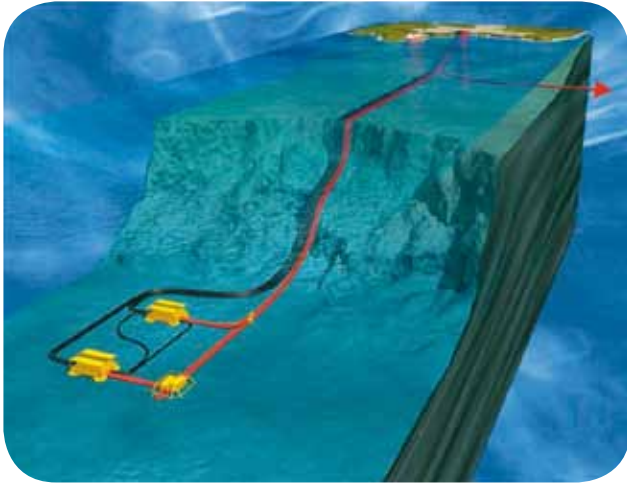


SolFocus is a leading manufacturer of concentrating photovoltaic (CPV) solar energy systems. SolFocus selected SKF's solar linear actuator for their CPV systems based on its high performance and robust design, critical features when it comes to utility-grade solar systems that will operate in the field for more than 25 years. With a fully integrated motor, gearbox and electronics, SKF's solar linear actuator is able to operate reliably in harsh outdoor conditions with virtually no need for maintenance and contributes directly to reduced installation time and cost.

Oil & gas

SKF supports customers at every stage – from drilling, production rigs, sub-sea and floating platforms to refinery and pipeline operators. To meet the rising demand in health, safety and environmental

demands in the industry, SKF offers a range of solutions and services to help customers eliminate equipment root cause failure, thereby increasing reliability and enhancing operational performance.



To ensure future supply from oil and gas reserves, oil companies are finding ways to extend their production. SKF provides product and service solutions to support customers in this work. An example is the Åsgard gas field sub-sea compressor in the Norwegian Sea, where SKF has been awarded a contract to equip the compression trains with magnetic bearings and a remote control mechanism. The compressor bearings will operate 200-300 meters deep on the sea bed. The solution will give the customer a virtually maintenance-free operation and high reliability under extreme conditions.

5. Special industrial machinery, 6% of net sales

Food & beverage

The food and beverage industry is often one of the largest manufacturing sectors in an economy. Average consumer spending on food and non-alcoholic beverages is 25% of income, which makes the industry less cyclical than manufacturing in general.

Key drivers of the industry are higher line-efficiency, energy savings, reducing waste, water and lubricant use, as well as operator and food safety.

In 2011, SKF launched a complete assortment of relubrication-free products – the SKF food line Y-bearing units. The bearing unit features sealing technology that prevents the ingress of water and cleaning fluids in the bearing when the production equipment is cleaned using high-pressure washing.



A beverage producer installed the SKF food line Y-bearing unit and achieved annual savings of around EUR 15,000 in labour and grease costs, as no relubrication is needed. SKF's solution also enhances food safety, as it eliminates the risk of grease leakage.

Machine tools

Achieving higher productivity and reducing the total cost of ownership for end-users, remains a focus in the industry. Machine tool manufacturers are demanding more customized technology solutions for greater speed and precision, as well as intelligent, easier-to-operate machines. Another trend gaining momentum is the drive to increase energy efficiency through friction reduction, applying energy-saving technology and weight reduction. This is supported by major European machine tool manufacturers aiming at setting an industry standard for environmental performances.

SKF has enhanced its super-precision bearing range for the industry. The hybrid super-precision bearings with ceramic balls provide higher energy efficiency performance through lower friction and less heat, due to their lower weight. This can mean up to 100% higher speed and longer bearing and grease life.

Another solution that enables higher process availability in production operations is SKF LubriLean minimal quantity lubrication system that eliminates the need for wet machining when performing cutting operations. Depending on machining conditions, this in turn removes the need for coolant recycling and at the same time reduces energy use by up to 92% compared to wet machining.

Medical & health care

The medical industry evolves around the increase in an ageing population, the growing population in emerging countries and more flexible, automated equipment.

SKF offers solutions for imaging systems equipment used in medical applications, where control of movement and lifting are the fundamental functions.

SKF supplies telescopic pillars and actuators, for lifting and positioning operation tables and platforms that support patients. These products comply with strict safety standards and medical norms. Other offers are bearings for rotation or measuring movements; rail guide equipment for linear motion; and ball screws, commonly used in driving applications.

Marine

SKF's expertise and knowledge in the marine industry centres on the industry's needs to reduce operating and maintenance costs, reduce health and safety concerns and increase the availability of equipment.

SKF offers specialized application engineering services and a range of solutions for ship propulsion and transmission. SKF also has a team of engineers servicing the complete marine value chain with a wide range of asset management services and condition monitoring products that have delivered significant savings for customers.

Lubrication has a critical role in the shipping industry, especially in improving the performance and service life of the machinery and preventing rust and corrosion. SKF's cylinder lubrication unit, which is widely used on large 2-stroke diesel engines, helps to reduce the consumption of cylinder lubricant by up to 30%.



SKF works closely with OEM customers to continuously improve equipment design for better patient comfort and more confident diagnosis. An example is SKF's application in Siemens Healthcare medical technology with a mobile actuation solution, a patient shuttle system, which is used in state-of-the-art equipment for treating cancer with particle therapy technology.



In 2011, SKF secured good positioning with strategic players such as Airbus and AgustaWestland and increased its business in China by 20% compared to 2010.

SKF delivered the first prototypes of aeroengine, airframe and elastomeric bearings, rods, brackets and seals for the new AgustaWestland 4.5 ton AW169 helicopter.

6. Aerospace, 5% of net sales

The aerospace market has almost doubled every decade over the last 40 years. The demand for aircraft and helicopters is expected to be supported by ageing fleets, technology changes/upgrades and enhanced mission capability requirements. SKF services the aero-

space industry, including manufacturers of engines, gearboxes and other modules for fixed wing aircraft and helicopters, as well as providing services to maintenance, repair and overhaul suppliers and airlines.

7. Railway, 4% of net sales

SKF's railway business is today expanding its portfolio further to include other SKF technology platforms. Typical mechatronic solutions in railways are sensors to detect operational parameters and condition monitoring to increase reliability through condition-based maintenance instead of mileage- or time-based maintenance schemes, which are the current standard in the railway industry. In return this means lower maintenance costs for train operators without safety being compromised. An example is the Metro in Barcelona, Spain, that started to use the solution in 2011.

SKF expanded its global network of railway remanufacturing units in 2011, by adding a facility in Pinerolo, Italy. Remanufacturing rail-

way bearings offers customers a more economical solution with shorter lead times, compared to replenishing with new bearings, and it reduces the overall environmental impact.

One of many new contracts for SKF is the order from China Railway Materials Commerce Corporation for bearings for 160 km/h passenger coaches to be used throughout China.

8. Off-highway, 4% of net sales

Market demand for bio-fuel and greater food supply drive the need for enhanced farm productivity. Infrastructure construction is continually expanding, driving demand for earth moving and other construction equipment.

To improve ergonomics and mitigate the risk of hydraulic fluid leakage, manufacturers of construction, agriculture and forestry equipment are moving towards electromechanical actuation for applications previously controlled hydraulically or manually. Legislation concerning fuel consumption is driving a transition to electric, hybrid and more effective traditional drive trains for equipment.

One example of a solution that delivers significant service life improvement to agriculture machinery is SKF's agricultural Y-bearing

unit. It is a versatile bearing that can withstand the tough environment harvesters, balers and combines are exposed to.

To solve a problem with persistent bearing failures in its axial combines, a manufacturer carried out an extensive 500-hour field test of these Y-bearing units. The results were successful and the hours equate to some four years in operation, compared to the conventional bearing's life of one to three years. The increased service life and relubrication-free design of SKF's agricultural Y-bearing units enable farmers to reduce time and money spent on repairs and relubrication, and the manufacturer to solve costly warranty issues.



SKF's cooperation with Scuderia Ferrari Formula One team spans some 60 years – the longest partnership in the history of Formula One – and the agreement was renewed in 2011. It comprises supplying advanced bearing and sealing solutions, and engineering services.

9. Cars and light trucks, 12% of net sales

The passenger car market increased slightly worldwide during 2011, by nearly 3.0% compared with last year, and around 76.5 million vehicles were manufactured. The vast majority of cars delivered during the year used conventional internal combustion engine (ICE) technology. Many new solutions were developed for these types of cars during the year, including the SKF's double clutch bearing set and clutch support angular contact ball bearing. Double clutch transmissions reduce CO₂ emissions and provide a smoother gearshift that translates to a more comfortable ride for car passengers.

OEMs increased their efforts to develop and market hybrid and electric cars to consumers in 2011. To respond to this growth, SKF has developed new solutions in the powertrain area, including the SKF eDrive ball bearing and an upgrade of the SKF Rotor Positioning Sensor-Bearing Unit. These new products increase the reliability and mileage of hybrid and electric vehicles' motor.

SKF's business in fast growing markets continued to expand in 2011. In China, the number of new orders grew significantly. New contracts were awarded by local OEMs such as Beijing Automotive and Shanghai Automotive for wheel end and suspension applications. New orders for bonded piston seals were received from Geely Automotive. Mazda Japan ordered bonded piston seals for the SkyActive-drive six speed automatic transmission.

In Europe, SKF supplied the Bolloré Group in France with several solutions including sensor-bearings and deep groove ball bearings, using ceramic balls, for their electric vehicles. These vehicles will be used in a new car sharing scheme called Autolib in the Paris area. The project is expected to reduce CO₂ emissions by 22,000 tons a year while improving traffic congestion, as fewer Paris residents will need

to own cars. In Germany, SKF strengthened its deliveries to the premium car segment by supplying advanced wheel hub bearing units to BMW for their 5, 6 and 7 series and Mercedes-Benz for their A- and B-class models.

In 2011, SKF joined a consortium of companies, including Volvo Cars, Volvo Powertrain, Torotrak and Flybrid Systems, and started a project with the purpose of developing the next-generation flywheel technology for KERS (Kinetic Energy Recovery System) applications. SKF worked with translating the specifications of the system into an industrialized cost-effective design, evaluating high volume manufacturing.

SKF has received a significant order in the USA, for wheel hub bearings for Ford US's best-selling model, the F150 pick-up. SKF will supply wheel hub bearing solutions with an advanced 4x4 integration system and high performance seals. SKF supplied the front suspension bearings for the Chevrolet Volt – an electric car with an extended range. In March 2011, SKF received the "2010 Supplier of the Year" award from General Motors, based on supplying bonded piston and engine seals. SKF has been supplying bonded piston seals to GM Korea and GM China since 2009.

The 2011 NASCAR season has marked SKF's 14th year in this sport as a sponsor and technical partner. Starting in 2012, a new partnership with the Penske Racing team will allow SKF to test products under the harshest conditions in the NASCAR and IndyCar series.

10. Vehicle service market (VSM), 10% of net sales

The VSM segment sells spare parts for cars, trucks and two-wheelers. SKF's core technical areas are wheel end, engine, driveline and suspension components.

A majority of the business consists of kits – key service components bundled together with the accessories and information needed to carry out a perfect repair. All in one box – identified, tested and assembled by SKF. It is a time-saver for mechanics and a safer choice for car owners. The products are sold to mechanics through SKF's network of independent distributors, as well as via OEM customers and franchised dealers into their service units.

The main factors driving the overall market are: car population growth, car population age, road conditions, product longevity, component value – and most of these factors are pointing in a very positive direction for the aftermarket sector.

SKF has a strong, solid global presence in this market and even though each geographical market has its own characteristics, the success factors are significantly shared: highest quality products, solid OE business, professional logistics, and a long-term focus on installer loyalty through service, training and marketing. SKF is well positioned in the fast growing markets. As an example, the distributor network in China is constantly expanding, which led to more than 50% growth in sales over 2011.

SKF celebrated its 20th anniversary of SKF's timing belt kits in 2011, and the 100 millionth timing belt kit produced in the factory at St. Cyr, France.

The product portfolio was expanded, especially in the wheel-end and engine areas, with 900 new kits launched over the year, making the total number of kits available globally in excess of 19,000 units.

11. Trucks, 4% of net sales

The medium and heavy truck market (above 6 tons) increased in 2011, by 12% year-on-year, and around 2.8 million vehicles were manufactured globally.

Fuel economy and low total cost of ownership are key factors in the truck segment. In 2011, several new products were launched to meet new demands from fleet operators. By reducing friction by up to 30% or more, SKF Energy Efficient tapered roller bearings for a truck's final drive reduce fuel consumption and CO₂ emissions. A truck's final drive is one of the most complicated parts in a truck and offers significant potential for improvement.

SKF continued to supply customers in rapidly expanding markets with both new and existing products. In China, the SKF Split Truck Hub Unit developed for regional demand will be delivered to CNHTC (China National Heavy Duty Truck Group Co. Ltd.) for use in the front

and rear axle of their new truck series. The hub units will be manufactured in SKF's new factory at Jinan, Shandong Province. For SAIC Iveco, a contract was signed to supply truck hub units for their light truck axle. SAIC Fiat Hongyan placed an order with SKF for seals and bearings for their truck engine. In Europe, a contract was signed with Volvo Bus to supply actuators for bus doors. This new mechatronic solution reduces the need for maintenance and repair, and brings reductions of CO₂ emissions compared to the current pneumatic solution. SKF continued to deliver tapered roller bearings for wheel ends and valve stem seals for engines, as well as the SKF Gear Bearing Unit, to Daimler for its heavy duty engine platform. The customized tapered gear bearing unit is designed to accommodate heavy loads and by significantly reducing friction, fuel consumption and CO₂ emissions are lowered.



Photo: Scania

In Brazil, SKF signed a three-year agreement with Scania involving the supply of a number of different types of bearings for truck hub bearing units and transmissions. The agreement is worth around SEK 150 million with deliveries over three years from SKF's factory at Cajamar, Brazil.



The SKF StopGo, a pioneering stop-start system for motorcycles and scooters, was launched in 2011. Benefits include reduction of CO₂ emissions and greater fuel efficiency of up to 10%.

12. Two-wheelers and Electrical, 3% of net sales

Two-wheelers

The two-wheeler market rose by 8% in 2011, year-on-year, and around 60 million vehicles (excluding bicycles) were manufactured globally. The two-wheeler is often the main means of transportation for people and goods in some regions of the world and therefore the loads on the vehicle are sometimes high. Robust products and fuel efficiency are key drivers for this segment.

SKF entered a new segment during the year for bicycles after being awarded a contract by FOX Racing Shox for shock absorber seals for their mountain bike forks.

SKF has worked with major motorcycle companies during the year, supporting them with engineering knowledge and know-how. This collaboration has meant a long-term partnership and technical sponsorship with Ducati Corse and Betamotor.

Honda continued to award contracts to SKF in various markets worldwide. New orders included deliveries of crankshaft bearings, steering column bearings and valve stem seals. SKF also started to deliver bearings for sensor solutions for the electric engine that powers the Brammo motorcycles for off-road competitions. Brammo, a US company, won one race in the National French championship during the year, thereby beating motorcycles run on conventional internal combustion engine (ICE) motors for the first time in history.

Electrical

Customers in this segment include manufacturers of household appliances, electric motors for use in consumer goods, power tools and skates. Saving energy is also an important criterion for customers in this segment.

In Europe, a new order was received from Arçelik for supplying SKF Drum Support Unit for some of their future washing machines. Arçelik is Turkey's largest home appliance OEM, manufacturing washing machines, tumble dryers, refrigerators and ovens. These new washing machines will be launched under three brands: Beko, Blomberg and Arçelik. By receiving a pre-moulded unit from SKF, Arçelik will avoid unnecessary assembly time, material and equipment. An estimated volume for the first year is 100,000 pieces and delivery will start in early 2012.

SKF's divisions 2011

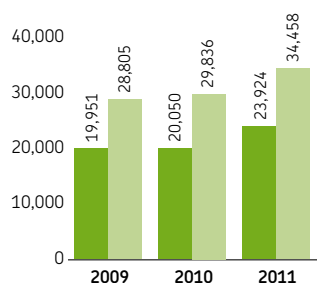
Industrial Division

With manufacturing and operational sites and sales offices across the globe, the Industrial Division works closely with OEM customers to develop new solutions based on the five technology platforms – bearings and units, seals, mechatronics, services and lubrication systems – to bring increasing value to customers. In addition to the products and solutions already available, a series of new market offers was also introduced to the industrial markets during the year, see pages 20–23. Many of these solutions strongly focus on helping customers increase their energy efficiency, as industries play an essential role in global greenhouse gas emission reductions and resource-use efficiency.

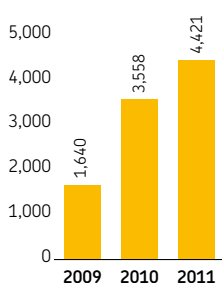
Net sales in 2011 amounted to SEK 23,924 million (20,050), a rise of 19.3%. Sales including intra-Group sales totaled SEK 34,458 million (29,836). The operating profit was SEK 4,421 million (3,558), with an operating margin of 12.8% (11.9). The operating profit includes expenses for restructuring activities and other one-off items of around SEK 60 million (80). The increase in net sales was attributable to organic growth of 12.5%, structure 14.4% and currency effects of -7.6%.

Sales, SEKm*

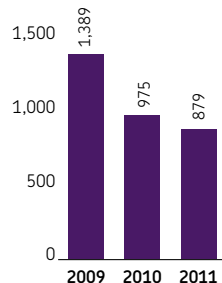
■ Net sales
■ Sales incl. intra-Group sales



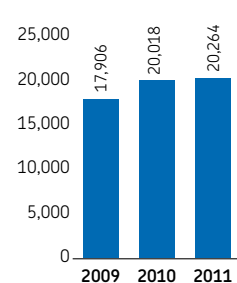
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*

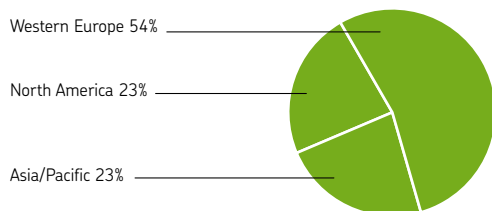


Registered number of employees*

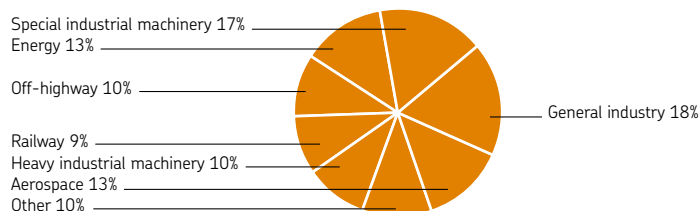


* Previously published figures have been reclassified to conform to Group structure 2011.

Net sales by geographic area



Net sales by customer segment





Interview with Henrik Lange – President, Industrial Division

(as of 1 January 2012 – President, SKF Industrial Market, Strategic Industries)

What was most important for you in 2011?

For me the most important thing in 2011 was creating more value for our customers. Especially pleasing was delivering higher energy-efficient solutions, products and innovations that helped our customers meet their production requirements and market demands.

An example is the SKF agricultural Y-bearing unit, which has an increased service life feature – four years compared with one to three years in conventional bearings. For OEMs, this means significant warranty cost reduction and for end-users it enhances reliability. The relubrication-free design can also mean saving up to 200 kg of grease over the service life of a machine.

We also intensified our presence in Asia to support the rising demand for industrial bearings with a new medium-size bearing factory in Dalian, China, and we set up SKF's first product development office in the region.

Importantly for us, integrating our acquisition of Lincoln with SKF Lubrication Systems began and has been very successful. We established a joint management structure and have high expectations of continued growth in the future.

What are the main opportunities in your business going forward?

Growth remains strong in Asia, in segments such as machine tools, aerospace, railways, the wind-power aftermarket and lubrication systems, and I see these areas as opportunities for us. We are also seeing opportunities for SKF in oil and gas, specifically with our magnetic bearing solutions. Our opportunities will also be driven by our life cycle asset approach to deliver more value to customers via productivity optimization, total cost of ownership reduction, and energy-efficient products and solutions.

What are your priorities over the next few years?

We will continue to work closely with our customers, delivering higher performing and more optimized solutions, coupled with enhanced environmental performance. We will do this by driving home our concept of life cycle asset thinking in our customer relationships. We want to take full advantage of our know-how to support our customers, whether it's making their operations more efficient and reliable, or helping make their next product innovation materialize.

We will also continue to build up our presence in Asia to meet market demand. Besides expanding our geographic presence, we will continue to look for acquisitions.

Sustainable profitable growth is essential for underpinning our continued success. We need to focus on flexibility and cost management via the Business Excellence initiative. We have seen great success with our Manufacturing Excellence work that began a couple of years ago and it is now time to bring our knowledge of this to other business processes.

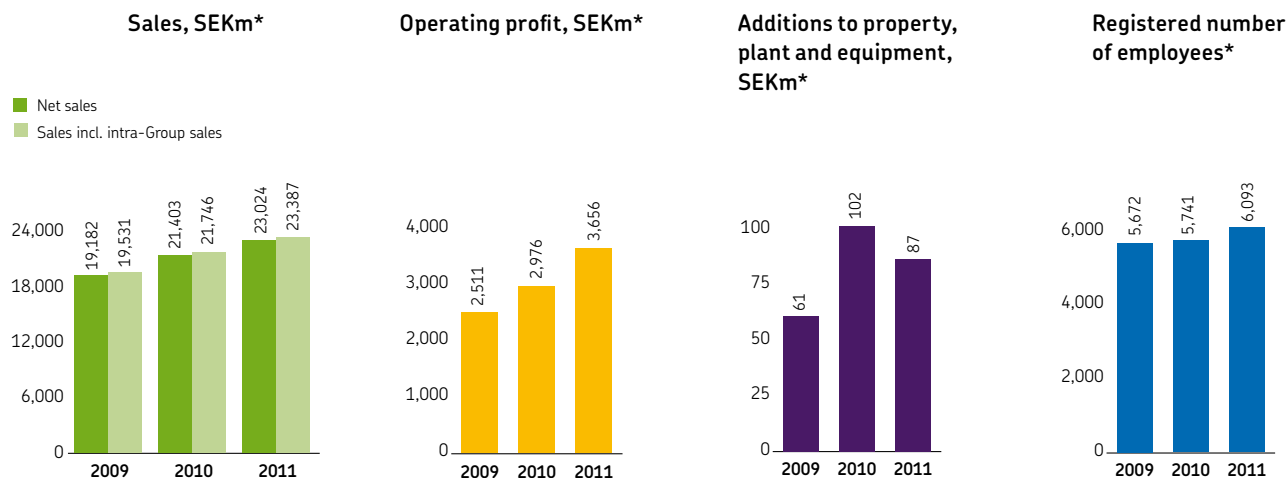
What will change with the new organization? How will customers notice the difference?

Our approach in recent years has been to support the total life cycle asset management needs of the different industries we serve. By combining our manufacturing, marketing, sales and engineering to both OEMs and end-users per industry, we will improve our ability to provide greater value to our customers with solutions based on SKF's five technology platforms.

Service Division

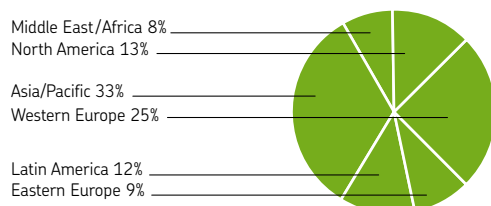
The Service Division serves the global industrial aftermarket providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division has five condition monitoring centres, who design and produce world-leading hardware and software. The expanding network of SKF Solution Factories will be the future infrastructure for delivering complete, integrated solutions and services

incorporating all SKF's technology platforms. The Service Division is also responsible for all SKF's sales in certain markets. Net sales in 2011 amounted to SEK 23,024 million (21,403), a rise of 7.6%. Sales including intra-Group sales totalled SEK 23,387 million (21,746). The operating profit was SEK 3,656 million (2,976), with an operating margin of 15.6% (13.7). The increase in net sales was attributable to organic growth of 14.6%, structure 1.0% and currency effects of -8.0%.

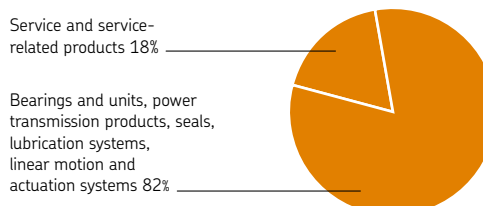


* Previously published figures have been reclassified to conform to Group structure 2011.

Net sales by geographic area



Net sales by customer segment





Interview with Vartan Vartanian – President, Service Division

(as of 1 January 2012 – President, SKF Industrial Market, Regional Sales and Service)

What was most important for you in 2011?

In 2011, focus continued to be on our customers. We met with existing customers and partners through major events like SKF Distributor Conventions and Asset Management Conferences. We also put emphasis on establishing SKF as a partner to new customers in emerging industries.

SKF Asset Management Conferences are scheduled to run on each continent with the whole objective being for customers to share how they can improve the utilization and reliability of their assets. We can clearly show the value we deliver through the SKF Documented Solutions Program (DSP). Many customers attend year after year because it is a reliable forum where they can learn from each other. We are very proud to say that we generated SEK 3.0 billion in documented savings for our customers in 2011.

Distributor conventions are very important as our distributors connect us to over one million customers globally. As our conduit to customers it is thus extremely important to get together, from time to time, to discuss our programmes and charter the way forward to ensure that we continue to offer enhanced value. To back this up we have “More with SKF” programmes to develop our distributors’ businesses and support them in growing sustainably. One example is SKF Distributor Value Program (DVP) that calculates the value our distributors deliver to their customers. Another example is our SKF Distributor College, which is our knowledge sharing and educational scheme, and which reached a milestone in early 2011 in issuing its 100,000th certificate.

One of SKF’s real competitive advantages is its networks of local sales units and distributors who can provide tailored solutions in parallel to meet our customers’ challenges. We also have a global network of SKF Solution Factories, where all of SKF’s offerings are combined to create an environment where our customers come with their challenges and we can find solutions in a one-stop process. The Solution Factories are equipped with knowledge-based engineers, technicians and specialists, as well as repair and remanufacturing operations.

What are your main opportunities going forward?

I would say that the platforms themselves offer great opportunities. Services is a strong growth platform that has continued to expand in all economic cycles. It is a robust platform that we will continue to invest in and grow and we have specific projects to help achieve this goal. We have migrated into areas of sustainability where we can significantly contribute to energy savings at our customers. Take, for example, the problem of misalignment, which is a major cause of energy loss. With our new range of alignment products, launched last year, we are able to help our customers eliminate this problem. With our sealed spherical bearings we are helping eliminate lubricant leaking into the environment. These have been successful offers to industries from mining to metalworking. The food and beverage industry is another area where we contribute to both energy savings and reduced environmental impact. With the use of our dry lubrication systems and dry lubricants, we have been able to save enormous amounts of water and reduce the utilization of oil mixed with water.

What are your priorities over the next few years?

Our main priority is to continue to generate value solutions based on customer requirement. We will do this by focusing on sharing and replicating as well as creating new solutions. We will enhance the infrastructure to deliver value throughout SKF’s organization, SKF’s distributors, certified partners and lubrication system houses. We want to be easy to deal with and simplify complex problems for our customers.

What will change with the new organization?

How will customers notice the difference?

The new organization will be even more knowledgeable about customers’ business and industry. We will have better opportunities of offering industry-specific supply chain solutions. The sales units will pool all their support resources to offer continually consistent service and support.

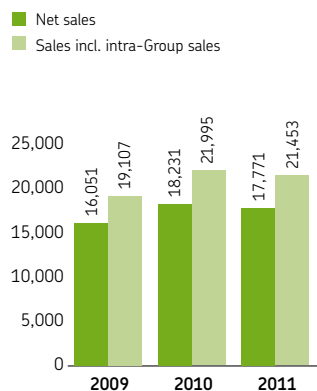
Automotive Division

The Automotive Division serves manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle service market, supporting them in bringing innovative and sustainable solutions to global markets. In addition, the division provides energy-saving solutions for home appliances, power tools and electric motors. Within the Automotive Division, SKF develops and manufactures bearings, seals and related products and services. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, and mechanical and electrical products for

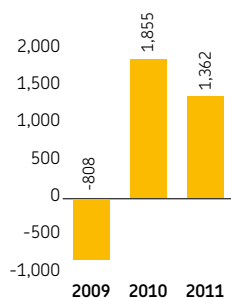
engine, steering and driveline applications. For the vehicle service market, the division provides complete repair kits, including a range of drive shafts and constant velocity joints.

Net sales in 2011 amounted to SEK 17,771 million (18,231), a fall of 2.5%. Sales including intra-Group sales totalled SEK 21,453 million (21,995). The operating profit was SEK 1,362 million (1,855), with an operating margin of 6.3% (8.4). The decrease in net sales was attributable to organic growth of 6.1%, structure -0.9% and currency effects of -7.7%.

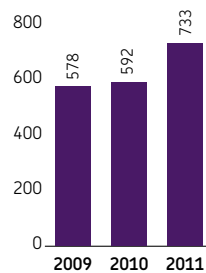
Sales, SEKm*



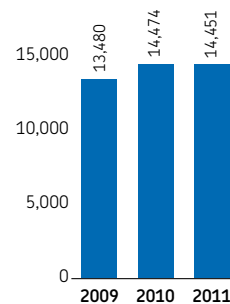
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*

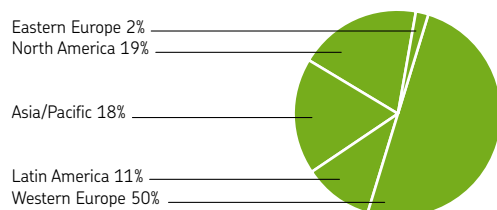


Registered number of employees*

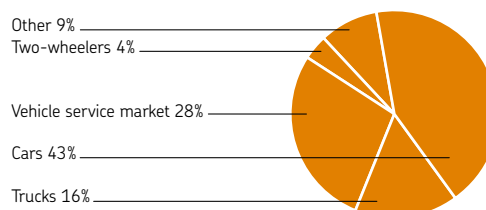


* Previously published figures have been reclassified to conform to Group structure 2011.

Net sales by geographic area



Net sales by customer segment





Interview with Tryggve Sthen – President, Automotive Division

(as of 1 January 2012 – President, SKF Automotive)

What was most important for you in 2011?

The first thing that comes to mind is the significant growth in the rapidly expanding Asian markets, and let me mention one example: We received an order from China National Heavy Duty Truck Company (CNHTC) for a specially developed hub unit to be fitted on the front and rear axle of their new SITRAK truck. We are setting up a manufacturing site close to the customer's facilities in Jinan, China, and the contract is worth around SEK 5 billion, with deliveries stretching over a period of seven years. To further prepare for growing business in the region, we strengthened our development resources in India and China.

Another important trend that is continuing is something we see in many markets and segments worldwide, namely the rising demand for energy-saving solutions and the reduction of CO₂ emissions to fight global warming. We are working hard to develop new products that will help our customers handle this increasing demand from consumers for conventional cars as well as hybrid and electric cars. The new SKF Low Weight Hub Bearing Unit will be used mainly for premium cars, electric vehicles and light commercial vehicles. By significantly reducing the weight of the wheel end, fuel consumption and CO₂ emissions are reduced.

How are you meeting the needs of the rapidly expanding markets?

During the year, we started to build two new factories, in Jinan, China and Mysore, India. In Mysore, we will be able to increase our service to sealing solution customers in India and the South-East Asia region, and benefit from the positive long-term economic trend. We plan to offer our full range of seals manufactured in Mysore to serve a wide range of automotive and industrial applications.

In addition, we are also increasing our manufacturing capacity at existing facilities. We have decided to expand our bearing production for car hub units in Shanghai, allowing us to take advantage of the growth in demand in China for passenger cars. And in Cajamar, Brazil, we increased capacity by an extension to the factory, adding new production lines to serve the domestic Brazilian market. We now have half of our manufacturing capacity in fast-growing regions.

What are the main opportunities in your business going forward?

As mentioned before, the demand for energy-efficient solutions and from rapidly expanding markets is driving development. Quick economic development can be harmful to the environment in a region, and can have a negative impact on people's quality of life. Air pollution is a growing concern in many major cities in developing countries, and one reason why we see an accelerating demand for products to minimize the environmental impact of transportation for people and goods. One example of how we contribute to improving living conditions in these urban areas is the SKF StopGo, which is a stop-start system for two-wheelers. This new solution will save fuel and reduce emissions for both new and existing two-wheelers, as it can also be mounted on an existing two-wheeler. The SKF StopGo is also for the aftermarket and will be very important on markets with a lot of two-wheelers and congested traffic, for example India and Indonesia.

What are your priorities over the next few years?

I see four areas of high priority – the vehicle service market definitely being one. Following the growth of the OEM market for cars, trucks and two-wheelers in different parts of the world, the aftermarket is set for growth in a number of countries. We can see this is already happening – e.g. in China – and 2011 was a year of expansion. We have increased the number of distributors and look forward to more business opportunities.

Second, we need to continue to take advantage of the market growth in rapidly expanding regions. We are currently in these regions with technical centres for developing regional-specific solutions.

Third, we will continue developing energy-efficient solutions for electrical vehicles, hybrid vehicles and conventional vehicles for all the regions we work with.

Fourth and finally, we will also continue to invest in growth and to be close to our customers by developing global and local partnerships.



Interview with Patrick Tong President, PEER Group

The company operates as a stand-alone business, acting independently on the market under its brand name PEER, and provides solutions aligned to customer requirements for normal performance applications. Sales under the PEER brand account for around 1.5% of the SKF Group's net sales.

How much did your sales grow in 2011?

Sales for the PEER operations in 2011 rose by 18% measured in local currencies and compared with 2010.

Are you today selling on a more global basis?

While sales are still mostly to North America, we are today serving a greater number of global customers through new sales units established in Italy and Germany in 2011, in addition to its existing operations in China, the UK and Brazil. Sales in Asia and Europe are relatively small but they are increasing, and as a share of our total sales they grew more than 40% in 2011 over 2010.

What does PEER manufacture?

We mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings at our two factories in Xinchang and Changshan in China. PEER helps the SKF Group strengthen its presence in segments such as agriculture, heating, ventilation, air conditioning and mechanical power transmission.

What were your major achievements in 2011?

Our strength is in application specific know-how for certain industries and we utilized it to launch a number of new products. In 2011, many customers from the agricultural industry adopted our newly launched maintenance-free unit TILLXTREME that offers an eco-friendly solution with longer service life at greater output efficiency of up to 25 extra acres per day.

Another achievement was that PEER's factory in Xinchang and its service and warehouse operation in Chicago, were audited in 2011 and approved as part of the SKF Group's ISO 14001 and OHSAS 18001 global certification.

Interview with Anne-Lie Lind Director, SKF Logistics Services



How would you define logistics?

Logistics for SKF is the management of the flow of components and goods in the most effective and efficient way, from our suppliers to SKF and from SKF to our customers. It involves integrating information, transportation, material handling, inventory management, warehousing, packaging and security.

How does SKF Logistics Services deliver value to SKF customers?

We reach over 50,000 customer sites with short lead times through our global transportation network and global warehouses. In many regions we can deliver the next day.

How does SKF Logistics Services work to reduce environmental impact?

We are continually striving for better energy consumption, reduced waste and lower emissions. We focus on sustainability, both at our warehouses and with transportation, for instance by introducing solar panels in warehouses and using biogas trucks in certain regions.

What were your major achievements in 2011?

One achievement was to expand our logistics footprint to Latin America, and as part of this we inaugurated a distribution centre in Uruguay, which will give customers a wider assortment and shorter lead times. Another achievement was to develop our transportation network in the USA. We established a door-to-door concept with benefits to customers such as shorter lead times, cost reductions, slightly reduced CO₂ emissions and better track and trace giving full visibility to the final address and thereby reducing transportation time.

Could you tell us about something important that will happen in 2012?

A North-East Asia distribution centre will be established in Shanghai. This new distribution centre, will improve service levels to customers in the region. The building will be LEED-certified.



To further improve SKF's logistics structure, a new distribution centre was opened in Montevideo, Uruguay. It will improve support and service to customers and distributors in the region, while helping to reduce both operating costs and capital tied up in inventory. This centre joins the global network of regional distribution centres, which SKF has in North America, Europe and Asia.

SKF started to conform to the Authorized Economic Operator (AEO) certification in 2011 with the aim that all European countries where SKF Logistics Services is active should become AEOs. Sweden, France and Belgium received certification during the year. Receiving the certification recognizes that SKF Logistics Services is seen as a safe, secure business partner in international transportation and logistics.

SKF received a "Best Service Provider" award in 2011 from the Belgian Shippers Council Organization of Traffic Management (OTM). The award honours companies that base cooperation on trust, flexibility and creativity. Important values are relationships and partnerships with customers and suppliers, and a strong focus on employees.

As SKF has the critical mass to distribute goods worldwide, it also helps other companies to optimize their integrated logistics solutions, giving them a competitive edge in terms of costs, services and flexibility. SKF is able to offer global air, sea and road transportation, international distribution centres and local warehouses, packaging and inventory management. SKF has been providing third party logistics services for more than ten years.

As with all the Group's operations, SKF Logistics Services has a clear focus on reducing energy use and related carbon emissions that result from their activities, see page 59.



Interview with Bo-Inge Stensson Senior Vice President, Group Purchasing

Why is there such a major focus on purchasing today?

The annual sourcing volume is around SEK 30 billion, which is around half of SKF's net sales. This means that the impact from purchasing and supply is crucial. SKF's factories need to be close to their customers to provide optimal service and therefore SKF needs local and regional supplier bases that are competitive in terms of quality, cost, and delivery.

What does sourcing volume consist of?

It consists of steel raw material in terms of bars, wires and tubes and components based on steel as hot rolled, forged and turned rings, balls, rollers, sheet metal cages and shields. It also consists of components of aluminum, brass, zinc, iron, polymer, plastics and ceramics. We also purchase electronic and electrical components, factory shop supplies and services, heat and surface treatments, grease, oil, energy and capital equipment.

How do you manage sourcing operations around the world?

We have a central purchasing organization that manage all SKF's spending and the entire supplier network. The central organization coordinates with SKF's four sourcing offices in different parts of the world to leverage SKF's purchasing power and the supplier base. This structure ensures also that local and regional requirements are fulfilled.

What are your four sourcing offices' main objectives and where are they located?

They manage the sourcing and supply operation for supporting our manufacturing facilities around the world. We have one sourcing office in Shanghai covering China and one in Pune, focusing on the Indian supplier market. The European sourcing office is based in Gothenburg and covers Europe, the Middle East and Africa. The Chicago sourcing office covers North, Central and South America.

How can purchasing and supply chain management contribute to delivering more value for SKF's customers?

By reducing total sourcing costs, securing supplies from our approved supplier base and developing global suppliers who are fully aligned with SKF's demands. Continually developing demand-driven supply chains with our suppliers and constantly evolving with them is important for reducing total costs, reducing capital employed and cutting lead times in the supply chain. A key focus area is the SKF Responsible Sourcing Programme, which ensures that we source from approved suppliers meeting our EHS standards and the SKF Code of Conduct.



Steel tubes



Steel wire



Steel bars

Purchasing and supply chain management

Commodity pricing hardened during the first six months of 2011 for SKF's sourced materials, but a softening trend was seen in the latter part of the year, mainly driven by declining growth in the world economy. However, raw material costs for SKF at the end of 2011 were on a higher level than the average level for 2010. Knowledge about how the global commodity markets work, taking into account fundamentals, sentiment, and the global economy, is key for timing when to enter new contracts, securing supply and thus minimizing the supply chain risk.

Supply chain management is becoming more important, as the world becomes more connected. By working with dual sourcing schemes, mapping supply chains and understanding where the bottlenecks are, SKF reduces supply chain risks. The key enablers are to work with SKF's approved supplier bases and the close collaboration between the sourcing offices.

SKF achieved significant cost savings during the year by working in cross-functional teams with SKF product development and manufacturing, reviewing product specifications and product design, and involving suppliers at an early stage. SKF also achieved significant savings in sourcing of capital equipment, by working with new suppliers and through equipment standardization. These savings play an important role in helping to offset high raw material prices and surcharges. Another successful activity was the launch of a "Zero Defect" scheme with suppliers.

The work continued to focus on developing a local supplier base in China and India. Today more than 80% of all suppliers are local in both countries.

SKF's focus on establishing strategic suppliers resulted in a strategic partnership agreement with one of its major Asian steel supplier, CITIC Pacific Steel, in China.

Personnel training and development are other important areas. "SKF Purchasing and Supply Chain round tables" have been successfully held in China and India. SKF invites other companies to share their best practices and benchmark leading supply chain practices in purchasing and supply chain management.

To strengthen the relationship with top suppliers, SKF invited 100 of them to SKF's global supplier award day in March to share SKF's strategy and targets. On the day SKF presented "Best Supplier" awards for quality, cost, delivery, innovation and management, including social and environmental responsibility.

To assure a responsible sourcing and supply chain, SKF has taken a number of steps in recent years to ensure that suppliers are fully aware of the SKF Code of Conduct. SKF Code of Conduct for Suppliers and Sub-contractors is part of SKF's general conditions of purchase

as well as supplier requirements being defined in the SKF Quality Standard for Suppliers. By adhering to this standard, suppliers confirm the adoption of SKF Code of Conduct, Environment, Health and Safety and the Zero Defects concepts.

Major suppliers are also expected to develop management systems according to international standards ISO14001 (Environment) and OHSAS 18001 (Occupational Health and Safety). Since 2006, major suppliers are also required to issue their own code of conduct in line with SKF's.

SKF has a number of tools and procedures to support progress in this area, these are:

- The Supplier Quality Audit system, to ensure that the code of conduct and environmental, health and safety aspects are regularly evaluated at on-site audits for major suppliers, along with other critical aspects.
- A specific, detailed supplier Code of Conduct auditing procedure, in which various SKF staff from the purchasing organization have been trained. Around 100 specific supplier code of conduct audits have been completed over the last two years.
- Specific requirements related to energy management and carbon emissions defined for energy intensive suppliers – described on page 60.
- A risk assessment process which allows targeted auditing of higher risk suppliers from SKF's complete supplier base (larger as well as smaller suppliers). The process ranks the risk of environmental or human rights issues based on variables such as location, organization, size and manufacturing/supply processes.
- A strong governance structure and process, established to assure that all the above is effectively developed and deployed, and that appropriate measures are taken when suppliers' code of conduct deviations occur.

At the end of 2011, 126 of 158 major suppliers had issued their own code of conduct in line with the SKF Code of Conduct and 122 were ISO 14001 certified. Since 2009 3,150 supplier risk assessments have been carried out. Based on these assessments more than 60 audits were completed during 2011. In total 12 suppliers with significant deviations have been found within the period of 2009-2011, for 9 of those the deviations are closed while actions for closing deviations are ongoing for three suppliers.

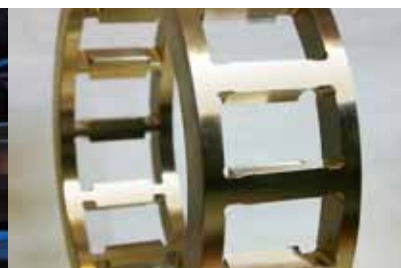
For the fifth consecutive year SKF's Responsible Sourcing Program was top ranked by DOW Jones Sustainability Index "Standards for Suppliers".



Polymer and plastics



Hot rolled rings



Brass components



In 2011, SKF's second bearing factory in Dalian, China was inaugurated. The factory produces industrial, medium size bearings and will help to significantly reduce lead times and create closer interaction with key customers. At the end of the year, SKF had 13 factories in China.

Capacity and technology investments

In 2011, SKF inaugurated its second bearing factory in Dalian, China. The factory produces medium size bearings, which complements the range of large size bearings produced at the existing factory opened in 2006. SKF had 13 factories in China at the end of 2011.

SKF also announced the construction of two new factories, one in Jinan, China, which will support the rapid growth of SKF's business in China and Asia. The factory will be fully operational by the first half of 2012, initially employing about 500 people and primarily manufacturing tapered roller bearings and truck hub bearing units. This investment of around SEK 590 million. The other factory will be in Mysore, India, built for sealing solution customers in India and the South-East Asia region. There will be a full range of seals manufactured in Mysore to serve a wide range of automotive and industrial applications. The factory will start deliveries in 2012. These new factories, as with all new SKF facilities, are built to the LEED standard.

SKF also decided to expand its bearing production for car hub units in Shanghai, to take advantage of the growth in demand in China for passenger cars. And in Cajamar, Brazil, SKF increased capacity by an extension to the factory, adding new production lines to serve the domestic Brazilian market.

SKF inaugurated its Global Technical Centre (GTCI) in Bengaluru, India at the end of 2011. The opening of the GTCI further reinforces SKF's strategy both to bring technology development closer to its customers and to fully utilize its global presence and resources to develop product innovations across its five technology platforms - bearings, seals, mechatronics, lubrication systems and services. The new GTCI will incorporate the existing Global Testing Centre, opened in 2009 and the Automotive Development Centre, opened in 2004, both of which are located in Bengaluru. SKF has invested around SEK 75 million in GTCI. It will employ around 400 engineers in product engineering and development, as well as in laboratories for testing metallurgy, chemistry and bearing performance analysis. GTCI will have a strong focus on serving customers in India and South-East Asia, as well as global projects for SKF. The GTCI has also been built in accordance with the LEED standard.

Acquisitions and divestments

SKF completed two agreements in line with its strategy to divest non-core component manufacturing:

On 1 February 2011, the forging business OMVP, in Villar Perosa, Italy was sold to the German-based company Neumayer Tekfor Holding GmbH. OMVP has about 550 employees and net sales of around EUR 100 million, mainly to SKF.

At the beginning of Q2, the cage factory in Gothenburg was sold to the Japanese component manufacturer Nakanishi Metal Works Co., Ltd. The factory has 130 employees and will continue to supply SKF.

Additionally two other minor divestments were completed during 2011 as well as one minor acquisition.

More details about acquisition and divestments can be found in Consolidated financial statements, Note 3 and 4.

Lincoln

The integration of Lincoln, which was acquired at the end of 2010, focused on capturing business growth and generating synergies. A key focus is on further developing SKF and Lincoln's distributor network to expand its business through a wider portfolio of SKF and Lincoln branded products. This has already resulted in strong growth in the lubrication business. Work to combine the R&D activities was started and the joint R&D efforts have already led to a number of patents being filed for new solutions. On the personnel side, corporate culture and value training has been carried out to introduce the new employees to SKF.

Lincoln complements SKF's existing lubrication business of geographical sales coverage, technology and manufacturing presence.

Shares and shareholders

SKF's shares as of 31 December 2011

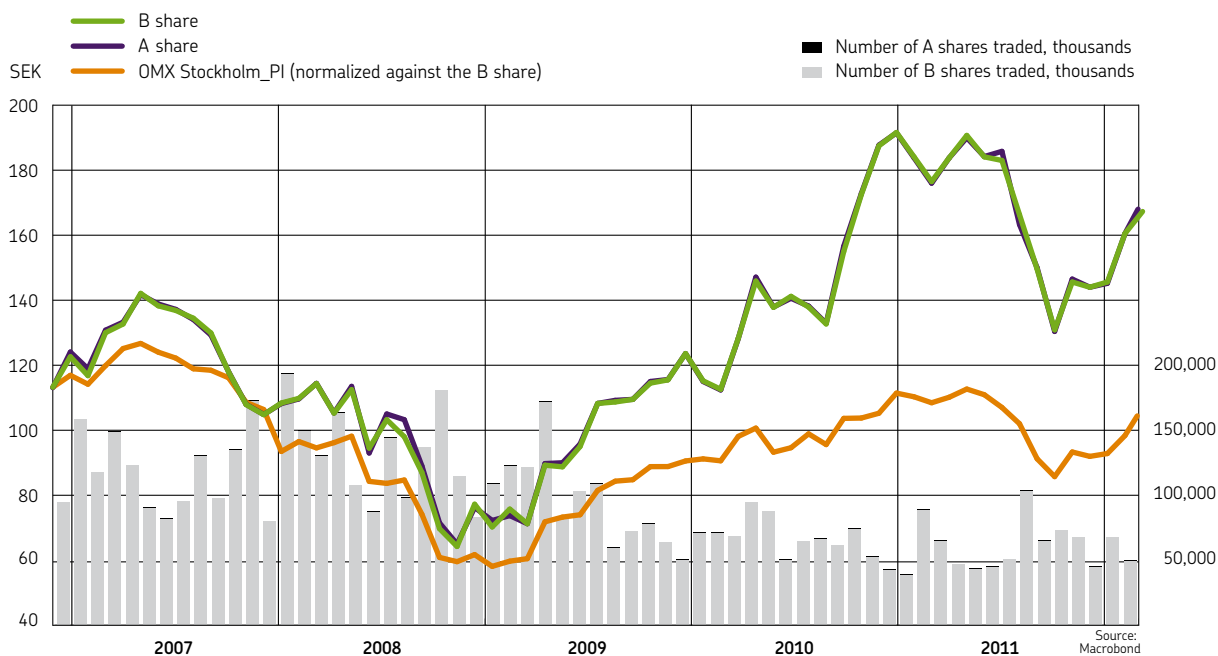
SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914. The total number of shares traded in 2011 was 735,202,267. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	42,949,482
B shares, unrestricted	412,401,586
Total	455,351,068

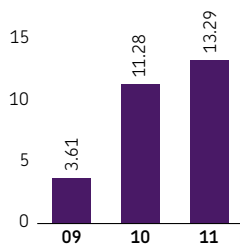
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 1,966,122 A-shares were converted to B shares in 2011.

A-shares are constituting 9.4% of total number of shares, to be compared to 9.8% in December 2011 and 43.3% in December 2001.

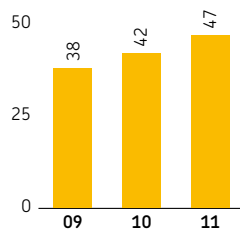
Price trend of SKF's shares



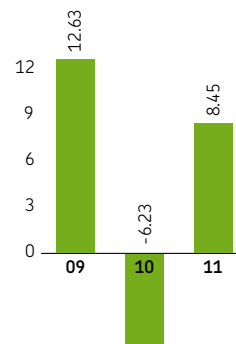
Basic earnings per share, SEK



Equity per share, SEK



Cash flow after investments, before financing per share, SEK



Per-share data (definitions, see page 158)

Swedish kronor/share unless otherwise stated	2012	2011	2010	2009	2008	2007	2006	2005
Earnings per share		13.29	11.28	3.61	10.14	10.09	9.48	7.73
Dividend per A and B share		5.50 ¹⁾	5.00	3.50	3.50	5.00	4.50	4.00
Total dividends, SEKm	2,504 ¹⁾	2,277	1,594	1,594	2,277	2,049	1,821	1,366
Redemption per share		–	–	–	–	5.00	10.00	–
Total redemption, SEKm		–	–	–	2,277	4,554	–	2,846
Purchase price of B shares at year-end on NASDAQ OMX Stockholm		145.60	191.60	123.60	77.25	104.79	113.22	99.80
Equity per share		47	42	38	41	40	42	38
Yield in percent (B)		3.8 ¹⁾	2.6	2.8	4.5	4.8	4.0	4.0
Yield in percent (B), incl. share redemption		–	–	–	–	9.5	12.8	–
P/E ratio, B (share price/earnings per share)		11.0	17.0	34.2	7.6	10.4	11.9	12.9
Cash flow, after investments and before financing, per share		8.45	-6.23	12.63	0.14	4.67	4.74	5.25

¹⁾ According to the Board's proposal for the year 2011.

The ten largest shareholders

	A shares	B shares	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
Foundation Asset Management	21,000,000	37,850,000	58,850,000	24,785,000	29.4	12.9
Swedbank Robur Funds	2,157,666	17,822,338	19,980,004	3,939,899	4.7	4.4
Alecta	2,192,404	17,602,200	19,794,604	3,952,624	4.7	4.3
AMF Pension	0	16,960,000	16,960,000	1,696,000	2.0	3.7
Nordea Investment Funds	0	10,631,505	10,631,505	1,063,150	1.3	2.3
SEB Investment Management	187,842	7,313,512	7,501,354	919,193	1.1	1.6
Folksam	0	7,417,283	7,417,283	741,728	0.9	1.6
First Swedish National Pension Fund	0	7,308,727	7,308,727	730,872	0.9	1.6
Handelsbanken Funds	24,495	6,463,154	6,487,649	670,810	0.8	1.4
Second Swedish National Pension Fund	0	4,804,775	4,804,775	480,477	0.6	1.1
	25,562,407	134,173,494	159,735,901	38,979,753	46.4	34.9

Source: Euroclear Sweden AB's public share register as of 31 December 2011.

Foundation Asset Management Sweden AB (FAM) is the only shareholder with a shareholding representing at least 10% of the voting rights in SKF.

As of 31 December 2011, about 36% of the share capital was owned by foreign investors, about 55% by Swedish companies, institutions and mutual funds and about 9% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, so that the actual shareholders are not officially registered.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	55,994	81.8	18,836,623	4.14
1,001 – 10,000	11,140	16.3	30,803,042	6.76
10,001 – 100,000	1,001	1.5	28,161,811	6.18
100,001 –	272	0.4	377,549,592	82.92
	68,407	100.0	455,351,068	100.00

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2011.

Changes in share capital 1982–2011

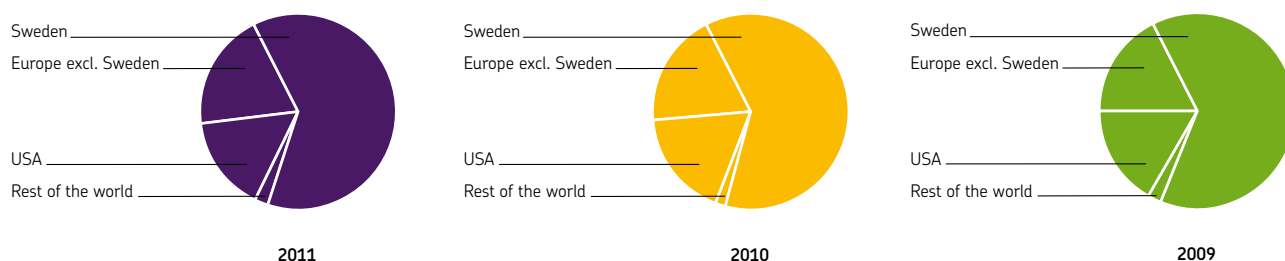
	Amount paid SEKm	Share capital SEKm	Number of shares in millions	Quoted value per share, SEK
1982 Bonus issue 1:4	–	1,350	27.0	50.00
1989 Split 4:1	–	1,350	108.0	12.50
1990 Conversion of debentures	62	1,412	113.0	12.50
1997 Conversion of bonds	11	1,423	113.8	12.50
2005 Split 5:1 and redemption	–	1,138	455.3	2.50
2007 Split 2:1 and redemption	–	1,138	455.3	2.50
2008 Split 2:1 and redemption	–	1,138	455.3	2.50

Share savings fund for employees

SKF Allemansfond, a national security savings fund for SKF employees in Sweden was started in 1984. On 31 December 2011, the SKF Allemansfond had 3,504 members. 32.1% of the fund was invested in SKF's shares. Assets amounted to SEK 134 million.

Geographic ownership

Source: SIS Ownership Data Corp.



There are currently more than 40 analysts who analyze and follow SKF and give recommendations on the shares. Names and companies can be found at www.skf.com. Go to "Investors", then "The shares" and then "Analysts".

Additional information

There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge, there exist no agreements between shareholders limiting the right to transfer SKF shares (e.g. by preemption or first refusal clauses). No limitations exist limiting the number of votes which each shareholder may cast at a shareholders' meeting.

There are no existing agreements between SKF and any Board member or employee, which allow them to receive compensation in case of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid on the shares in AB SKF.

AB SKF Stock Fund in the USA

SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds. Through 31 December 2010, deferrals could be invested in an AB SKF Stock Fund. Effective 1 January 2011, deferrals and transfers into this fund are no longer permitted, although employees could maintain balances existing at 1 January 2011. The employees have no direct voting rights based on the shares held in the fund. The fund held 688,148 SKF B shares at the end of 2011.

Financial objectives and strategy

SKF's overall financial objective is to create value for its shareholders. Over time, the return on shareholders' investment should exceed the risk-free interest rate by around five percentage points. This is the basis for SKF's financial objectives and SKF's financial performance management model.

Financial targets

SKF's long-term financial targets were announced in October 2010. The targets are:

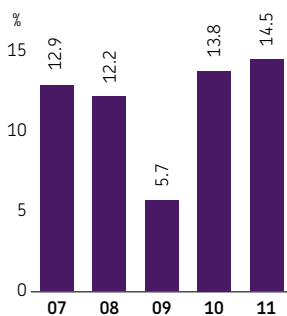
- an operating margin level of 15%
- annual sales growth in local currencies of 8%
- a return on capital employed of 27%.

Strategy

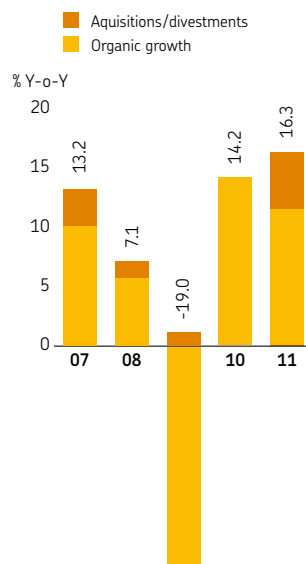
SKF's business strategy for achieving long-term profitable growth and attaining financial targets includes:

- keeping a clear and dedicated customer focus
- strengthening the product portfolio through greater investment in R&D and through acquisitions
- developing new products, solutions and services based on innovative technology, which helps to achieve a better environmental performance
- creating and capturing more value by applying the SKF platform and segment approach
- focusing on rapidly expanding segments and regions
- using Business Excellence to improve efficiency in the business and to reduce capital tied up
- attracting, retaining and developing the right people
- developing and protecting the SKF brand.

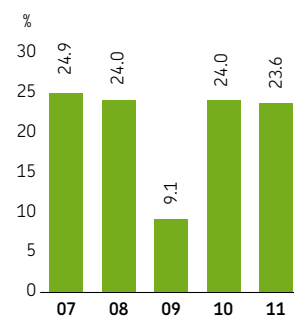
Operating margin



Changes in sales in local currency



Return on capital employed





Financial performance management model

SKF's financial performance management model is a simplified, economic value-added model, called Total Value Added (TVA), promoting a greater operating profit, capital efficiency and profitable growth.

TVA is the operating profit, less the pre-tax cost of capital in the country where business is conducted. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 5% above the risk-free interest rate for the equity part and on actual borrowing cost. The TVA performance for the Group correlates well with the share price trend over a longer period of time. Variable salary schemes are primarily based on this model.

Financial position and dividend policy

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December 2011, the gearing was 48.9% (48.6), the equity/assets ratio 37.8% (36.6) and the net debt/equity ratio 72.5% (80.5).

Gearing: Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity, all at year-end.

Equity/assets ratio: Equity as a percentage of total assets at year-end.

Net debt/equity: Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year-end.

SKF's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow, while taking into account the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend should amount to around one half of SKF's average net profit calculated over a business cycle.

If the financial position of the SKF Group exceeds the targets stated above, an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or a repurchase of the company's own shares. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend

Based on the strong performance, cash generation capacity and outlook, the Board has decided to propose to the Annual General Meeting an increase in the dividend by 10%, giving a dividend of SEK 5.50 (5.00) per share. This proposal is subject to a resolution by the Annual General Meeting in April 2012. See page 137, Proposed distribution of surplus.

Repurchase of the company's own shares

The Board proposes that the Annual General Meeting should resolve to authorize the Board, until the next Annual General Meeting, to decide upon the repurchase of the company's own shares. The intention of this proposal is to be able to adapt the capital structure of the company to its capital needs in order thereby to contribute to increased shareholder value. According to the proposal, the authorization will involve Class A shares as well as Class B shares. The maximum number of shares to be repurchased will be such that the company then holds a maximum of 5% of all shares issued by the company. The shares may be repurchased by operations on the NASDAQ OMX Stockholm AB. The proposal is subject to a resolution by the Annual General Meeting in April 2012.

The Annual General Meeting in April 2011 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2011, no repurchases were made and the company owns no SKF shares.

Credit rating

On 31 December 2011, the Group had an A minus (A-) rating with stable outlook for long-term credit from Standard and Poor's and an A3 rating with stable outlook from Moody's Investors Service. SKF intends to keep a strong credit rating, which is reflected in its capital structure targets.

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December 2011, the average maturity of SKF's loans was 4.0 years. SKF has two notes issued on the European bond market, one with an outstanding amount of EUR 396 million and a due date of 2013 and another note of EUR 500 million due 2018. Furthermore, SKF has issued one note of EUR 100 million on the Swedish market with a due date in 2015.

According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company in combination with a rating downgrade to a non-investment grade as a consequence of this. Change of control meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF's shares carrying more than 50% of the voting rights.

Since SKF has relatively standardized loan documentation similar conditions also apply to other loan agreement.

In addition to the loans mentioned above SKF also has four loans, two with due date in 2014, EUR 30 million and EUR 100 million and two with due date in 2016 and 2017 of EUR 100 million and SEK 1,000 million.

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

SKF 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. SKF hedges 75% of the estimated net USD exposure for three to twelve months. At year-end, the hedging with derivatives conformed to the Group policy. Translation exposure on Group accounts is hedged to some extent by borrowing in foreign currencies.

Interest rate risk

Liquidity and borrowing are managed at Group level. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

Credit risk

The Group policy states that only well-established financial institutions will be approved as counterparties. Exposure per counterpart is continuously monitored.

Liquidity risk

In addition to its own liquidity, AB SKF had committed credit facilities of SEK 3,000 million with a due date in 2017 and EUR 500 million with a due date in 2014.

More details about risk management and hedging activities can be found in Consolidated financial statements, Note 28.

Sensitivity analysis

Costs

This analysis shows how changes of a number of factors will affect the Group's operating profit for a year. Calculations are based on year-end figures as well as on the assumption that everything else is equal.

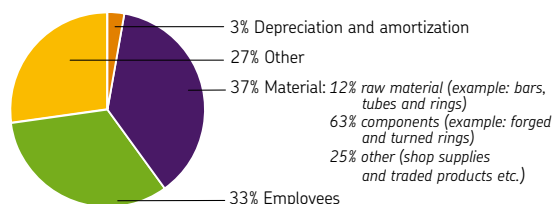
- The annual cost of raw materials and components is around SEK 17 billion of which steel-based products account for the majority. An increase/decrease of 1% in the cost of raw materials and components reduces/increases the operating profit by around SEK 170 million. Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices increase/decrease SKF's operating profit by SEK 140 million, which is already included in the figure for raw materials and components that impacts the operating profit.
- An increase of 1% to wages and salaries (including social security charges) reduces the operating profit by around SEK 170 million.
- A decrease/increase of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 70 million, based on the current position. The Group had net interest bearing liabilities of SEK 15,604 million on 31 December 2011.

Exchange rates

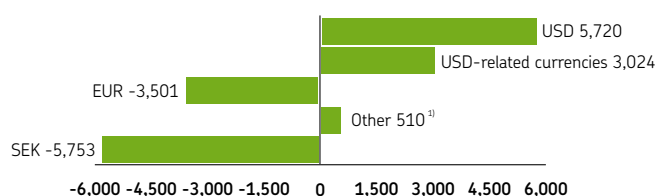
Translation effects: A weakening/strengthening of 5% of the SEK versus all major currencies has a positive/negative effect of the translation of profits in SEK of around SEK 400 million. Most of the profit is made outside Sweden, meaning the Group is exposed to translational risks, from all major currencies.

Transaction effects: A strengthening/weakening of 5% of the USD versus the SEK has a positive/negative net currency flow effect on the profit before tax of around SEK 300 million, excluding effects from hedging transactions. With regard to commercial flows, the Group is primarily exposed to the USD and USD-related currencies against SEK and EUR.

Cost split 2011, operating expenses SEK 56,624 m



Net currency flows 2011 (SEKm)



¹⁾ Other is a sum comprising 10 different currencies.

Internal control and risk management regarding financial reporting

The Group's systems for internal control and risk management in relation to the preparation of the Consolidated Financial Statements are described in the Corporate Governance Report under the heading "Internal control and risk management regarding financial reporting", pages 152-153.

Risks and uncertainties in the business

The company operates in many different industrial and automotive segments, as well as in many geographical segments with dissimilar business cycles. A general economic downturn at a global level, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in world-wide financial markets, could have a negative effect on the demand for the Group's products and services. There are also political and regulatory risks associated with the wide geographical presence. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group's operations. These risks are also applicable for the Parent company as it is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower dividend income for the parent company, as well as a need for write-down of the values in the shares in subsidiaries. Due to the wide spread of markets, geographically as well as operationally in which the subsidiaries operate, the risk that the financial position for the parent company will be negatively affected is assessed as small.

In November 2011, SKF and other companies in the bearing industry became part of an investigation by the European Commission regarding a possible violation of EU antitrust rules. Given the nature of these investigations, the outcome may affect the Group's results and cash flow with an amount that may be material. It is however too early to assess whether and when such an effect may occur and hence can be accounted for.

SKF's policies and the SKF Code of Conduct

SKF applies the principles of sound corporate governance by maintaining an efficient organizational structure with clear areas of responsibility, transparent financial reporting and good corporate citizenship. The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act, and the regulatory system of the NASDAQ OMX Stockholm. SKF Corporate Governance Report can be found on pages 144-153.

Good internal controls are necessary for achieving business targets and meeting the expectations of shareholders, customers, suppliers and other external parties. It is also necessary for safeguarding the Group's assets and ensuring that all information used for business decisions is of the highest possible quality.

Building on the work completed to assure SOX compliance, SKF introduced the SKF Internal Control Standard (SICS) in 2008, applicable to all companies, divisions, business areas, departments and functions in the Group. The objective of this standard is to ensure that a basic, consistent system of internal control is maintained throughout the Group. SICS is based on the COSO framework.

Adherence to the standard is monitored by SKF's Board of Directors' Audit Committee, Group Audit and the finance organizations of the companies, divisions and the Group. Periodic audits are carried out to ensure that internal control is maintained at the required level.

Fraud risk assessments are carried out annually by Group Audit. These are based on the corruption index issued by Transparency

International, as well as other internally determined fraud risk parameters. The fraud risk assessment is mainly used for determining the legal units to be audited.

During 2011, SKF launched a new anti-corruption programme. This programme includes a new Group Policy for Anti-Corruption and Anti-Fraud, which applies to any company within the SKF Group and its relationships with other parties. It also includes an interactive video based learning tool. The training is compulsory for all SKF employees with a company email address. The completion of this training will be followed up using SKF's recently launched competency management system.

A new web-based e-learning about fraud awareness is currently being developed and is expected to be launched globally in 2012. The previous version was launched in 2008 and covered different types of fraud, fraud risk management and SKF's whistle-blowing procedures. The new training will cover the same scope as the previous training but is more comprehensive and will be hosted on SKF's Learning Management System to provide improved follow-up. The training is mandatory for all financial managers and local management.

The Group takes all allegations and complaints submitted seriously. Assessments and investigations are carried out immediately. For more significant cases, external auditors are assigned to the investigation. No case of fraud was discovered in 2011.

The SKF Code of Conduct was issued in 2002 and was updated and re-launched in 2007 in a new publication called the SKF Commitment. Available in eighteen languages, the SKF Commitment covers SKF's Vision, Mission, Drivers, Values and Code of Conduct. It was distributed to all employees and discussion workshops with presentations and workgroup exercises are organized locally.

In 2004, SKF introduced internal auditing of compliance with the Code of Conduct at its units. The audit was integrated into the ISO 14001/OHSAS 18001 audit process, and units were inspected at bi-annual intervals by corporate audit teams. The audit procedure was improved in 2008 by introducing a non-financial risk assessment. This incorporates human rights principles, ethics, environmental issues plus health and safety risks. The objective is to vary the audit frequency according to risk, putting more focus on high risk (such as newly acquired units), and less on long-established units that have shown a good performance. The nominal audit frequency remains biannually, but may vary from annually to once every three years, depending on the assessed risk. See page 64 for a summary of the Code of Conduct compliance audits completed in 2011.

Besides the SKF Code of Conduct, the SKF Group Antitrust Policy, the SKF Group Anti-Corruption and Anti-Fraud Policy and the SKF Group Policy on the Use of Gifts and other Favours to Promote Business Contacts and Relationships, are in place to promote free and fair trade as well as to endorse honesty and integrity in business relations. All policies are governed by the legal department.

Counterfeit products

SKF supported authorities in more than 230 legal actions during 2011 against suspected counterfeit bearing dealers and manufacturers around the world. In all of the cases counterfeit products were involved. Counterfeit products of all types pose a risk to people and the global economy. SKF focuses on protecting customers, to prevent unexpected down-time, bodily harm to machinery operators and financial damage. The threat to society by fake products is now universally recognized and continuous support to law enforcement, customs and other authorities makes up the majority of SKF's anti-counterfeit work. As a consequence of this, in addition to supporting law enforcement, SKF also works intensively to increase awareness about counterfeits in the market and the need to use safe sources.

AB SKF's Board's proposal for principles of remuneration for Group Management

Introduction

The Board of Directors of AB SKF has decided to submit the following principles of remuneration for SKF's Group Management to the Annual General Meeting 2012. Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The objective of the principles is to ensure that the SKF Group can attract and retain the best people in order to support the SKF Group's mission and business strategy. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests.

The total remuneration package for a Group Management member consists primarily of the following components: fixed salary, variable salary, performance shares, pension benefits, conditions for notice of termination and severance pay, and other benefits such as a company car. The components shall create a well balanced remuneration reflecting individual performance and responsibility as well as the SKF Group's overall performance.

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. It will be based on competence, responsibility and performance. The SKF Group uses an internationally well-recognized evaluation system, International Position Evaluation (IPE), in order to evaluate the scope and responsibility of the position. Market benchmarks are conducted on a regular basis. The performance of Group Management members is continuously monitored and used as a basis for annual reviews of fixed salaries.

Variable salary

The variable salary of a Group Management member runs according to a performance-based programme. The purpose of the programme is to motivate and compensate value-creating achievements in order to support operational and financial targets.

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF financial performance management model called Total Value Added (TVA). TVA is a simplified, economic value-added model. This model promotes greater operating profit, capital efficiency and profitable growth. The TVA profit is the operating profit, less the pre-tax cost of capital in the country in which the business is conducted. The TVA result development for the SKF Group correlates well with the trend of the share price over a longer period of time.

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 40% and 70% for Group Management members.

If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary will not exceed 70% of the accumulated annual fixed salary of Group Management members.

Performance Shares

Since 2008 SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees (SKF's Performance Share Programmes 2008 - 2011). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2012. The terms and conditions of the proposed SKF's Performance Share Programme 2012 are in essence the same as the terms and conditions of SKF's previous performance share programmes, covered by the principles of remuneration for Group Management decided at the Annual General Meetings 2008 - 2011.

It is proposed that the programme covers a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares.

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2012, and the TVA development for the financial year 2014 compared to the financial year 2012. Under the programme, no more than 1,000,000 B shares may be allotted.

Based on the TVA for the financial year 2012, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

CEO and President	10,000 shares
Business area Presidents and Executive Vice President	5,000 shares
Other members of Group Management	3,500 shares
Managers of large business units and other senior managers	1,250 - 1,800 shares

Following the expiry of the financial year 2014 a comparison is made between TVA for the financial year 2012 and TVA for the financial year 2014. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminarily allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminarily allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

CEO and President	20,000 shares
Business area Presidents and Executive Vice President	10,000 shares
Other members of Group Management	7,000 shares
Managers of large business units and other senior managers	2,500 - 3,600 shares

The participants shall not provide any consideration for their rights under the programme.

Assuming maximum allocation under SKF's Performance Share Programme 2012 and a share price of SEK 140, the cost, including social security costs, is estimated at around SEK 168 million. On the basis of a share price of SEK 180, the cost, including social security costs, is estimated at around SEK 216 million. In addition, administrative costs are estimated at around SEK 2 million.

Other benefits

The SKF Group provides other benefits to Group Management members in accordance with local practice. The accumulated value of other benefits shall, in relation to the value of the total remuneration, be limited and shall, as a principle, correspond to what is customary on the relevant market.

Other benefits can for instance be a company car, medical insurance and home service.

Pension

The SKF Group strives to establish pension plans based on defined contribution models, which means that a premium is paid amounting to a certain percentage of the employee's annual salary. The commitment in these cases is limited to the payment of an agreed premium to an insurance company offering pension insurance.

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. It is proposed that the normal retirement age for Group Management members is increased from 62 to 65 years.

Notice of termination and severance pay

A Group Management member may terminate his/her employment by giving six months' notice. In the event of termination of employment at the request of the company, employment shall cease immediately. The Group Management member shall however receive a severance payment related to the number of years' service, provided that it shall always be maximized to two years' fixed salary.

The Board of Directors' right to deviate from the principles of remuneration

In certain cases, the Board of Directors may deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration for Group Management

The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of a maximum of four Board members. The Remuneration Committee prepares all matters relating to the principles of remuneration for Group Management, as well as the employment conditions of the President.

The principles of remuneration for Group Management are presented to the Board of Directors that submits a proposal for such principles to the Annual General Meeting for approval. The Board of Directors must approve the employment conditions of the President.

Information about remuneration decided upon but not due for payment

The structure of Group Management remuneration decided upon prior to the approval of these principles for remuneration but not due for payment is substantially in line with these principles. However, in relation hereto the following should be noted:

- The Annual General Meetings 2008 - 2011 resolved on SKF's Performance Share Programmes 2008 - 2011, with in essence the same terms and conditions as of the proposed SKF's Performance Share Programme 2012.

Allotment of shares under SKF's Performance Share Programme 2008 was made in the beginning of 2011. No allotment of shares has been or will be made under SKF's Performance Share Programme 2009 due to non-fulfilment of the TVA target for the financial year 2009. Any allotment of shares under SKF's Performance Share Programme 2010 and 2011, respectively, will be made during 2013 and 2014, respectively.

- The pension conditions of the President are described on page 120 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- If the retirement age is increased to 65 years as proposed by the Board, certain members of Group Management will still have a retirement age of 62 years based on already existing agreements.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.

Principles of remuneration for Group Management 2011 and remuneration of Group Management 2011, see Consolidated Financial Statements Note 25.

Nomination of Board members and notice of General Meeting

In addition to specially-appointed members and deputies, the company's Board of Directors shall comprise a minimum of five and a maximum of ten members, with a maximum of five deputies. The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

Notice to attend an Annual General Meeting and notice to attend an Extra General Meeting where an issue relating to a change in the Articles of Association will be dealt with, shall be issued no earlier than six weeks and no later than four weeks prior to the General Meeting. Notice to attend another kind of Extra General Meeting shall be issued no earlier than six weeks and no later than three weeks prior to the General Meeting.

Report on the business **Environmental Care**

Environmental Care focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment from its own operations and those of its suppliers. **BeyondZero** combines this with the strategy to improve customers' environmental performance through products and solutions that reduce environmental impact.



A company like SKF can have an important impact on the environment. Everything from the raw materials selected, how these are utilized 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 businesses ability to do more with less and so creates sustained competitive advantage.

The BeyondZero strategy reflects this. It requires action to reduce the impacts resulting from SKF's operations and those of suppliers (reducing the negatives) while at the same time providing customers with innovative solutions that deliver reductions in the impact of their products (increasing the positives). More details of SKF's BeyondZero customer solutions can be found in the Business Care section on page 19 in this report. This Environmental Care section of the report will focus on strategies and activities aimed at reducing the environmental impact of SKF's operations and those of the Group's suppliers.

Environmental care starts "in our own backyard". In 1989 the Group increased its focus on operations by issuing the Environmental, Health and Safety Policy (EHS 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. The steps taken and planned are informed by a solid understanding of

environmental life cycle management. This is something the Group has invested in and built up over the last ten years through numerous life cycle assessments and focused applied research and development in this area.

In 2011, SKF invested SEK 65 million (121) on internal and external environmental improvements.

SKF EHS Policy, legal and regulatory compliance

SKF's EHS Policy describes the company's commitment to both short- and long-term contributions in protecting the environment, as well as providing a safe working environment for employees.

The policy requires SKF's units to take these vital issues into consideration during all business activities and decision-making. It defines a minimum requirement that all locally applicable laws and regulations must be upheld in relation to environmental, health and safety matters. The policy also commits the organization to continual improvement – meaning the legal requirements are the base from which actual performance must be improved.

• Environmental permits

Operations requiring permits exist in all countries where SKF has manufacturing. In Sweden, on 31 December 2011, SKF held permits covering 9.2 % of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to production of bearings, bearing housings and couplings. SKF Mekan in Katrineholm received a new environmental permit in 2011. Part of the Gothenburg facilities were divested during the year and subsequently removed from the existing permit.

- Landfills

Many SKF factories have disposed of various types of waste at approved landfill sites. Because of stricter laws and regulations – some with a retroactive effect – relating to landfill disposal, a few SKF companies are currently involved in cleaning up old landfills, most of which have not been used for many years. Relevant provisions have been made to cover these costs.

- Spill incidents

SKF received no significant directives from the environmental authorities in 2011. However, SKF has communicated with the local environmental authorities in Gothenburg, Sweden, regarding three incidents. SKF in Falconer have also communicated one incident to the local environmental authorities in New York state (US).

ISO 14001 Environmental Management System

The purpose of having global certification is that all SKF's manufacturing sites, technical and engineering centres, as well as logistics centres, are required to maintain and uphold high performance standards regardless of geographical locations or social and economic conditions in the country.

The SKF Group-wide certificate consisted of 103 sites in 30 countries at the end of 2011. New companies that were added to the Group's ISO 14001 certificate in 2011 were: Changshan (China), Xinchang (China), Ahmedabad (India), Moscow (Russia), Istanbul (Turkey) Waukegan (US) Monroe (US), and Livingston (UK).

The Grafton site in the US was removed from the certificate due to divestment.

Recently acquired companies are given a time frame for implementing the management system, working towards inclusion in the Group's certification scope. The schedule for recently acquired companies' inclusion plan can be found at www.skf.com. Environmental due diligence investigations are carried out to determine whether a clean-up is required before any acquisition or divestment. Potential liabilities identified by a preliminary (Phase I) investigation may be subject to a further (Phase II) investigation.

LEED and Sustainable Factory Rating

SKF requires that, irrespective of the location, all new facilities must be designed and constructed to world-class standards in terms of



All of SKF's major facilities are designed and constructed according to the stringent green building standard, LEED, (the US Green Building Council's Leadership in Energy and Environmental Design standard).

It is important for SKF to incorporate energy efficiency, water efficiency and waste management at the early stage of a building's design and construction. Other benefits include better indoor environmental quality, which in turn improves the employees' performance and comfort.

environmental performance. Therefore in 2010 SKF's Group Management defined that all major constructions (over 1,000 m²) undertaken for, or by, the Group, must be designed and constructed in accordance with the US Green Building Council's (USGBC®) "Leadership in Energy and Environmental Design" (LEED) or similar standard.

During 2011, SKF has run eleven construction projects around the world and these are at various levels of completion. All of these projects are following the LEED standard and the levels achieved will be announced by the Group upon completion.

Because LEED is a generic standard, inevitably it does not cover all the environmental issues specifically related to typical SKF manufacturing processes. As the environmental impact of these processes can be significant, the company is also developing an SKF-specific category, referred to as the "Sustainable Factory Rating" (SFR), which will follow the format and general approach outlined in LEED, but will address specific SKF process-related aspects.



Biomass plant in St. Cyr

In December 2011, a new biomass boiler was inaugurated at SKF's production facility in St. Cyr, France. This new plant provides building and process heat and gives a 35% reduction to the factory's CO₂ emissions.

The SFR has been applied on a pilot basis on two new factories being built in 2011 (planned to be inaugurated in 2012). The results have been positive, and the system will be further developed by using it on the major projects planned for 2012.

Climate change

Once again in 2011, SKF continued its clear focus on climate change mitigation, a focus which was first applied back in 2002 and which has been further sharpened and increased in the intervening years. In 2012, the Group will take further, more aggressive steps aimed at maximizing the contribution SKF makes to the global efforts to reduce greenhouse gas emissions. SKF's motivation for this continued and increasing commitment can be summarized in three points.

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it will have catastrophic long-term consequences for both.
- Energy prices are likely to increase, not only as a result of resource constraints, but also due to carbon pricing. SKF's ability to run its activities in an exceptionally energy- and carbon-efficient way will increasingly bring competitive advantage.
- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solutions it provides and in so doing create considerable value for customers and investors.

Continued commitment to action on climate change

As with other aspects of the Group's environmental impact, when acting to reduce global carbon emissions, SKF followed the principle of "starting in our own back yard". The direct ownership and management of SKF's facilities gives the company absolute responsibility and the direct power to minimize the carbon emissions associated with direct energy use. Therefore, in 2002 the Group set up energy and carbon reporting systems for its own facilities and defined clear targets to reduce these emissions by 2007.

Having already achieved these first targets in 2005, 2006 saw the launch of a broader, more aggressive strategy and targets, requiring an absolute reduction in carbon emissions resulting from direct energy use in SKF facilities of 5% per year – irrespective of volume development. This new target has been delivered year after year by a strategy focused on reducing energy intensity in the factories and the carbon intensity of the energy used.

The results of these concerted efforts at all SKF facilities in terms of energy efficiency can be seen in the graph below. The Group's absolute annual energy requirements have been reduced by 12% during a period between 2002 and 2010 when SKF's business (net sales) grew by around 45%.

Despite this impressive performance in terms of energy efficiency, the Group's commitment to achieving absolute reductions in carbon emissions resulting from the energy used in the factories, has become increasingly challenging to maintain. Despite increased sourcing of green and low carbon energy in those markets where this is available, SKF's rapid organic expansion in manufacturing capacity in countries where green energy is not readily available and where most electricity is generated from coal, has overshadowed energy and carbon savings. Because of these challenges, and in order to maintain the Group's commitment to absolute carbon reductions, it was necessary for SKF to purchase verified emission reduction (VER) certificates in 2010 and 2011. The impact of these purchases are shown in the graph below. Taking the purchase of VERs into account, the 2011 total emissions were 424,000 tonnes, a 6% reduction compared to 2010, meaning that the Group target of 5% absolute reduction has been achieved.

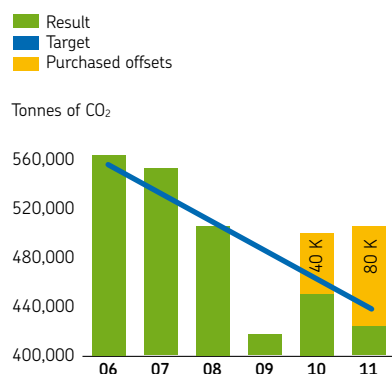
Over the last six years, the 5% absolute reduction target has acted as a strong catalyst for change at SKF. As the results show, having such a tough and uncompromising target has led to a greater focus on energy and carbon, which in turn has driven investments, priorities and the development of relevant skills at the company. However, this target cannot be sustained over the long-term, mainly because the greater production activities in high carbon regions will mean that in future, the major contribution to its achievement can only come from buying offsets. This risks taking the focus away from energy use – which is the most important direct contribution which SKF can make to climate change mitigation at its own manufacturing operations.

Therefore the Group has decided to focus directly on energy use within its operations with extremely aggressive targets which will address both energy use per output and total energy use.

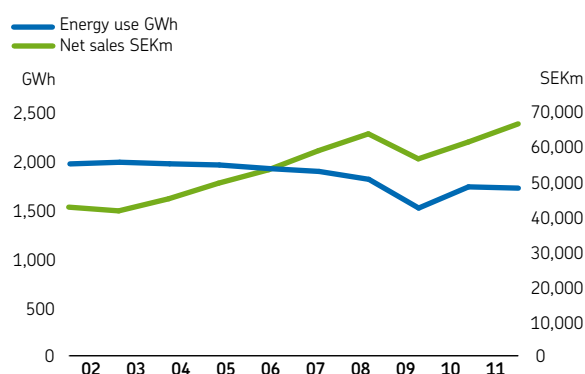
With these targets, SKF will assure an even higher pressure and focus on improving energy performance irrespective of the external economic climate.

The targets will be announced within the second quarter of 2012.

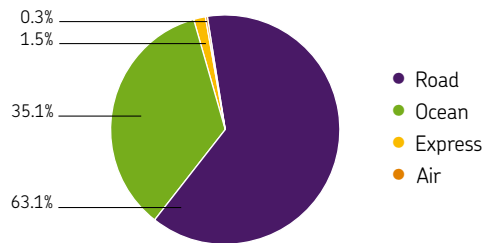
Result for 2011 scope 1 and 2 carbon dioxide emissions (metric tonnes)



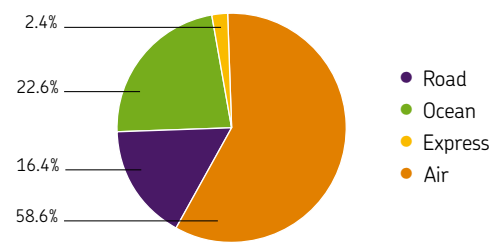
Energy use



% of shipped weight per transport mode Q4 2010 to Q3 2011



% of carbon emission per transport mode Q4 2010 to Q3 2011



Between 2006 and 2010 the Group also included other indirect emissions resulting from its operations. The company defined targets and started external and internal reporting of the carbon emissions resulting from business travel, outbound logistics, and some aspects of component and material supply.

Business travel

The total CO₂ emissions from air travel in 2011 amounted to 19,870 (18,680) tonnes, which is a small increase compared to 2010. Business travel is a necessary activity for a multinational organization like SKF, and one that inevitably results in CO₂ emissions. The global nature of the Group means that air travel accounts for by far the largest CO₂ emissions in business travel.

In 2008, SKF started to monitor CO₂ emissions from its European and US air travel. Data from other regions has not yet been included because multiple travel agencies are used in these regions, making reliable data collection very difficult. SKF is a global company and meeting in person is often an important contributing factor in establishing effective global collaboration. However, the need for travel is always questioned and when alternative (electronic) ways of meeting are appropriate they are used. SKF makes extensive use of web and video conferencing systems. In 2011 over 68,000 (43,000) web meetings were held. The video conferencing facilities installed in many of SKF's offices were used 7,220 hours (6,251).

Transportation

SKF Logistics Services reports on emissions resulting from global air freight, sea freight and the express and road transportation networks within the European Union. Road transportation in markets outside Europe has not yet been included due to the difficulties of obtaining reliable data from logistics providers in these locations. The reporting period is from Q4 2010 to Q3 2011 due to complexities in gathering data. The monitoring includes emissions of carbon dioxide (CO₂), carbon monoxide (CO), nitrogen dioxide (NO₂), sulphur dioxide (SO₂), particles (PM) and hydrocarbons (HC).

During the period from Q4 2010 to Q3 2011 the CO₂ emissions from SKF Logistics Services transportations within the scope described was 57,800 tonnes while the shipped weight was 532,795 tonnes. The shipped weight in 2010 was 401,270 tonnes and CO₂ emission was 46,300 tonnes.

One important performance indicator for SKF Logistic Services is CO₂ per tonne-kilometre. This is a relative indicator that shows CO₂ emissions in grams relative to shipped weight (tonnes) and distance (kilometre). SKF's target is to reduce this indicator by 5% each year. In 2011, CO₂ per tonne-kilometre was reduced by 11% compared to previous year. This large reduction in CO₂ per tonne-kilometre is mainly associated with increased use of sea freight, this being by far the most efficient way of shipping goods over far distances relative to weight and emissions. All transport modes increased overall.

New standard of efficient energy use at SKF in Steyr

SKF Austria's energy project at Steyr has reduced CO₂ emissions connected to energy use by the equivalent of 800 tonnes per year. This is a long-term project and further improvement will be made over the next five years.

A number of installations were included in the project:

- A new 1,000 kW heat pump has been installed to optimize heating and cooling recovery. This collects excess heat from several central systems. The heat is used for heating the internal air and shower water.
- Essential parts of the heating distribution system have been replaced including hydraulic circuits with valves, actuators and pumps.
- The entire site's energy flow is more transparent and well-monitored using EMC (Energy - monitoring and controlling), which is the basis for effectively reducing energy use.
- Ventilation fans with frequency converters in Central Hall 2. There is a demand-oriented air flow control in the production hall.
- Water from the nearby River Enns flowing through the heat-venting system results in a soft air-conditioning effect. This means that during summer, a better (cooler) working environment can be achieved with very little energy required.
- From 2011, Steyr has sourced 100% low-carbon energy from hydropower. Also, all employees will receive information and training about the efficient use of energy, to support this project sustainably.

Energy conservation in Airasca, Italy

At SKF's factory in Airasca, a significant energy conservation programme has been carried out. The project group assessed where the best improvements could be made, these include:

Approximate Annual savings	CO ₂ (metric tonnes)
Compressed air pressure reduction	90
Cut air leakages and sustain improvements	37
Install high efficiency motors in the factory's air handling units	14
Install high efficiency motors in fluid media pumping stations	36
Adapt grinding water and plant layout to real needs	44
Simplify and optimize washing fluids plant	20
Install low energy lighting system in specific channels	1
New drying process	59
Modify lighting equipment specific channel layout	7
Total	308

As with all the Group's operations, SKF Logistics Services has a clear focus on reducing energy use and related carbon emissions that result from their activities. One specific example of actions is that all truck transportation from the factory in Gothenburg to the harbour are now made using trucks running exclusively on biogas and biodiesel. This has reduced the CO₂ emissions related to this task by 70%.

In 2011 the work to increase the fill rate in European road network continued to bring positive results. The truck fill rate rose from 77% in 2010 to 81% in 2011 and this improved the CO₂ emission factor for road transport by 10%. The following activities have contributed to the result:

- Improved planning and loading of trucks
- Constantly optimizing the routing of trucks
- Increased attention to "the 10 tonne rule", e.g. a truck will not depart with less than 10 tonnes loaded onboard
- Implemented incentives, which motivate shipping units to optimize the fill rate of all departing trucks.

In addition, SKF Logistics Services has increased the environmental demands on suppliers by including some parameters in the commercial contracts.

An example is fuel consumption. Stating the agreed fuel consumption in the contracts, which in turn regulates the fuel cost, has proved effective. It gives suppliers incentives to apply eco-driving and invest in modern equipment to minimize fuel consumption. This was introduced in 2010, but is reviewed annually. Reduced fuel consumption of 1 litre per 100 km means a 1.6% reduction in CO₂ emissions.

Another example is the request concerning suppliers' truck fleets being renewed to achieve improved Euro class engines resulting in less emissions.

Clean Shipping

The Clean Shipping index takes into account the major part of environmental effects connected to shipping, such as emissions to air and water, use of chemicals etc. The index ranks vessels or shipping companies according to the most relevant issue, decided by the user. The index supports SKF Logistics Services as a cargo owner, to find shipping companies with the best performance regarding CO₂ emissions.

Outsourced components and raw materials

SKF continued to emphasize the importance of energy use and related CO₂ emissions to the Group's suppliers during 2011. SKF focuses on major energy-intensive suppliers who are required to report energy and carbon data and provide information about energy management at their sites. This information is then used as part of the supplier performance evaluation. For more information about SKF's standard for suppliers see section about sourcing and supply chain on page 45.

Other important environmental aspects

As well as CO₂ emissions, SKF measures, reports and manages other environmental aspects which are material to the Group. A brief overview of these aspects is provided in the following paragraphs. For specific



Solar array at SKF USA's head office in Lansdale

SKF USA's LEED certified facility in Lansdale has finished installing on-site solar power generation. It has been about a year since the site was awarded platinum certification by the US Green Building Council.

The solar array is expected to provide around 30% of the total power requirement of the site or around 500,000 kWh per year. The solar array system, with 1,468 installed solar panels, became fully operational in April 2011.

Award winning washing method without use of chemicals

SKF in Germany has developed flood washing – a washing method eliminating most of the chemicals traditionally found in industrial washing processes. The innovation was recognized externally and awarded with “Environmental Idea of the Year 2011” by Deutsches Institut für Ideen- und Innovationsmanagement.

It works by pumping rainwater at a low pressure in a recirculation system to flood polluted parts of a perforated box. The system uses up to 200 cubic metres of water per hour, which is collected from the 2,500 square metre roof.

In addition to eliminating chemical use the method brings benefits such as:

- Low temperature water – requiring little or no heating.
- No steam – requiring no extra exhaust system.
- Low water pressure – 2.2 kW pumps for the flood washers compared to 7.5 kW for spray nozzle washers.

year-on-year data and explanations to possible restatements, please refer to the Notes – environmental performance on pages 138-140 and for a more detailed explanation of SKF’s approach to each issue, please refer to “Sustainability in SKF – Policies and practices”, which can be found at skf.com, choose Investors and Reports.

Material consumption

SKF uses various materials such as metal, rubber, solvents, hydraulic oil and grease. The use of metal as raw material for 2011 decreased by 4% to 523,000 tonnes compared to 2010 (547,000).

The Group is continually working to improve resource efficiency. The company invests in research into advanced manufacturing technology that minimizes the amount of material to be removed to produce finished products. At the same time, SKF’s designers, process engineers and purchasing staff are constantly working towards minimizing material waste throughout the value chain.

Chemical use

Solvents, referred to as volatile organic compounds (VOCs), form vapours which can be damaging to health and the environment. SKF introduced a VOC reduction target of 25% over a five-year period, compared to 2002’s level and in relation to production volumes. This target was successfully achieved in 2007 with a drop of 29% compared to 2002’s level, while the production volume rose by more than 30%. A new, tougher target was therefore set where SKF aims to achieve a 50% reduction in absolute terms by 2012, compared to 2007’s level.

Substantial progress has been made since 2007. The use of VOC’s in 2011 was just below 850 tonnes.

In 2011 SKF has been working towards eliminating the use of equipment containing polychlorinated biphenyl’s (PCB) at all manufacturing sites. PCB has been eliminated at all sites except for Lutsk, Ukraine. A systematic replacement program of transformers containing PCB in Lutsk started in 2011. At the end of the year most of the transformers were replaced, the rest will be replaced during 2012.

Ozone depleting substances

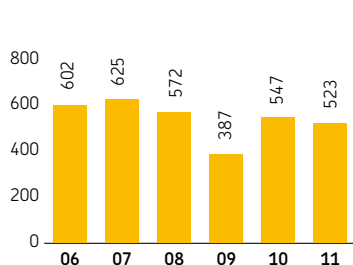
SKF has been monitoring its consumption of ozone depleting substances (ODS) for many years by referring to the Montreal Protocol. Consumption has steadily fallen over the years, supported by a number of local phase-out projects. Overall, the most harmful ODSs have either been substituted with less harmful ones or the usage has been totally eliminated due to process changes in manufacturing.

REACH

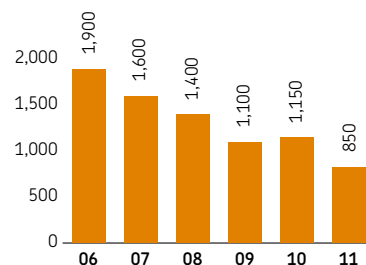
The EU Regulation on the Registration, Evaluation, Authorization and Restrictions of Chemical substances (REACH) was adopted by the European Parliament and Council of Ministers in December 2006. The provisions of this regulation came into force in June 2007.

SKF is predominately a downstream user (as opposed to a producer) of chemicals as defined in the regulation and is complying by communicating both up and down the supply chain. This is to ensure that chemicals used in SKF’s products and manufacturing are registered and safe to use. A designated steering group was formed to communicate REACH demands inside and outside the company. This includes supplier contacts to verify compliance regarding use of chemical substances, and customer contacts to ensure compliance of SKF’s products and activities.

Metal as raw material ('000 tonnes)



Use of volatile organic compounds, VOC (tonnes)



Innovative water treatment in Ahmedabad

The SKF factory in Ahmedabad, India is designed and built to achieve world-class environmental performance. Like other recently built SKF facilities, it has been built according to LEED standard.

In an area where water is scarce like Ahmedabad, water use can have a significant impact on the local environment and community. Therefore, SKF has deployed state-of-the-art technology at this facility to minimize water use, take full advantage of rainwater and re-use almost all the process water. The systems include:

- Rain water harvesting: 350,000 litres can be collected during the monsoon season.

- Process water: All water from process media is recycled using vacuum distillation, ensuring zero discharge.
- Domestic water: A sewage treatment plant ensures 100% recycling. A softening plant, active coal process and ultraviolet treatment, guarantees recycling of all water and satisfies both process and drinking water requirements.
- Use of high efficiency and LEED compliant water fixtures: usage efficiency.
- Irrigation water: Use of native plant species has reduced the plant species' water requirement. Automated sprinklers further improve efficiency.

Water use and discharge

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Thus, SKF monitors total water consumption at operating units and not according to water withdrawal by source. Water consumption by the Group in 2011 was 5.58 million cubic metres, compared with 5.65 million cubic metres in 2010 (restated from last year).

SKF has established specific targets for reducing water consumption applicable to sites located in areas of water scarcity. One example is SKF Sealing Solutions' factory in Salt Lake City, Utah, USA, an area of extreme water scarcity, where the water use has been reduced by 50% between the years 2007-2011, while production has increased by 20%.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant to local rules and legislation. This includes waste water handling. Many units have also introduced closed-loop water consumption or installed waste water treatment facilities, such as in the case from Ahmedabad in India above.

Waste management/recycling

All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 103,000 tonnes in 2011.

A common waste product from SKF's manufacturing process is grinding swarf. SKF aims at achieving at least an 80% recycling rate

for its grinding swarf by 2012. The 2011 recycling percentage of grinding swarf Group-wide was 68%.

Some SKF units have taken the initiative to donate money from waste recycling to support local charities.

Packaging materials

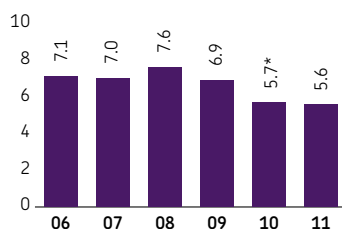
SKF has very strict specifications and requirements concerning packaging materials and the packaging process. As defined in its Packaging Standard instruction S9, all packaging materials must comply with environmental and waste disposal legislation such as EU Directive 94/62/EC, as well as with local laws and requirements. Specifications and requirements about the type of packaging materials and related products are also defined in the standard.

SKF's Group Standard Pallet (GSP) box – pallet base, lid and collar – is the most common shipping container used by SKF, both internally and externally. These pallets have a lifetime of 7-10 years, and are used and reused in all inbound and outbound shipments.

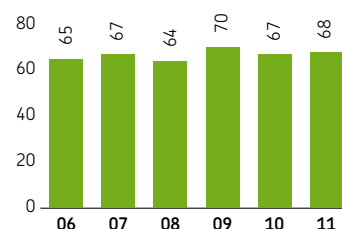
SKF Logistics Services provides component suppliers with GSPs and the same transport packaging is used when products are finally shipped to customers. Reusing the same transport packaging eliminates waste. For each pallet there is a returnable deposit which is refunded when the pallet boxes are returned to SKF Logistic Services.

Water use (million cubic metres)

* Restatement from last year



Grinding swarf recycling rate (%)



Report on the business **Employee Care**

Employee Care assures a safe working environment and promotes the health, education and wellbeing of SKF's employees.



SKF's leadership has been established over many years through the commitment, knowledge and passion of the Group's employees around the world. The company's ability to attract, retain and develop its employees is therefore absolutely critical for maintaining this leadership. When SKF's personnel can understand that the company cares about and for them, then it stands to reason that people will care about SKF and its long-term future. This is the essence of employee care.

The fundamental requirements for SKF are to assure a safe working environment where employee's rights on principles such as equality, fairness and freedom of association are protected. 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 works councils, have been implemented across the Group to ensure that this commitment is observed.

Over and above these basic demands, the SKF Code of Conduct also requires that the Group must strive to provide employees with opportunities to train for job enrichment and greater responsibility.

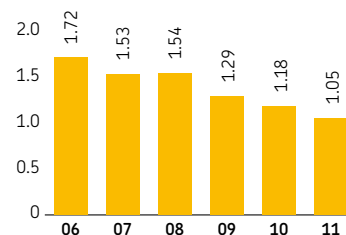
The principles of employee care were well demonstrated during the economic downturn which occurred in 2009. During this period SKF took particular care to minimize the number and impact of job losses that resulted from the restructuring required. Working with employee representatives and governments, it was possible to utilize flexible working agreements, short-time working and other schemes – thereby keeping the number of employees asked to leave the Group to a minimum.

Zero Accidents and OHSAS 18001

SKF launched the Zero Accidents target in 2000 with the commitment to strive for eliminating all workplace accidents at SKF. The belief that accidents are preventable and that an accident-free work environment is achievable, has resulted in substantial progress over the years.

120 out of 218 SKF units worldwide achieved no recorded accidents for a minimum of four consecutive quarters at the end of 2011. 2011's accident rate was 1.05, significantly lower in comparison to 13.78 in 1994 when SKF started monitoring it.

Accident rate for the SKF Group



*The accident rate for the Group is calculated using the formula:
Accident rate = $R \times 200,000 / H$, where
 R = number of recordable accidents and
 H = total hours worked at the site/company*

All new employees are subject to health and safety training. Regular hazard and risk assessments of working environments are also a mandatory part of OHSAS 18001 certification. At the end of 2011, the certificate covered 103 sites in 30 countries.

It is with the deepest regret that SKF must advise that two fatal accidents occurred during 2011. One of the incidents happened in China when one SKF employee was involved in a road traffic accident while returning from a customer activity. The second incident occurred in the heat treatment department at SKF's factory in Hanover, PA, (USA).

Human rights and labour standards

Upholding and protecting human rights principles and labour standards are of the utmost importance to SKF. Formulating business ethics into official documents enables systematic compliance assessment and risk identification. Consequently, SKF published the SKF Code of Conduct in 2002, covering its responsibilities towards its stakeholders, and the policy is applicable to all operations worldwide. The policy has also been used as a reference to establish other documents such as the SKF Code of Conduct for Suppliers and Sub-contractors, and the SKF Code of Conduct for Distributors, demanding similar high levels of commitment from business partners. For more information about the SKF Code of Conduct and adherence to international principles and charters, please refer to the document "Sustainability in SKF – Policies and Practices" found on www.skf.com.

A code of conduct audit system was established in 2004 with the aim of ensuring that SKF units globally have sound monitoring systems in place for complying with this policy. Audits are performed annually on a sample of units throughout the Group. A non-financial

risk assessment tool was introduced in 2008 with the purpose of helping prioritize the selection of units to be audited. In 2011 audits were conducted at 29 units, of which fifteen were in Europe, eleven in Asia, one in the US, and two in Latin America. The audits showed nine non-compliances with the Code of Conduct; six of these were also legal non-compliances. Three of the legal non-compliances were related to working hours, two to gender and age discrimination, and one to mandatory payment for marriage leave. The three other non-compliances were related to freedom of association, and a lack of employee training and development plans. Corrective actions were taken in all cases.

A strictly confidential whistle-blowing process is also available for all employees to report behaviour or action breaching the Code of Conduct, by sending an email to the company's whistle-blower contact person. This is addressed for the attention of the Senior Vice President, People and Business Excellence. Immediate action is taken accordingly by SKF on all complaints received.

Issues relating to significant changes at SKF, such as acquiring or divesting operations, are always discussed and resolved in an open and constructive atmosphere with union leaders locally and at the World and European Works Councils. SKF signed an International Framework Agreement on labour standards and human rights with its World Works Council in 2003. There is an active and positive cooperation between company management and the union leadership to ensure a high standard of adherence. As part of the due diligence process for major acquisitions, SKF evaluates various people issues such as human rights and labour rights. The precise approach must be adapted to the specific conditions of each acquisition.

Growing with SKF



SKF is an employer that puts people first. Internal initiatives such as the Competence Development Program and other educational opportunities are a great platform to build a successful career. Here in China, SKF has a bright future – and I want to continue to be part of the team that contributes to this.

Holly Chen, China



SKF has a reputation as a company that looks for continual improvement. After four years at SKF, it's clear to me that if I am ambitious and take responsibility for my own development, there are many possibilities available.

Christian Tovar, Colombia



SKF shows commitment – to employees, society and the environment. It's a people-oriented company committed to innovation, knowledge engineering and ultimately, customer satisfaction. In other words, it's a great place to build a career if you're ambitious and really care about what you do.

Paula Bonaglia, Argentina

SKF in Busan, Korea, recognized externally for accident prevention

SKF received first prize in the Industrial Safety - best practice contest sponsored by the Federation of Korean Trade Union & Korea Safety Agency in December 2011. The award was given to SKF for continuous efforts to identify and implement improvements which prevent accidents.

The annual national contest was created to share best practices regarding safety culture and performance. In total, six companies were nominated to the final stage.

Working environment

SKF carries out an annual employee survey called the Working Climate Analysis (WCA) globally, with the aim of continuously improving the working environment. WCA measures employees' feedback on the company's performance in relation to the company's values and key focus areas, such as business, sustainability and knowledge sharing. The tool also provides an indication in terms of trust, cooperation, personal development and continuous improvement in the teams or departments. Follow-up discussions are subsequently held by managers with their teams, with the purpose of identifying and implementing improvement plans.

In 2011, the response rate for the WCA was 85.3% (85.8%). A slight increase in the average overall result was found compared to 2010. The results are presented in 14 different focus areas and in all areas there were a small increase from last year.

In addition to the survey tool above, SKF also collects employee data annually in terms of retention rate, diversity (units with women in local management), independent trade unions, freedom of association and health and safety committees. The data is compiled from all manufacturing sites, technical and research centres, as well as logistics centres, and is aggregated at Group and regional levels.

The percentage of employees in full-time employment was 97% in 2011, while the retention rate of employees was 94%. At the end of 2011, 30% of the Board of Directors and 21% of SKF's Group Management positions were held by women. Locally, 76% of SKF units have at least one woman in local management. Total number of female managers in local management throughout SKF was 17% (the proportion of female employees in the Group was 21%).

SKF has 66 country managers globally and they represent 49 nationalities. Cultural diversity is valued by the company as it recruits, develops and promotes the best local resources for managing its local and global business units. Cultural diversity is also endorsed when employees are offered international assignments or training abroad.

Job openings at SKF worldwide are posted on the intranet. Employees are entitled to a fair and open application to the positions.

SKF's salary scheme is based on a fair and equal calculation and the ratio of male to female salaries is available at the local units, but not aggregated at Group level.

For more data on social performance and year-on-year data please read the notes on social performance on page 140-141.

Health and fitness

SKF aims at not only providing a safe working environment for its employees, but also deems it to be important to promote health and fitness.



SKF's global reach has an obvious positive affect on teamwork and the cooperative dynamic. In my projects I interact with customers from Italy, France, Germany and the USA. I also have colleagues from France, Sweden, Poland, Italy, India, China, Turkey and the Netherlands. What this does is create a feeling of togetherness. People of different cultures and backgrounds come together at SKF and I believe this spirit of international cooperation is one of the main reasons behind SKF's success – I know it is one of the main reasons why I enjoy going to work every day!

Salahi Basaran, Netherlands



I've always had access to outstanding training and coaching opportunities. These have helped me live up to the company's expectations and my own. For example, the Individual Development Plan the company offers has allowed me to discuss my career and my experiences with SKF Management. Also, I took part in an international program called "Business Factory" aimed at developing our offer on new markets. These programs, along with many others I've undertaken, have allowed me to constantly develop, manage people effectively and lead change.

Laure Le Calve, France

26% of SKF's manufacturing sites, technical and research centres as well as logistics centres, have HIV/Aids programmes. Previous Sustainability Reports and the company website have reported various HIV/Aids programmes set up by SKF, in countries such as South Africa and Indonesia.

A variety of other Employee Care programmes are offered in various countries including free access to third party counselling, childcare services, access to fitness facilities, household services, and regular health-checks by professional medical staff. In many countries, paid volunteer work is also included as part of the Employee Care programme where employees are either given one paid-day to work on Community Care projects or the Community Care programme is incorporated into company activities. See the Community Care section for further information about SKF's Community Care programmes.

Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), which is reviewed annually through discussions with their managers. Each individual's skills profile is assessed according to the job profile in the review discussion. Training plans for the employee's skills improvement and further development are subsequently listed in the IDP and is supported by a common system.

Corresponding to the Group's strategic goals, an assortment of development programmes focusing on professional skills (e.g. sales and marketing, engineering, products and platforms, demand chain, manufacturing), leadership skills, personal skills (e.g. negotiation skills, communication skills, time management), and other strategic areas such as Six Sigma, quality, legal and finance, are made available to employees.

Utilizing different technological tools and methods – web conferencing, e-learning, classroom setting, group work, projects, and coaching – SKF's learning and development programmes aim at enhancing the quality in learning for employees. Managers' involvement and support through coaching is important for employees to achieve sustained personal, professional and behavioural development.

To meet the goal of making learning affordable to all SKF organizations, which is particularly challenging in some of the fast growing markets, the aim is to have more programmes based on concepts owned or leased by SKF, which can easily be replicated with local internal or external resources as trainers. The establishment of SKF College campuses in USA, Argentina, China and India, in addition to the campus in Sweden, is enabling SKF's global curriculum to be locally adapted, and provided in local languages by local trainers. This reduces the need for travelling long distances, being away from work and family, as well as the high cost of hiring foreign trainers.

As part of the talent management initiatives, the Global Leadership Programme, a long-term development process for future leaders, has been redesigned and relaunched to ensure that its content reflects current business needs. The objective of all the talent management programmes is to develop future leaders for the SKF Group and to enhance global leadership performance.

Human Resources Transformation project

During 2011 SKF steadily moved forward with the Human Resources (HR) Transformation programme, which started in 2010.

A new IT tool (the SKF People Portal) has enabled the Group to roll out new performance management and competence management processes. People management is a critical issue and these processes will help SKF managers to continue doing an excellent job. New recruitment and talent management processes have also been developed and are being introduced country by country. This work is critical because having the right people with the right skills, where and when they are needed, is vital to the Group's success going forward. The International Assignment process was extensively upgraded during 2011, to meet the current and future needs of the SKF Group.

The HR Transformation programme will continue in 2012 aimed at establishing one SKF HR agenda that runs throughout the Group and which is enabled by common processes, a consolidated, common IT platform and a new way of working in the HR function which allows greater focus on key strategic issues.



Sommerkinder – family support in Schweinfurt

SKF in Schweinfurt, Germany has initiated a childcare scheme, with external partners, for the local summer holidays called "Sommerkinder" (summer kids).

During the kindergartens' and schools' summer holiday, many of our employees are faced with a difficult organizational challenge: "How do we ensure that our children are well looked after during the holiday season as well?"

Since 2008, "Sommerkinder" has been the solution to this issue in Schweinfurt. Children from the ages of 3-12 can have four weeks of day care during the summer holidays and spend their days close to SKF's premises if their parents have to work. SKF pays 50% of the costs of this day care.

Report on the business **Community Care**

Community Care defines the Group's activities which make positive contributions to the communities in which it operates.



The SKF Social Policy

The SKF Social Policy was issued in 2006 with the aim of promoting employees' involvement in commendable local social projects. Since 2008, every country management team has been asked to prepare and submit an annual Community Care plan. As a basis for the Community Care plan, local management must assess and define the support that best caters for the local society's needs and contributes to the community's development. 26 countries submitted Community Care reports in 2011. Out of a total quantifiable contribution of SEK 20 million, SEK 12 million was made up of financial sponsorship to

various local charities, as well as for sports, cultural or educational events. More than SEK 6 million was donated to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving and volunteered working hours.

With this policy, SKF employees around the world are fully empowered to engage with their local communities through various socially beneficial activities and approaches. The commitment demonstrated by SKF's employees taking up this challenge is impressive. Over 200 activities are ongoing around SKF's world. The number and diverse



Japan – SKF people volunteer after the earthquake and tsunami in Ayukawa

The fishing village of Ayukawa lost all its fishing enterprises and essential infrastructure as a result of the devastating earthquake and tsunami in the spring of 2011. 80% of its houses and buildings were wiped out by the wave and the population was severely hit.

Nine months after the devastation, SKF volunteers went to Ayukawa with people from the volunteer organization NADIA, to help clean up the mess from the tsunami.

It was quite a physical job and there the devastating effects of the tsunami on this area could be understood. What was seen of the Ishinomaki area was simply beyond belief, according to the participants. Even though heavily reported in the media, the magnitude and nature of the damage still made it very difficult to grasp the full sequence of events.

The need to clean up and rebuild is still there, and will remain for many years to come.



Update on the SKF Forest project in Fuxin county, China

This five-year SKF project, started in 2010, is committed to creating and sharing sustainable forestry management in line with the Forest Stewardship Council's (FSC) ten principles on sustainable forestry, to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. It was concluded in the joint inspection report that the 2010 and 2011 projects have been successful and the sites are now in good conditions.

- **2010** – 260.7 hectares of forest were planted and the survival rate was verified at 90.6% after testing in 2011.
- **2011** – 106.7 hectares were planted and the survival rate was verified at 98.3% in 2011.

The project invested money and energy in creating knowledge of forest planting and management, including technical implementation, site verification, and weather monitoring.

In addition, the project creates around 50 job opportunities during planting season in the two nearby villages that allow the villagers to increase their income and learn modern techniques in forest management.

range of community care programmes truly shows how great the demand is from the local society, but also the high motivation which SKF employees have to contribute to a positive change. A few examples can be found in this report, for further examples please see previous reports or go to skf.com.

Natural disasters

In March 2011, Japan was hit by one of the most severe natural disasters in the country's history. A magnitude 9 earthquake was followed by a devastating tsunami. Over 15,000 people lost their lives and several thousand are still missing. Many SKF employees were worried about our Japanese colleagues and thankfully the Japanese management team quickly confirmed that all employees and their families were safe.

SKF Japan was in close contact with local government to offer SKF's help to the communities affected. However, because of the limited capacity for storing donations in the affected areas, it was decided that the best way SKF could provide help to the locals was through financial donations to aid organizations.

Education and vocational training

SKF appreciates the importance of knowledge and aspires to be the knowledge engineering company and subsequently a competitive leader in the industry. Equally significant is knowledge or education in eradicating poverty. As a result, SKF has been actively involved over the years in providing local communities with access to education and training through scholarships, vocational training, mentorship or sponsoring events. One example is the SKF Hope Schools in China – a joint activity between all SKF facilities in China. The Hope School project started in 2006 and is meant to create opportunities for less fortunate children, or children living in remote villages, to gain access to education.

Another example that started in 2006 and which evolved and developed in 2011, is the Comunidade at SKF in Cajamar, Brazil. SKF Comunidade (SKF Community) was established to provide an opportunity to underprivileged children from the Cajamar region for mental, social and physical development. SKF Comunidade takes place every two months at the SKF Sports Club at the factory. Children from poor communities are invited to the club (and transportation is arranged for them) where they can have fun and learn through creative activities.

SKF partners the Four Kings wheelchair rugby team

SKF Polska SA started to support the Four Kings wheelchair rugby team in 2010. The Four Kings are a team of more than 20 professional wheelchair rugby players. The dynamic, spectacular sport of rugby is their life and it brings joy, fellowship and quality of life in general.

Initially, SKF supported the Four Kings with products and technical expertise. Then, in collaboration with other partners, SKF organized the Mazovia Cup – one of the major wheelchair rugby tournaments in Poland. This two-day high-adrenaline event brought a lot of publicity to disabled sport in the local media. SKF supported the event financially, and helped with the organization, promotional arrangements and finding more partners and sponsors for the team.

The Mazovia Cup tournament was just the starting point for promoting the Four Kings and supporting the disabled community. SKF introduced the Four Kings at Poland's biggest automotive trade fair, where visitors took part in staged rugby matches. The three-day trade fair attracted around 25 thousand visitors.

Cuyamaca Outdoor School in San Diego, California

The Cuyamaca (Quee-a-maka) Outdoor School has proved that when children have an opportunity to learn in a natural environment, they gain confidence, improve their social skills, and do better when they return to the classroom. Sixth grade students from schools around San Diego County attend a five-day programme that transforms modern school lessons in science, physics, and astronomy into real world activities.

On 16 September 2011, 60 employees from SKF Reliability Systems Condition Monitoring Centre San Diego visited the Cuyamaca Outdoor School to help assist with their revegetation project. The SKF volunteers arrived with their own rakes and shovels to help with:

- planting trees
- watering seedlings
- building mesh baskets for future plantings (the mesh baskets protect the roots of newly planted seedlings from animals, such as gophers)
- pulling weeds and cleaned up the school's greenhouse.
- pulling non-native plants to prepare for future plantings.

This sustainability event was one of those opportunities where SKF was able to support both the community and the environment.



In Austria, the Basky Project, (short for Basar SKF City) is trying to integrate young adults with a minimum 30% disability (physical, psychological and/or mental) into society, through vocational training.

For more about Basky and other examples of SKF Community Care programmes in other countries, including India, China, Pakistan, Peru the Philippines, and Turkey, please see previous years' Sustainability Reports or go to: www.skf.com.

Youth and sports

In 2011, SKF signed a contract renewing its partnership in the Gothia Cup - an annual event in Gothenburg for over 30,000 young people. SKF has been sponsoring the event since 2006 and it is the largest football tournament in the world for boys and girls between the ages of 11 and 19.

In many countries there are big differences between the wealthy and the less privileged. SKF tries to help make things more equal, and one of the areas where this is truly possible is football. This is the reason why SKF started the Meet the World tournaments. Before 2011's Gothia Cup, 19 Meet the World tournaments were held in 18 different

countries. Through Meet the World, more teams get the opportunity to come to the Gothia Cup in Gothenburg to play in the greatest youth football tournament in the world, with all expenses covered.

To learn more about SKF's Meet the World or the Gothia Cup, please go to: www.skf.com.

A number of SKF organizations are supporting different sport programmes, especially for those that are physically challenged. SKF in Italy has chosen to support the wheelchair team of HB Torino, and also a wheelchair tennis tournament in Torino. SKF Polska SA on the other hand has partnered up with Four Kings wheel chair rugby team. (highlighted below)

Helping to tackle challenges faced by local communities

HIV and AIDS remains a major challenge in Kenya as it is one of the greatest public health concerns, with around 1.4 million Kenyans living with HIV and AIDS. HIV/AIDS is more than a health issue as it also impedes a country's long-term economic and social development. In addition to various programmes offered to local employees – as a member of the Swedish Workplace HIV/AIDS Programme (SWHAP) –



SKF Kenya also formed an association called Neighbours Against Aids (NAA) with other companies in the region. The primary objective of the initiative is to stop the spread of the disease and offer support to those infected and affected. For the first three years after its inception in 2002, NAA focused on building HIV/ AIDS awareness among employees and their families. The activity gradually broadened to support local communities, for example, with a feeding programme for forty families in the slums near the SKF office. Medical camps in the less fortunate parts of Nairobi are also helped.

In several other countries, such as Canada, the UK and Italy, SKF has set up paid voluntary schemes for local employees to volunteer in local Community Care activities. SKF also organizes food, clothes and book donations and many SKF employees take part in fundraising to support local charitable and health organizations. In the US for example, many SKF units volunteered for various events such as the Breast Cancer Walk (Hebron), Relay for Life (Flowery Branch, Franklin, Hobart, Seneca, Gainesville), STEP Foundation (Seneca), Red Cross Blood Drive (Falconer, San Diego), the SKF United Way Campaign (Flowery Branch, Hanover, Falconer, Elgin, St.Louis) and many more. Collectively, SKF factories and offices in the US raised over SEK 1.9 million in 2011.

In Malaysia, SKF has chosen to support the charitable organization Pusat Hemodialisis Mawar by donating funds for a dialysis machine.

The local SKF units always have the empowerment to decide what a local community needs most. The different needs in all parts of the world are reflected by the nature of the community care programmes.

Sponsorship

The Göteborg Award for Sustainable Development

SKF is one of the sponsors of the Göteborg Award for Sustainable Development. The SEK 1 million award is given annually to individuals or organizations for their significant contribution to sustainable development. The 2011 award went to Kofi Annan and Sue Edwards, for their great contribution to sustainable food production in Africa.

Previous prize winners include Al Gore, Gro Harlem Brundtland, the Forest Stewardship Council and KRAV, the Abahuzamugambi Coffee Cooperative from Rwanda and the Toyota engineers, Takeshi Uchiyamada, Takehisa Yaegashi and Yuichi Fujii, (who developed the world's first commercial hybrid vehicle, the Toyota Prius), Ken Sherman and Randal Arauz, in recognition of their respective work in protecting the ocean and its wildlife. Please visit www.gothenburgaward.com for more information.

Shell Eco-marathon

The Shell Eco-marathon is an annual educational project organized by Shell together with other partners such as SKF. The competition aims at promoting higher energy efficiency through innovation and creativity. Participating teams from different schools and universities compete across the world in designing, building and racing to go the furthest distance using the least amount of energy. SKF has been sponsoring this globally known race for many years, by supporting competing teams from technical schools and universities with SKF products and technical services. The event fully reflects the company's commitment to growth and sustainability while respecting the environment.

In 2011, the American race took place on 14-17 April in Houston at Discovery Green. The European event was held in Lausitzring, Germany. Being a partner, SKF Germany provided technical support to competing teams in the choice and construction of vehicle bearings, as well as delivering components and parts such as bearings and grease. SKF Germany took over the partnership from SKF France in 2009. SKF France was a partner from the very beginning in 1985.

The Asian edition of the Shell Eco-marathon started in 2010 and 2011 was the first year for SKF Asia as an official partner. The Asian race was held at Sepang International Circuit in Kuala Lumpur, Malaysia on 6-9 July.



SKF in Venezuela is working with Casa Hogar San José – a safe home away from home for children whose parents are in prison

Casa Hogar is a non-profit organization founded in 1981. The foundation is managed by a group of nuns and is home to 26 children, whose parent(s) are in prison. With no governmental support, the foundation relies on the local community and private donations to satisfy the children's basic needs.

SKF started by collecting food, clothes and medicine to donate to the Casa. Now, people from SKF's small Venezuelan organization spend time with the children and do volunteer work twice a year at the house.

SKF is also sponsoring a psychology programme for the children. Every month a psychologist spends 20 hours at the house, helping them to sort out their issues, sometimes together with other family members included in an integrated programme.



The SKF Forest in Indonesia

The SKF Forest in Indonesia located in Mount Gede Pangrango, about 150 kms south of Jakarta. From 2008 to 2011, SKF Indonesia has planted 1,200 endemic trees in the area. Together with the local community and the Green Initiative Foundation, the plants are maintained until they have grown four meters on average. Reforestation of this land helps to absorb rainwater before it flows into Jakarta and thus prevents flooding.

Switzerland Solar Impulse

SKF contributes to Solar Impulse, the first aircraft designed to fly day and night without fuel or pollution, demonstrating the immense potential of renewable energy. The Solar Impulse project's objective is to have an airplane take off and fly autonomously, around the world, propelled uniquely by solar energy. SKF joined the project as a specialized partner, contributing to developing this unique airplane with products and engineering knowledge in the areas of bearing technology, analytical modelling and virtual testing.

The aircraft's construction calls for advanced technologies and research in composite structures, light materials, and energy storage. In the first phase of the project, SKF is providing customized hybrid deep groove ball bearings for the aircraft's main propeller drive. The prototype is designed to demonstrate the possibility of a night flight

and successfully completed the first complete day-night-day cycle in the summer of 2010. With this milestone achieved, a second airplane will be built, with the objective to circle the world in five legs of five days and nights each in 2013.

Gothenburg International Science festival

SKF has been a proud sponsor of this event since 1996. The aim of the event is to stimulate positive attitudes towards science and its role in society by bringing science to the general public. It is also to provide a meeting place for the research community. The festival is truly an excellent meeting place for the general interests or enthusiasts in natural science and technology held at various venues, from museums, libraries to shopping centres and city parks.



Shell Eco-marathon Asia

94 teams from 12 countries took part in the Shell Eco-marathon race at Sepang International Circuit at Kuala Lumpur on 6-9 July 2011. SKF is a partner of many of the teams, supporting them with technical advice, engineering solutions and of course supplying products like bearings and lubricants.

SKF – the knowledge engineering company

SKF has been a leading technology provider for more than 100 years and is increasing its investment to maintain this leadership. SKF's fundamental strength is its ability to continuously develop technology, products and services that enhance competitive advantages for its customers while giving the right return on investment for its shareholders. This is achieved by both investing in core technology areas and by combining the knowledge across the SKF technology platforms – Bearings and Units, Seals, Mechatronics, Services and Lubrication Systems – to develop value propositions for the different industries and customers around the world. It is also built on the foundation of a commitment to develop SKF's employees

and its corporate culture. SKF's offer has evolved over many years from primarily being based on different types of bearings, to include products and services from all five technology platforms including advanced unitized modules, integrating the knowledge and capabilities of SKF's platforms. A key driver of SKF's technology development today is an increased focus on developing products and services which improve efficiency and reduce energy losses, thereby helping to reduce the environmental impact both in its operations and for its customers. SKF is also increasingly supporting its customers throughout their whole asset life cycle management process.

SKF's vision is "To equip the world with SKF knowledge". To take all the knowledge gained over the years to develop and deliver products, services and solutions which enable customers today to develop their businesses successfully and profitably. SKF knowledge can be defined as the combination of the following three dimensions:

1

The geographic dimension

SKF is a global company with a local presence. Wherever customers are located, local expertise, supported by global industrial specialists and technical experts, combine their skills to make a specific offer for customers, which meets their local needs. The global experts draw upon knowledge and successes from similar industries worldwide.



2

The customer dimension

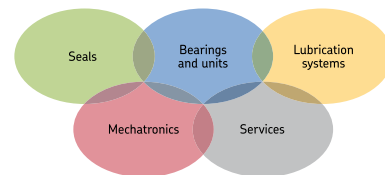
SKF's customers can be found in most industries. Each customer and segment has different technical and commercial challenges. Working in so many different industries enables SKF to both develop specific products and services for each industry and also to take knowledge from one industry and apply it to another industry.



3

The technology dimension

SKF's five technology platforms are Bearings and Units, Seals, Mechatronics, Services and Lubrication Systems. SKF's specialist teams in each platform work closely together with the segments and sales organization to provide advanced integrated solutions for meeting customers' needs to develop new products, improving production efficiency and improving competitiveness and profitability.



Using all three dimensions to build customer value is what SKF calls "The power of knowledge engineering".

Customers

SKF supplies products to industrial original equipment manufacturers (OEMs) that produce many different types of industrial products such as pumps, fans, compressors, motors, gearboxes, machine tools, paper machines, steel mills, printing presses and windmills, to name a few. SKF serves the aerospace industry, including manufacturers of engines, gearboxes and other modules for fixed wing aircraft and helicopters, as well as supplying to maintenance, repair and overhaul suppliers and airlines. SKF also supplies the railway industry, which includes manufacturers of trains, high-speed trains, passenger carriages, freight carriages, railway component and system suppliers and repair workshops.

Together with the largest network of authorized distributors in the bearing industry, SKF provides a unique service organization. With around 7,000 industrial distributors, SKF is close to its customers worldwide. SKF works actively with its distributors to help customers improve the uptime and efficiency of their production processes. One example is SKF's asset management support tools that make it possible to recommend the right maintenance strategy, work process and optimal level of spare parts. Understanding the critical machines and failure modes allow SKF to recommend the right condition monitoring solutions for customers.

Through its SKF Solution Factories SKF offers an infrastructure for delivering complete, integrated solutions incorporating all technology platforms. Customers can fully utilize SKF's knowledge by combining

the full range of SKF's expertise with workshop facilities, providing customized service to end-user customers. In this way, many SKF bearing services and integrated value-adding solutions – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training are close at hand for customers.

In close collaboration with authorized distributors, SKF Logistics' operations ensure that SKF's customers also get the right products at the right time, while minimizing capital tied up in stock.

Another customer group is OEMs of products made in higher volumes. These customers include manufacturers of cars, trucks, two-wheelers, automotive components, household appliances and small electric motors. Since the lead time for developing a new generation of these products is normally fairly long, SKF is often involved in the development process years before production starts. Many of SKF's products for these segments are specifically designed for each customer and each application.

The vehicle aftermarket is served by SKF mainly based on a repair kit concept. SKF provides mechanics with appropriate repair kits to help speed up and facilitate repair work, and which contain all the necessary components for making the repair. More than 19,000 different kits are currently available and some examples include wheel bearings, timing belts, water pumps and constant velocity joints.

SKF's engineers

SKF's technology can be found throughout the world in diverse applications, from energy wind farms, offshore oil rigs, aircraft flight control systems, steel and paper mills, and high-speed trains to washing machines and millions of motorcycles, trucks and cars.

SKF's engineers are constantly creating new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact.

I am focusing on providing solutions to the offshore upstream oil and gas sector in the North Sea and abroad. At one of the major production platforms, failing motor bearings used to cause gas compressors to break down as often as every third month. Each time, that meant 25% lost production for several days. We provided our proactive reliability maintenance services and after through analysis of the vibration signatures and the damaged bearings, we found a long-term solution. SKF's NoWear bearings along with a new sealing arrangement made all the difference, allowing the compressors to run six times longer than before. For every breakdown that can be avoided, the platform operator saves tens of million dollars. On top of that, these improvements also reduce health, safety and environmental risks.

Jim Marnoch

Business Director, SKF in Aberdeen, Scotland





To further strengthen SKF's network of R&D centres and laboratories, the Global Technical Centre India (GTCI) in Bengaluru was inaugurated in December 2011. The aim of the centre is to assume a global developmental and regional role, bringing innovation and technical knowledge closer to SKF's customers in India and South-East Asia. GTCI will also support global projects for the SKF Group.

Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. During 2011, SKF recorded 620 (469) invention disclosures and successfully applied for 325 (251) first filings of patent applications.

SKF has a strong global network of R&D centres and laboratories, as well as established collaborations with major universities and research institutes and established a number of new centres and collaborations in 2011.

R&D expenditure was SEK 1,481 million (1,184), corresponding to 2.2% (1.9) of annual sales, excluding developing IT solutions. In 2011, SEK 27 million (30) was capitalized development expenditure. SKF's R&D investments rose by around 30% (5), in local currency, in 2011 compared with 2010. The Group is increasing its activities in the R&D arena with a greater focus on new products and services which 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 the links with universities and technical colleges.

Global Technical Centres in Asia

The SKF Global Technical Centre India (GTCI) was inaugurated in Bengaluru, in December 2011. The opening of GTCI is part of SKF's technology strategy to develop a global product development and engineering organization. The new Global Technical Centre will incorporate the existing Global Testing Centre, opened in 2009 and the Automotive Development Centre, opened in 2004, both of which are located in Bengaluru. The opening of the centre further reinforces SKF's strategy to open Global Technical Centres near its customers to focus on product innovations on all five SKF technology platforms.

The expertise of the centres in Asia range from technology and product/process development to engineering and testing, thus fulfilling customers' needs in these expanding markets.

Relationship with the academic community

SKF continued strengthening its relationship with the academic community by collaborating with renowned universities as a strategic measure in maintaining technological leadership.

In April 2011, the SKF University Technology Centre for sustainability and environment was established with Chalmers University, Gothenburg, confirming this as a core strategic area for the Group; the focus being on research and development in the areas of technology, manufacturing, business processes and business strategy.

In December 2011, the SKF University Technology Centre for condition monitoring and asset management was established with the Technology University, Luleå, Sweden.

In 2009, a centre for research for steel was established at Cambridge, England. In 2010, a centre for tribology at Imperial College, London, and a centre for research for polymer materials at Tsinghua, China, were established.

Technology clusters

SKF's research projects are organized and run by technology clusters. These are groups of technical experts from throughout the Group, who translate innovation strategies in their respective fields into clear technology programs, from which product and service solutions are developed for specific customer segments and applications. The cluster experts facilitate and support continuous development of innovative ideas all the way to implementation and market introduction. Encouraging an innovative culture is vital to SKF and every year a number of internal projects are selected and awarded for their exceptional contribution to business, innovation and sustainability.

Technology in motor racing

Pursuing the excellence in the technology, SKF is active in the motor-sport industry and invests in the advanced development, which will generate additional value to the industrial and automotive markets.

In 2011, the technical partnership with the Scuderia Ferrari team was renewed, it represents the longest technical cooperation ever in F1 history. SKF provides several components in this field for the most demanding engineering applications, such as low friction sealing materials, hybrid bearings and solutions for the Kinetic Energy Recovery System (KERS).

SKF's core areas of technical expertise include:

Materials and heat treatment

SKF is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations to meet the ever-increasing demand for load carrying capacity and energy efficiency. Through its heat treatment processes, SKF achieves excellent steel properties by controlling the microstructure and the residual stresses in steel. The continuous strive for optimizing 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 response of hardened steels under extreme load conditions. Technology development within 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.

In 2011 SKF signed a strategic partnership agreement with CITIC Pacific Special Steel Co., Ltd with the ambition of creating financial synergy and sustainable development for both parties.

In November 2011, SKF received the American Society for Testing and Materials (ASTM International) award, for the numerous, outstanding contributions to the Association's conferences.

SKF's lightweight hub bearing unit is a new wheel end solution of the flanged hub bearing design, which contributes to significant weight reduction, thereby reducing fuel consumption and CO₂ emissions. By combining steel, which provides the expected roller bearing performance, with aluminum, as the flanged structural component, the overall weight can be reduced by up to 30% compared to the standard unit.

Seals

SKF focuses on developing new elastomeric materials and optimized seal-lip tribology to enhance sealing functions, using advanced modelling of the seals. The new generation of materials uses new types of fillers to provide low friction. Magnetic encoders within the seals, combined with sensors, enable the transmission of information to the controlling systems. New insights into rubber ageing, rubber friction and wear have been obtained, combining novel experimental methods with advanced simulations

Mechatronics

This is the integration of mechanical and electronic engineering with associated proprietary control strategies for application in SKF's products and processes. Monitoring operating conditions as close to the contact area as possible gives greater accuracy for studying the performance of a system. In addition to temperature, speed, direction of rotation and vibration, loads can be monitored via sensors integrated into SKF bearings.

Responding to the customers' need for reducing installation costs and time and to increase the life of components, SKF develops products that make use of wireless technologies more efficiently.

Modelling and simulation

Modelling and simulation of rolling bearing products requires detailed, accurate information on the role of different materials and associated physical properties, and how contacting surfaces react during rolling contact conditions. The development of such models has focused on different size regimes, typically from the sub-micron level up to full-scale components.

SKF has the most comprehensive and powerful sets of modelling and simulation packages in the bearing industry, ranging from easy-to-use tools based on the SKF General Catalogue formulas, to the most sophisticated calculation and simulation systems. The company's strategy is to develop a wide range of software packages to satisfy a large number of customer requirements, from fairly simple design checks and moderately complex investigations to the most advanced simulations for bearing and machine design.

SKF combines the ability to model generic mechanical systems using shafts, gears, housings, etc. with a precise bearing model for in-depth analysis of the system behaviour in a virtual environment. This SKF program is the result of several years of specific research and development. For dynamic calculations, SKF has programs to study and optimize the complex behaviour of noise and vibration-critical bearing applications (e.g. electric motors, gearboxes), providing an in-depth understanding of, and advice on, the dynamic behaviour of an application. For the most precise simulations of the detailed dynamics inside the bearing, SKF software can be seen as a virtual test rig, performing detailed studies of forces, moments etc. under virtually any load condition.

The SKF Spindle Simulator is advanced simulation software for analyzing spindle applications. This program takes account of the effect of the operating speed and temperature on the bearing shaft and housing fits, as well as the bearing preload. In addition, at each point in the spindle's duty cycle, it analyzes the effect of the external loads on the shaft and the bearings and delivers precise information about each contact for each rolling element on each bearing. The program supports the analysis of spindles and contains detailed models of super-precision bearings.



In January 2012, SKF launched the SKF Bearing Calculator in the App Store for iPhones and iPads. Customers can run basic analysis of a bearing from anywhere, based on the calculations according to the SKF General Catalogue.

The SKF Interactive Engineering Catalogue is an easy-to-use online tool for bearing selection and calculation, for public use at www.skf.com, containing bearing designations, dimensions and drawings of bearing units, bearing housings, plain bearings and seals. A module for frictional moment of energy-efficient bearing designs has also been published. This calculation model considers the geometrical optimization made in the bearings to reduce friction, as well as surface topography improvements and the use of low-friction lubricants of energy-efficient bearings.

Tribology and lubrication

The interaction between lubricants and bearing steel is an essential factor and is critical when bearings operate with marginal lubrication. The chemical composition and mechanical properties of the reaction layer formed by the interaction between the lubricant and the bearing steel strongly influences the performance of bearings.

Therefore, understanding the composition and mechanics of reaction layers is very important for SKF. Understanding, predicting and controlling the working conditions help reduce bearing friction and wear, and prolong service life.

Manufacturing

SKF is constantly developing its manufacturing processes to optimize investments in equipment and working capital per unit produced, resulting in enhanced quality and improved customer service. The use of Six Sigma methodology plays an important role in strengthening SKF's manufacturing efficiency. All initiatives for continuously improving manufacturing are brought together by Business Excellence for Manufacturing, which ensures consistent implementation throughout the Group.

Manufacturing R&D

To support the manufacturing strategy, R&D focuses on developing and implementing new technology to increase reliability and flexibility, reduce costs and improve environmental performance. Some examples include:

- Improved product performance by an advanced selection of steel and heat treatment combination. In recent years considerable investment and implementations have been made in heat treatment equipment at many of SKF's factories.
- Improved material utilization in all manufacturing process steps resulting in reduced waste, manufacturing variations and allowances.
- Intelligent machining and integrating sensors and measuring equipment into machines for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring enabling tighter control of manufacturing processes.
- New processes for improving sustainability, employing important, enhanced, energy utilization while reducing the use of process media.
- New methods for business excellence in manufacturing resulting in improved equipment utilization and a stronger culture of active involvement of SKF's employees.

Life cycle management research

An increasing share of SKF's research projects primarily target improving life cycle environmental performance of the customer's applications. This means considering the environmental consequences of a product or manufacturing process, no matter where in the product's life cycle these consequences occur.

To support this positive development and foster the use of improved environmental performance technologies, SKF is conducting research in the area of life cycle management. The aim is to constantly improve the knowledge of the environmental performance of SKF's products and manufacturing processes, and to put that knowledge into practice by adapting day-to-day business methods and tools.

Conventional methods for environmental assessment, such as life-cycle assessment and environmental risk assessment are applied to capture the complex and holistic nature of environmental impacts. However, in the life cycle management research conducted by SKF, in collaboration with renowned universities and at industrial expertise centres, these methods are further developed to suit industrial needs better.

Intelligent inspection technologies

SKF's commitment towards zero waste and zero defects has led to developing advanced technologies for inspecting products and components. By adding intelligence into the inspection loop, SKF can today use the information generated to better control and verify the manufacturing processes. This can be used by applying non-destructive testing technologies like vision systems, eddy current, ultrasonic and other technologies built on magnetic properties of heat-treated steel. Combining it with the use of artificial intelligence it is possible to detect the material defects and improve process control, as well as defining and predicting product properties.

Near net shape forming

Near net shape forming is a cluster of technologies from forging, pressing, to rolling of rings and rolling elements that aim at forming a component to almost the final shape. This process enables the reduction of allowances in all operations, giving greater performance in SKF's manufacturing channels. Reduced allowances also have a significant impact on the environment – reducing the manufacturing cycle time will reduce energy consumption and waste.

To achieve the full benefit, SKF is also exploring new ways of manufacturing bearings and components. This could involve new unconventional technologies or combinations thereof, as well as combinations of materials for taking advantage of properties from each material.

SKF's markets

Bearings market

The global bearing market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. SKF estimates that the global rolling bearing market increased in local currency between 5 and 10% in 2011 over the previous year, to between SEK 310 and 320 billion.

The automotive original equipment bearing markets, including two- and three-wheelers, accounted for slightly more than 30% of world demand. The industrial original equipment bearing markets accounted for almost 40% 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) make up around 30% of world bearing demand, of which around 25% is related to the vehicle service market and around 75% to the industrial market.

Asia currently accounts for almost 50% of the world bearing market, compared with less than 30% ten years ago. China has been growing rapidly over the last few years supported by the expansion of its domestic railway infrastructure and a robust demand in renewable energy and now accounts for more than 25% of the world bearing total. Japan's share of the world bearing market has been declining, and domestic Japanese bearing demand now accounts for less than 15% of the world total. Other Asian markets with bearing production and showing significant growth in recent years include India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which is the largest and fastest growing 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 (ZWZ), Luoyang (LYC), Harbin (HRB), Zhejiang Tianma (TMB), Wanxiang Qianchao, and C&U.

The Indian bearing market has been growing at the same pace as the Chinese market and now accounts for about 5% of the world bearing market. The players in that market include international manufacturers and several local manufacturers such as NEI, NRB, ABC and TATA.

Europe accounts for less than 25% of the world market total with Germany alone accounting for almost 10%. The Americas now represent less than 25% of global demand, of which the USA, Canada and Mexico together account for about 80%. In South America, Brazil is the major market and makes up more than 60% of regional demand.

SKF is the world leader on the market for bearings and other major international companies here include: the Schaeffler Group, Timken, NSK, NTN, and JTEKT.

Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30% of world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub bearing units accounting for more than 10% of total world bearing market. Roller bearings account for less than half of world bearing market.

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). There are also bearings that contain both balls and rollers simultaneously. The largest roller bearing family is the tapered roller bearing, with almost 20% of the world bearing market.



Actuation and motion control market

This market includes a wide variety of different products in which mechanical components and systems, electric drives and intelligent controls are combined to provide different types of controlled motion. SKF estimates that the global markets for actuation and motion control increased by 15% in 2011 over the previous year in local currencies, to around SEK 70 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 company's largest competitors include LINAK, in the actuator business and THK, in the linear motion area. There is a clear industrial trend towards a higher use of mechatronic solutions driven by increasingly stringent demands on reliability, flexibility, cost of ownership, energy efficiency and environmental impact.

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 segments in this market include the medical industry, factory automation, semi-conductors and the oil and gas industry. SKF is very active in the oil and gas segment 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 leading supplier for heavy duty actuation systems (systems with a high utilization rate), roller screws and magnetic system solutions, including magnetic bearings, controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and complete systems, such as by-wire systems for aerospace, off-highway and automotive applications.



Actuators for linear motion

International standards

SKF has actively contributed as part of the ISO Technical Committee since its start in 1949 to set the standards for the bearing industry. Most of the standards projects on rolling bearings were initiated by SKF engineers. SKF is involved in many standardization bodies:

ISO (International Organization for Standardization)
ANSI (American National Standards Institute)
DIN (Deutsches Institut für Normung)
CEN (European Committee for Standardization)
BSI (British Standards Institute)
SIS (Swedish Standards Institute)

Polymer seals market

SKF is a leading player in the global polymer seals market. After the economic downturn in 2009 the market recovered in 2010 to reach around SEK 70 billion. During 2011 market growth continued, though at a slower rate during the second half, to reach an estimated SEK 75 billion. In local currencies market growth was estimated at around 15% for 2011.

There are different ways of segmenting the polymer seals market. It can be classified by type of motion into rotating, reciprocating or static seals. It can also be classified into rubber seals, PTFE seals, etc. depending on the main material used for sealing solutions. A third way of segmenting the market is to look at the customer groups: automotive, industrial or aerospace seals. SKF is a significant player in all three customer groups.

Asia represents about 40% of the industrial seals market. The remainder is almost equally split between the Americas and Europe. Even though a slowdown of the growth rate could be seen in China and India in 2011, they are still rapidly expanding markets and are expected to grow faster than Europe and the Americas in years to come. A local presence for supplying the Asian market is critical. SKF has a good presence in the Asian markets with seals manufacturing, testing and engineering facilities in China, India and South Korea. SKF is continuously investing to further strengthen its Asian presence, including a new seals factory in Mysore, India, which will start production in the first half of 2012.

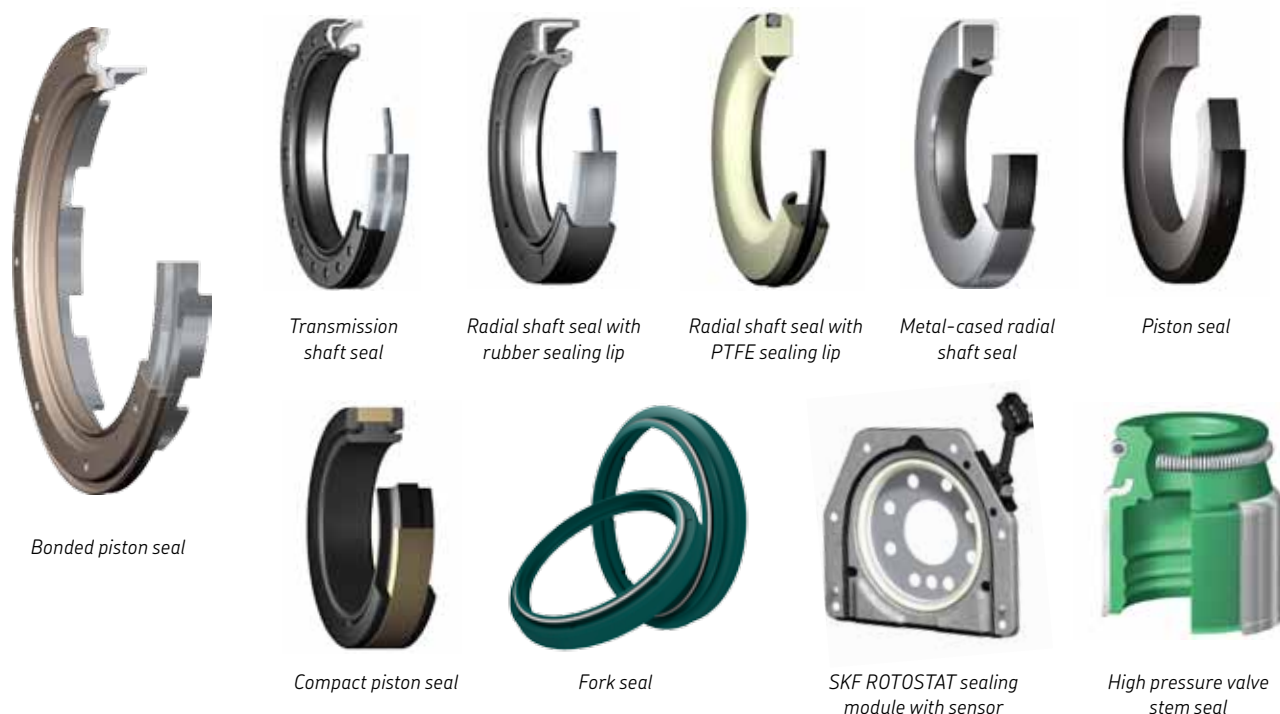
Industrial seals can be categorized into power transmission seals and fluid system seals, with the latter comprising fluid power seals and fluid handling seals. With its established presence in the bearing industry, SKF has a strong track record with polymer seals for the power transmission industry and is today a leading player on this market offering high-end, technology driven solutions. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Wear sleeves, which are used to repair a worn shaft without dismantling the shaft, is also a key product group where SKF has a strong position.

Fluid power seals are used in both mobile and stationary fluid power applications, for example in off-highway, mining, and heavy industry. The off-highway applications, where SKF has a strong position, represent the largest part of the market. About 80% of the fluid power seals are made for reciprocating motion. SKF has the capability to produce fluid power and fluid handling polymer seals using both, machining and moulding technologies. Machined seals, where SKF has a world leading position, can be produced in a variety of profiles and within very short time frames.

Asia represents about 50% of the automotive OEM seals market while the rest is split between Europe and the Americas. Key applications in the automotive seals market that SKF focuses on with the latest technology solutions include powertrain, both in engines and transmissions, wheel ends and chassis. Transmission seals represent the largest part of the market, with its bonded piston and shaft seal product lines. For engine applications, valve stem seals and engine shaft seals are key product groups where SKF has a strong presence. SKF also has a strong position for seals that are integrated into wheel hub bearing units for cars, as well as seals for the heavy truck industry.

SKF offers seals, elastomeric bearings, elastomeric isolators and damping solutions mainly for helicopters. SKF also offers standard radial lip shaft seals for rotor systems, gearboxes, transmissions, and auxiliary power units including landing gear wheels seals and actuator seals.

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 segments. Trelleborg and Parker Hannifin are important players on the industrial seals market, and Federal Mogul, Dana, ElringKlinger and Bruss are significant suppliers of automotive seals. For precision elastomeric devices, Lord and Paulstra (part of the Hutchinson Group) are the largest suppliers. Overall, SKF is among the top global players with a strong offer in most applications across each segment.



Lubrication systems market

SKF estimates that the global lubrication market, consisting of automatic lubrication systems equipment, design and installation and lubrication tools and equipment, was worth around SEK 30 billion in 2011, compared to 2010, up with more than 25% measured in local currencies.

Automatic or centralized lubrication systems provide precise amounts of lubricants – oil or grease – to moving parts, notably bearings, to minimize 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. Design and installation services play a significant role.

Large industrial processing equipment in the cement, mining and mineral processing, steel and paper industries accounts for almost

50% 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% of the market.

By region, European markets account for about 40%, North and Latin America together make up about 25%, and Asia and the rest of the world account for 35%.

SKF has a strong presence in both the grease and the oil-based lubrication systems market globally. 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 Baier & Köppel (BEKA, Germany), Groeneveld Group (Netherlands), Bijur Delimon (USA), Graco (USA), Dropsa (Italy) and Woerner (Germany).



Lincoln's new 18-Volt Lithium Ion PowerLuber grease gun was built for the maintenance professional. The innovative design includes an illuminated display centre that measures grease dispensed, cartridge level, charge level and more.



The Lincoln 653 pump is part of the Centro-Matic automatic grease lubrication system. It can support applications ranging from just a few lubrication points to as many as 36 large injectors and many more if smaller injectors are used. The pump can dispense lubricant to bearings as far as 70 metres away from the pump. It's ideal for both mobile off-road and industrial applications.



The new oil-based system SKF microdosage for lubrication of high-speed spindles. The system supplies up to four lubrication points with minimal quantities of oil.



Accurately aligned shafts can help prevent machinery breakdowns and reduce unplanned downtime. SKF has developed a range of shaft alignment tools that are suitable for a majority of alignment tasks.

Asset efficiency market

Asset efficiency product and service solutions is a rapidly expanding business sector, driven by increasing global competition among capital-intensive industries. Asset efficiency 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. Typically, this involves using condition-monitoring technologies like vibration, thermography and oil analysis to name a few.

Rapidly expanding markets continue to outpace and now account for almost 50% of the global market. Of this Asia contributes almost 30% and Latin America around 20% with North America, Europe and the Middle East together accounting for the remainder. The compounded annual growth rate (CAGR) is nearly double in Asia and other rapidly expanding markets to that of the US and Europe. Developing infrastructure, along with the fast growing energy sector, is driving demand for asset efficiency products and services. Demand in North America and Europe is driven primarily by upgrading existing facilities and growth in the renewable sector.

The aging workforces in North America and Europe, along with corporate downsizing in recent years, has resulted in fewer skilled personnel available on the market place for conducting asset efficiency programmes. This has driven increasing use of outsourced service contracts from SKF along with deployment of remote monitoring solutions supported by Software as a Service (SaaS). This leverages skills, improves consistency and reduces start-up and operation costs of asset reliability programmes.

Increasing regulatory requirements driven by health, safety and environmental concerns are requiring 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 costing and 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 plays a role in the entire life cycle process to help lower the total costs.

SKF is a global leader in this rapidly expanding market. By combining its extensive knowledge of industrial machinery and sustainability demands 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 largest competitor in the market is the GE Energy unit Bently-Nevada.



SKF's new TKSA 60 and TKSA 80 shaft alignment tools are designed to help users with managing alignment processes for rotating machines, which consequently help prevent reduced production caused by machine misalignment and promotes reduced energy consumption and increased operating life.



Financial statements

Content

83	Consolidated financial statements	118	Note 24. Related parties
84	Consolidated income statements and consolidated statements of comprehensive income	118	Note 25. Remuneration to Key Management
85	Comments on the consolidated income statements	122	Note 26. Fees to the auditors
86	Consolidated balance sheets	123	Note 27. Average number of employees
87	Comments on the consolidated balance sheets	123	Note 28. Financial risk management
88	Consolidated statements of cash flow	126	Note 29. Events after balance sheet date
89	Comments on the consolidated statements of cash flow	127	Financial statements of the Parent Company
90	Consolidated statements of changes in equity and comments	127	Parent Company income statements and statements of comprehensive income
91	Notes to the consolidated financial statements	128	Parent Company balance sheets
91	Note 1. Accounting policies	129	Parent Company statements of cash flow
99	Note 2. Segment information	130	Parent Company statements of changes in equity
100	Note 3. Acquisitions	131	Notes to the financial statements of the Parent Company
102	Note 4. Divestments of businesses and assets held for sale	131	Note 1. Accounting policies
102	Note 5. Research and development	131	Note 2. Financial income and financial expenses
102	Note 6. Expenses by nature	132	Note 3. Untaxed reserves
103	Note 7. Other operating income and expenses	132	Note 4. Taxes
103	Note 8. Financial income and financial expenses	132	Note 5. Property, plant and equipment
104	Note 9. Taxes	133	Note 6. Investments in subsidiaries and associated companies
105	Note 10. Intangible assets	135	Note 7. Investments in equity securities
107	Note 11. Property, plant and equipment	135	Note 8. Provisions for post-employment benefits
108	Note 12. Jointly controlled and associated companies	136	Note 9. Loans
109	Note 13. Inventories	136	Note 10. Salaries, wages, other remunerations, average number of employees and men and women in Management and Board
109	Note 14. Financial assets	136	Note 11. Related parties
111	Note 15. Other short-term assets	136	Note 12. Events after balance sheet date
111	Note 16. Share capital	137	Proposed distribution of surplus
112	Note 17. Earnings per share	138	Notes – Environmental and social performance
112	Note 18. Provisions for post-employment benefits	142	Auditors' report
116	Note 19. Other provisions		
116	Note 20. Financial liabilities		
117	Note 21. Leases		
117	Note 22. Other short-term liabilities		
117	Note 23. Assets pledged and contingent liabilities		

Consolidated income statements

SEKm	Note	Years ended 31 December	
		2011	2010
Net sales	2	66,216	61,029
Cost of goods sold	5, 6	-47,644	-44,216
Gross profit		18,572	16,813
Selling expenses	6	-8,435	-7,729
Administrative expenses	6	-545	-493
Other operating income	7	860	527
Other operating expenses	7	-824	-666
Loss (-)/profit (+) from jointly controlled and associated companies	12	-16	0
Operating profit		9,612	8,452
Financial income	8	368	391
Financial expenses	8	-1,048	-1,294
Profit before taxes		8,932	7,549
Taxes	9	-2,708	-2,253
Net profit		6,224	5,296
Net profit attributable to:			
Owners of AB SKF		6,051	5,138
Non-controlling interests		173	158
Basic earnings per share (SEK)	17	13.29	11.28
Diluted earnings per share (SEK)	17	13.29	11.28

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2011	2010
Net profit		6,224	5,296
Other comprehensive income			
Currency translation adjustments		-96	-1,660
Available-for-sale assets			
Change in fair value	14	-260	169
Cash-flow hedges			
Change in fair value	28	-68	30
Release of cash flow hedges	28	-127	-12
Actuarial gains and losses, net	18	-1,336	-616
Income taxes related to components of other comprehensive income	9	472	56
Other comprehensive income, net of tax		-1,415	-2,033
Total comprehensive income		4,809	3,263
Total comprehensive income attributable to:			
Owners of AB SKF		4,720	3,131
Non-controlling interests		89	132

Amounts in parentheses refer to comparable figures for 2010.

General

Lincoln, which was acquired 28 December 2010, is included in the Group's Consolidated Income statement and statement of comprehensive income as from 1 January 2011.

Net sales

Net sales amounted to SEK 66,216 m (61,029). The 8.5% increase in net sales compared to 2010 was attributable to volume by 9.6%, to price and mix¹⁾ by 1.9%, to structure by 4.8% and to currency effects by -7.8%. The structural increase in sales is primarily related to Lincoln. Qualifying hedging activities affected net sales by SEK 119 m (10).

Operating profit

Operating profit amounted to SEK 9,612 m (8,452) resulting in an operating margin of 14.5% (13.8). Non-recurring items impacting operating profit for the full-year amounted to around SEK 100 m (190) of which around SEK 40 m were related to impairment of assets and had no impact on cash flow. The remaining costs were related to various restructuring activities.

Exchange rates for the full year 2011, including translation effects and flows from transactions, had a negative effect on operating profit of around SEK 1,200 m (-400). Cost of goods sold, selling and administrative expenses amounted to SEK 56,624 m (52,438). The costs were divided into 33% (35) employee benefit expense including social charges, 37% (34) raw material and components consumed, 27% (27) other purchased services, utilities and goods and 3% (4) depreciation, amortization and impairments. Other operating income and other operating expenses include items such as foreign exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of property, plant and equipment and businesses as well as rental revenues. For further details, see Note 7.

Profit before taxes

Profit before taxes amounted to SEK 8,932 m (7,549). Financial income and expenses, net, amounted to SEK -680 m (-903). The comparable figure for 2010 includes a write-down of SEK 225 m related to the Ovako vendor note. Interest costs net on post-employment benefits have affected the financial net negatively by SEK 247 m (-267).

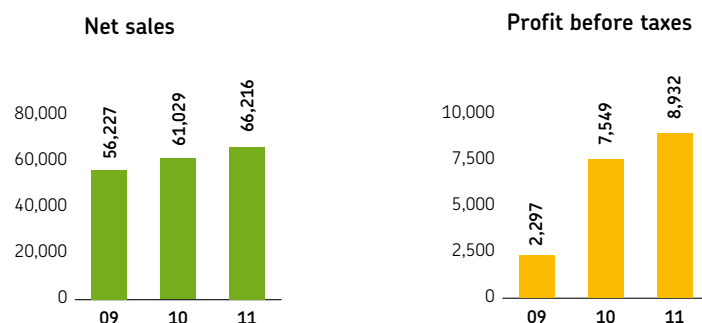
Net profit

Net profit amounted to SEK 6,224 m (5,296). The actual tax rate was 30.3% (29.8).

Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2011
Net sales	16,702	16,712	16,545	16,257	66,216
Operating profit	2,504	2,623	2,479	2,006	9,612
Profit before taxes	2,318	2,446	2,345	1,823	8,932
Basic earnings per share (SEK)	3.44	3.76	3.52	2.57	13.29

¹⁾Mix refers to volume shifts between various customer segments and products with different price levels.



Consolidated balance sheets

		As of 31 December	
SEKm	Note	2011	Restated 2010 ¹⁾
ASSETS			
Non-current assets			
Goodwill	10	5,992	5,931
Other intangible assets	10	4,165	4,263
Property, plant and equipment	11	13,076	12,922
Long-term financial assets	14	1,401	1,257
Deferred tax assets	9	1,299	1,151
Investments in jointly controlled and associated companies	12	11	87
Other long-term assets	18	82	67
		26,026	25,678
Current assets			
Inventories	13	14,191	12,879
Trade receivables	14	10,713	9,859
Tax receivables		326	261
Other short-term assets	15	2,781	2,190
Assets held for sale	4	–	388
Other short-term financial assets	14	512	751
Cash and cash equivalents	14	4,825	2,395
		33,348	28,723
Total assets		59,374	54,401
EQUITY AND LIABILITIES			
Share capital	16	1,138	1,138
Share premium		564	564
Available-for-sale reserve		174	434
Hedging reserve		-82	61
Translation reserve		-1,170	-1,127
Retained earnings		20,812	17,865
Equity attributable to owners of AB SKF		21,436	18,935
Equity attributable to non-controlling interests		1,019	959
		22,455	19,894
Non-current liabilities			
Long-term financial liabilities	20	12,500	10,850
Provisions for post-employment benefits	18	8,634	7,093
Deferred tax provisions	9	938	1,309
Other long-term provisions	19	1,477	1,560
Other long-term liabilities		125	62
		23,674	20,874
Current liabilities			
Trade payables	20	4,698	4,476
Tax payables		815	842
Short-term provisions	19	359	602
Other short-term financial liabilities	20	1,113	1,325
Other short-term liabilities	22	6,260	6,082
Liabilities related to assets held for sale	4	–	306
		13,245	13,633
Total equity and liabilities		59,374	54,401

¹⁾ Restated for finalized Lincoln PPA, see Note 1.

Amounts in parentheses refer to comparable figures for 2010.

Assets and liabilities

Inventories amounted to SEK 14,191 m (12,879) which as a percentage of annual sales is 21.4% (21.1). The target for the Group is 18%.

Trade receivables amounted to SEK 10,713 m (9,859) which as a percentage of annual net sales is 16.2% (16.2). The average days of outstanding trade receivables were 60 days (58). The target for the Group is 57 days. The Group's equity/assets ratio was 37.8% (36.6¹⁾) and gearing was 48.9% (48.6). The target is to operate around 35% and 50% respectively. The net debt/equity ratio was 72.5% (80.5).

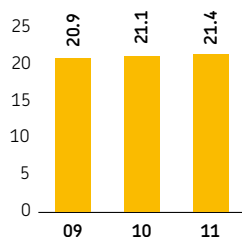
Provisions for post-employment benefits increased some SEK 1,300 m due to actuarial gains and losses, see Note 18.

During 2011, equity increased by SEK 2,561 m (-1,796). In 2011 SEK 2,277m (1,594) was distributed as ordinary dividend to the shareholders of AB SKF. For further details, see Note 16.

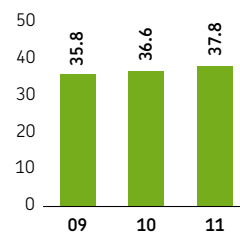
Financing

At year end, total interest-bearing loans amounted to SEK 12,851 m (11,796). Post-employment benefits, net amounted to SEK 8,599 m (7,047). Financial assets totalled SEK 6,738 m (4,403) of which SEK 5,337 m (3,146) consisted of current financial assets. Changes in net interest bearing liabilities are disclosed in the Group's Consolidated statement of cash flow.

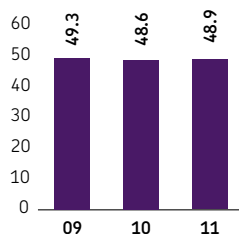
**Inventories, %
of annual net sales**



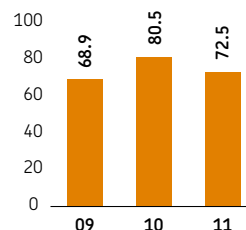
Equity/Assets, %¹⁾



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2011	2010
Operating activities			
Operating profit		9,612	8,452
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	1,790	1,992
Net gain (-)/loss on sales of property, plant and equipment and equity securities		-24	-5
Other non-cash items		251	-696
Income taxes paid		-2,858	-1,722
Contributions to and payments under post-employment defined benefit plans		-486	-466
Jointly controlled and associated companies		2	-2
<i>Changes in working capital</i>			
Inventories		-1,270	-1,438
Trade receivables		-892	-1,315
Trade payables		219	809
Other operating assets and liabilities, net		-452	728
Interest received		93	160
Interest paid		-442	-357
Other financial items		43	-589
Net cash flow from operating activities		5,586	5,551
Investing activities			
Additions to intangible assets	10	-89	-46
Additions to property, plant and equipment	11	-1,839	-1,651
Sales of property, plant and equipment		75	95
Acquisitions of non-controlling interests and businesses, net of cash and cash equivalents acquired	3	-6	-6,799
Sales of businesses net of cash	4	125	12
Investments in equity securities		-4	-
Net cash flow used in investing activities		-1,738	-8,389
Net cash flow after investments before financing		3,848	-2,838
Financing activities			
Proceeds from medium- and long-term loans		5,495	4,654
Repayment of medium- and long-term loans		-4,632	-2,321
Change in short-term loans		10	-52
Other, including payment of finance lease liabilities		-8	-11
Cash dividends to AB SKF's shareholders		-2,277	-1,594
Cash dividends to non-controlling shareholders		-30	-28
Investments in financial and other assets		-218	-788
Sales of financial and other assets		240	996
Net cash flow used in financing activities		-1,420	856
Increase(+)/decrease(-) in cash and cash equivalents		2,428	-1,982
Cash and cash equivalents at 1 January		2,395	4,430
Cash effect excluding acquired/sold businesses		2,477	-2,265
Cash effect from acquired/sold businesses	3, 4	-49	283
Translation effect		2	-53
Cash and cash equivalents at 31 December		4,825	2,395

Amounts in parentheses refer to comparable figures for 2010

General

The Consolidated statements of cash flows have been adjusted for exchange rates arising upon the translation of foreign subsidiaries' balance sheets to SEK, as these do not represent cash flows.

Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measurement used in the Group, amounted to SEK 3,848 m (-2,838).

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 11,402 m (10,444). The gross cash flow was 17.2% (17.1) of annual net sales. The increase was mainly caused by an improvement in operating profit.

Other non-cash items include certain expenses for which cash flow has not yet occurred. The most significant items being operating expenses on post-employment defined benefits plans and provisions.

Net cash flow used in investing activities

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,839 m (1,651), whereof approximately SEK 65 m (121) was spent on internal and external environmental improvements.

In 2011 the Group's cash outflow for acquisitions of business and non-controlling interests was SEK 6 m. In 2010 the cash outflows were SEK 6,799 m mainly attributable to the acquisition of Lincoln see Note 3.

Cash flow from financing activities

Interest-bearing loans totalled SEK 12,851 m (11,796) at year end. During the year, the SKF Group arranged new long term financing of EUR 500 m and SEK 1,000 m. Loans amounting to EUR 400 m, EUR 50 m and SEK 556 m were repaid during the year.

Post-employment benefits, net, amounted to SEK 8,599 m (7,047). Interest payments amounted to SEK 442 m (357) and interest received to SEK 93 m (160).

The change in cash and cash equivalents was SEK 2,430 m (-2,035). In 2011, changes in exchange rates affected cash and cash equivalents by SEK 2 m (-53) mainly attributable to USD and EUR.

Change in net interest-bearing liabilities (SEKm)	2011 Closing balance	Cash change	Businesses acquired/sold	Other non- cash changes	Translation effect	2011 Opening balance
Loans ¹⁾	12,851	873	–	-52	234	11,796
Post-employment benefits, net ²⁾	8,599	-486	–	1,969	69	7,047
Other financial assets, other ³⁾	-1,021	22	–	-64	34	-1,013
Cash and cash equivalents	-4,825	-2,477	49	–	-2	-2,395
Net interest-bearing liabilities	15,604	-2,068	49	1,853	335	15,435

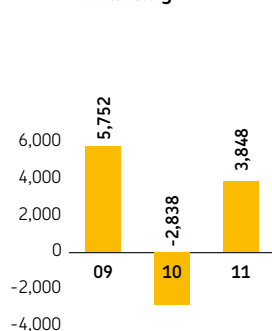
Change in net interest-bearing liabilities (SEKm)	2010 Closing balance	Cash change	Businesses acquired	Other non- cash changes	Translation effect	2010 Opening balance
Loans ¹⁾	11,796	2,281	–	54	-1,289	10,750
Post-employment benefits, net ²⁾	7,047	-466	163	1,127	-770	6,993
Other financial assets, other ³⁾	-1,013	208	-2	217	76	-1,512
Cash and cash equivalents	-2,395	2,265	-283	–	53	-4,430
Net interest-bearing liabilities	15,435	4,288	-122	1,398	-1,930	11,801

¹⁾Excludes derivatives, see Note 20.

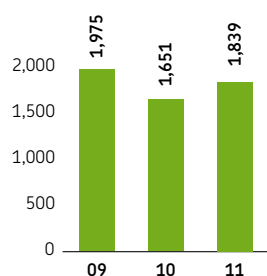
²⁾Other non-cash changes includes actuarial gains and losses as well as expenses on defined benefits plans.

³⁾Other financial assets exclude equity securities, cash and cash equivalent, derivatives and include other long-term assets less defined benefit assets.

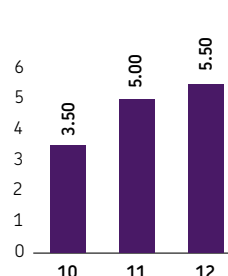
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share, SEK



The Board of Directors' proposed distribution of surplus for the year 2011, which is subject to approval at the Annual General Meeting in April 2012, includes an ordinary dividend of SEK 5.50 per share, see Note 16.

Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF							Non-controlling interests	Total
	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal		
Opening balance 1/1/2010	1,138	564	265	47	669	14,728	17,411	869	18,280
Net profit	–	–	–	–	–	5,138	5,138	158	5,296
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-1,634	–	-1,634	-26	-1,660
Change in fair value of available-for-sale assets and cash flow hedges	–	–	169	30	–	–	199	–	199
Release of cash flow hedges	–	–	–	-12	–	–	-12	–	-12
Actuarial gains and losses	–	–	–	–	–	-616	-616	–	-616
Income taxes related to components of other comprehensive income	–	–	–	-4	-169	229	56	–	56
Cost for Performance Share Programmes, net ¹⁾	–	–	–	–	–	8	8	–	8
Dividends	–	–	–	–	–	-1,594	-1,594	-28	-1,622
Acquisition of non-controlling interests	–	–	–	–	7	-28	-21	-14	-35
Closing balance 31/12/2010	1,138	564	434	61	-1,127	17,865	18,935	959	19,894
Net profit	–	–	–	–	–	6,051	6,051	173	6,224
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-16	–	-16	-80	-96
Change in fair value of available-for-sale assets and cash flow hedges	–	–	-260	-68	–	–	-328	–	-328
Release of cash flow hedges	–	–	–	-127	–	–	-127	–	-127
Actuarial gains and losses	–	–	–	–	–	-1,332	-1,332	-4	-1,336
Income taxes related to components of other comprehensive income	–	–	–	52	-27	446	471	1	472
Cost for Performance Share Programmes, net ¹⁾	–	–	–	–	–	59	59	–	59
Dividends	–	–	–	–	–	-2,277	-2,277	-30	-2,307
Closing balance 31/12/2011	1,138	564	174	-82	-1,170	20,812	21,436	1,019	22,455

¹⁾ See Note 25 for details.

Available-for-sale reserve

The available-for-sale reserve accumulates changes in the fair value of available-for-sale assets, with the exception of impairment losses which are recognized directly in the income statement. See Note 1 for the accounting principles and Note 14 for details on available-for-sale assets.

Hedging reserve

The hedging reserve accumulates activity related to cash flow hedges, both changes in fair value as well as amounts released to the income statement. See Note 1 for accounting principles and Note 28 for details on the activity during the year.

Translation reserve

Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated in the translation reserve. Upon the sale of a foreign operation, the accumulated translation amounts are recycled to the income statement and included in the gain or loss on the disposal. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. See Note 28 for details.

Notes to the consolidated financial statements

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2010.

1 Accounting policies

Critical accounting policies

Basis of presentation

The consolidated financial statements of the SKF Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Furthermore, the Group is in compliance with the Swedish Financial Reporting Board's RFR 1, Supplementary Accounting Rules for Groups, as well as their interpretations (UFR).

The annual report of the Parent company, AB SKF, has been signed by the Board of Directors on 26 January 2012. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheet are subject to adoption at the Annual General Meeting on 25 April 2012.

The consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below.

Basis of consolidation

The consolidated financial statements include the Parent company, AB SKF, and each of those companies in which it directly or indirectly, exercises control. Control is defined as the power to govern the financial and operating policies of a company in order to obtain benefit from its activities. Such control is usually achieved with an ownership representing more than 50% of the voting rights. AB SKF and its subsidiaries are referred to as "the SKF Group" or "the Group".

Consolidated equity includes the Parent company's equity and the part of the equity in subsidiaries arising after the subsidiary's acquisition.

Non-controlling interests are shown as a separate category within equity with a specification of their share of net profit and total comprehensive income.

Intercompany accounts, transactions and unrealized profits have been eliminated in the consolidated financial statements.

Business combinations and goodwill

All business combinations are accounted for in accordance with the purchase method. At the date of acquisition, the acquired assets, assumed liabilities and contingent liabilities (net identifiable assets) are measured at fair value, which requires the use of estimates.

Acquired land, buildings and equipment are either appraised by independent valuers, or internally appraised with reference to observable market data. Financial assets and liabilities (including post-employment benefits), as well as inventories, are valued using references to available market information. The fair values of significant intangible assets are derived either with the assistance of independent valuation experts, or developed internally using appropriate valuation techniques generally based on forecasted future cash flows.

In a business combination achieved in stages, where control is obtained, any previously held equity interest is remeasured at its acquisition-date fair value and the gain or loss is recognized in the income statement. The acquired entity is fully consolidated as from

the date control is obtained. The cost of acquisition is the sum of the purchase price and the fair value of the previously held equity interest.

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognized as goodwill. If such fair values exceed the cost of acquisition, this excess is credited to the income statement in the period of acquisition. Acquisition related costs are expensed as incurred, rather than included in the cost of the acquisition.

This purchase price allocation, PPA (the process of allocating the acquisition cost to the net identifiable assets acquired and goodwill), is required by IFRS to be completed within twelve months of the acquisition date. Once the PPA has been reviewed and approved by management, goodwill is allocated to the cash generating units ("CGUs") expected to benefit from the synergies of the acquisition. Goodwill is not amortized, but is tested for impairment annually and whenever there is an indication of impairment.

Investments in jointly controlled and associated companies

Companies in which the Group has a significant influence, are referred to as associated companies. Significant influence is the power to participate in the financial and operating policy decisions of the investee and is usually achieved when the Group owns 20-50% of the voting rights. Investments in associated companies are reported in accordance with the equity method.

Investments, where the Group as a venturer and together with other venturers, jointly control the investment through a contractual arrangement between the venturers, are defined as jointly controlled entities. Such investments are accounted for using the equity method.

Under the equity method, the carrying value of the investment is equal to the Group's share of equity in the company, determined in accordance with the accounting policies of the Group, as well as any goodwill or other fair value adjustments arising upon acquisition less any impairment. The Group's share in the result of these companies is based on their pre-tax profit/loss and taxes, respectively.

Classification

The assets and liabilities classified as current are expected to be recovered or settled within twelve months from the balance sheet date. All assets and liabilities expected to be recovered or settled later are classified as non-current. No other liabilities than loans, financial leases and certain derivative instruments are expected to be settled later than five years from the balance sheet date.

Segment information

The Group has three reportable operating segments, Industrial Division, Service Division and Automotive Division.

Operating segments are identified based on the internal structure of the Group's business activities whose operating results are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources and to assess performance. The Group's internal reporting and consequently information to the CODM is structured into the Industrial Division, the Service Division and the Automotive

1 Accounting policies (cont.)

Division and Other operations, each being customer segments representing groups of related industrial and automotive products.

The industrial market is characterized by a large diversity of customers. However, there are two distinct customers groups within the industrial market, original equipment manufacturing (OEM) customers and aftermarket customers. The Industrial and Service Divisions serve this industrial market, where the Industrial Division is primarily responsible for sales to the OEM customers while Service Division is primarily responsible for the aftermarket customers.

The Automotive Division is responsible for all sales to the automotive market. This includes the OEM customers being car and truck and similar vehicle manufacturers. It also includes the aftermarket customers providing complete repair kits for the vehicle service market.

The measurement principles for the Group's segments are based on the IFRS principles adopted in the consolidated financial statements. Sales and other transactions between segments are based on market conditions.

Segment assets include all operating assets used and controlled by a segment and consist principally of property, plant and equipment, intangibles, external trade receivables, inventories, other receivables, prepayments and accrued income.

Segment liabilities include all operating liabilities used and controlled by a segment and consist principally of external trade payables, other provisions, accrued expenses and deferred income.

Segment profit represents the business result generated by the capital employed of the division and includes some centrally allocated corporate expenses.

Reconciling items to Group amounts are mainly related to consolidation eliminations, unallocated items, and some timing differences. Unallocated items include all tax items and items of a financial, interest-bearing nature, including post-employment benefit assets and provisions. Unallocated items also include exchange differences on trade receivables and payables and items related to certain central corporate activities, including research and development. Additionally timing differences exist related to profit allocation linked to intra-Group sales.

Asymmetrical allocations affecting the segments relate primarily to post-employment benefits where non-financial expenses are allocated to the segments although the related provision is not. Additionally inter-segment receivables and payables relating to sales between segments, are not allocated to the segments as such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Translation of foreign financial statements

AB SKF's functional currency is the Swedish kronor (SEK), which is also the Group's reporting currency.

All foreign subsidiaries report in their functional currency being the currency of the primary economic environment in which the subsidiary operates. Upon consolidation, all balance sheet items are translated to SEK based on the year-end exchange rates. Income statement items are translated at average exchange rates. The accumulated exchange differences arising from these translations are recognized via other comprehensive income to the translation reserve in equity. Such translation differences are reclassified into the income statement upon the disposal of the foreign operation.

Translation of items denominated in foreign currency

Transactions in foreign currencies during the year have been translated at the exchange rate prevailing at the respective transaction date.

Assets and liabilities denominated in a foreign currency, primarily receivables and payables and loans, have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

Revenue

Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfillment of the contract. Sales are recorded net of allowances for volume rebates and sales returns. Accruals for such allowances are recorded at the time of revenue recognition.

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognized when (1) an arrangement with a customer exists, (2) delivery has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collection of the amount due is reasonably assured.

Contracts and customer purchase orders are generally used to determine the existence of such an arrangement. Shipping documents and customer acceptance are used, when applicable, to verify delivery.

Exchange rates

The following exchange rates have been used when translating the financial statements of foreign subsidiaries operating in the countries shown below into SEK:

Country	Unit	Currency	Average rates		Year-end rates	
			2011	2010	2011	2010
China	1	CNY	1.00	1.07	1.10	1.03
EMU-countries	1	EUR	9.02	9.54	8.95	9.00
India	100	INR	13.88	15.78	12.98	15.14
Japan	100	JPY	8.11	8.26	8.92	8.34
United Kingdom	1	GBP	10.36	11.15	10.67	10.53
USA	1	USD	6.45	7.23	6.92	6.80

Whether the price is fixed or determinable is assessed based on the payment terms associated with the transaction. Collectibility is assessed based primarily on the creditworthiness of the customer as determined by credit limit control and approval procedures, as well as the customer's payment history. Approval procedures include approval of new customers by management.

Revenues from service and/or maintenance contracts where the service is delivered to the customer at a fixed price is accounted for on a straight-line basis over the duration of the contract or under the percentage-of completion method based on the ratio of actual costs incurred to total estimated costs expected to be incurred. Any anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

Property, plant and equipment (PPE)

Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost, less any accumulated depreciation and impairment losses. Borrowing costs are included in the cost of property plant and equipment for which construction commenced on or after 1 January 2009, if a substantial period of time is required to get the asset ready for its intended use. The Group considers a period in excess of one year to be a substantial period of time.

A component approach to depreciation is applied. This means that where items of PPE are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review. These useful lives are based upon estimates of the periods during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological development. The useful lives are:

- 33 years for buildings and installations;
- 10-20 years for machinery and supply systems;
- 10 years for control systems within machinery and supply systems;
- 4-5 years for tools, office equipment and vehicles.

Depreciation is included in cost of goods sold, selling or administrative expenses depending on where the assets have been used.

Assets classified as held for sale

Assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and management is committed to the sale. The sale must be highly probable such that it is expected to be completed within one year.

Assets and disposal groups classified as held for sale are valued at the lower of carrying amount and fair value less cost to sell. Property, plant and equipment classified as held for sale are not depreciated as they will be recovered principally through a sales transaction rather than through continuing use.

Intangible assets other than goodwill

Intangible assets other than goodwill are stated at initial cost less any accumulated amortization and impairment losses. Amortization is made on a straight-line basis over the estimated useful lives, which are subject to annual review. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset. The useful lives are:

- Patents and similar rights up to 11 years;
- Software normally 4 years;

- Customer relationships normally 10-15 years;
- Capitalized development expenditures normally 3-7 years;
- Other intangible assets normally from 3-5 years, with the exception of certain acquired intangible assets which have a useful life of up to 18 years;
- Those intangible assets where there is no foreseeable limit to the period over which the asset is expected to generate net cash flows, are considered to have indefinite useful lives, and no amortization is made. However these assets are tested for impairment annually and whenever there is an indication that the carrying value may not be recoverable.

Amortization is included in cost of goods sold, selling or administrative expenses depending on where the assets have been used.

Internally developed intangibles

The Group's most significant internally developed intangibles are related to product development and software for internal use. Development expenditures are capitalized when in management's judgment it is probable that they will result in future economic benefits for the Group and the expenditures during the development phase can be reliably measured. The Group applies stringent criteria before a development project results in the recording of an asset, which include the ability to complete the project, evidence of technical feasibility and market existence, intention and ability to use or sell the asset. In evaluating product development projects, management considers the existence of a customer order as significant evidence of technological and economic feasibility. In evaluating internal use software, management considers new functionality and/or increased standard of performance to be strong evidence that future economic benefits will be achieved.

All other research expenditures as well as development expenditures not meeting the capitalization criteria are charged to cost of goods sold in the income statement when incurred.

Leases

A lease agreement that, according to the management's judgment, transfers substantially all the benefits and risks of ownership to the Group, is accounted for as a finance lease. Finance leases are initially recorded as property, plant and equipment at an amount equal to the present value of the minimum lease payments during the lease term and as a finance lease obligation. Finance leases are depreciated in a manner consistent with the Group's useful lives for owned property, plant and equipment. Lease payments are apportioned between the finance charge and the reduction in the outstanding finance lease obligation. The finance charge is allocated to periods during the lease term as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Other leases are accounted for as operating leases, where rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realizable value). Raw materials and purchased finished goods are valued at purchase cost. Work in process and manufactured finished goods are valued at production cost. Production cost includes direct production cost such as material and labour, as well as manufacturing overhead as appropriate.

Adjustments to the cost of inventory may be necessary when the cost exceeds net realizable value. Net realizable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realizable value are a source of estimation

1 Accounting policies (cont.)

uncertainty. As future selling prices and selling costs are not known at the time of assessment, management's best estimates are used based on current price and cost levels. Adjustments to net realizable value also include estimates of technical and commercial obsolescence on an individual subsidiary basis. Commercial obsolescence is assessed by the rate of turnover as a risk indicator.

Long-term employee benefits

Employee benefits, which are both earned and paid out during employment, and are expected to be settled more than twelve months after they are earned yet before employment ends, are long-term employee benefits. These include part-time retirements programmes, anniversary bonuses, long-stay and jubilee payments. All such programmes are calculated using the projected unit credit method and appropriate assumptions, as described under post-employment benefits, except that all actuarial gains and losses are recognized immediately in the income statement.

Financial assets and financial liabilities

General

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, equity securities and derivative assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade payables, liabilities to banks, finance lease payables and derivative liabilities.

Recognition

Financial assets and financial liabilities are recognized on the Group's balance sheets when the Group becomes a party to the contractual provisions of the instrument. Settlement day recognition is applied for regular way purchases and sales of financial assets. Derivatives are recognized at trade date. Financial instruments are initially recorded at fair value, which is normally equal to cost. Transaction costs are included in the initial measurement of financial assets and liabilities that are not subsequently measured at fair value through the income statement. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the Group currently has a right to set off the recognized amounts and intends to settle on a net basis.

Classification and Measurement

Subsequent measurement depends on the classification of the instrument, as determined by management.

Measurements used are cost, amortized cost and fair value. All valuation techniques applied to determine fair value, either for valuation or disclosure purposes, are accepted in the market and take into account parameters that the market would consider in its pricing of similar instruments. Where discounted cash flow techniques are used, the future cash flows are determined (if not stated explicit in the contract) based on the best assessment by management and discounted using the market interest rate for similar instruments.

Fair value of foreign exchange contracts is determined based on the listed price on the balance sheet date. The fair value of interest rate swaps is determined by applying discounted cash flow techniques. For receivables and liabilities with variable interest rates and current receivables and liabilities (such as trade receivables and payables) the carrying amount is considered to correspond to fair value.

- Available-for-sale

Debt securities are categorized as available-for-sale, except if held by SKF Treasury Centre and strategic investments in equity securities. Changes in the fair value of these financial instruments are recognized in other comprehensive income, except for impairment losses which are recognized in the income statement. Reversals of impairment losses are recognized in the income statement for debt securities but in other comprehensive income for equity securities. When the investments are derecognised, the cumulative gain or loss recognized in the available-for-sale reserve is released and recognized in the income statement. The fair values of quoted equity securities and debt securities held are based on the current bid price for the securities. Equity securities without a quoted price are held at cost because their fair value cannot be measured reliably.

- Loans and receivables

Financial assets categorized as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Loans and receivables are measured at amortized cost using the effective interest method. Impairment losses are recognized if management believes that sufficient objective evidence exists indicating that the asset may not be recovered. On occurrence of default, loans and receivables are derecognised. For disclosure purposes, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

- Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

The fair value of assets in these sub-categories is based on quoted market prices or measured using valuation techniques, mainly discounted cash flow analyses based on observable market data.

Financial instruments are designated at fair value through profit or loss when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as held for trading unless subject to hedge accounting.

- Financial liabilities at fair value through profit or loss

Derivatives with a negative fair value that are not subject to hedge accounting are classified as held for trading and reported at fair value through profit and loss.

- Other financial liabilities

Financial liabilities, excluding derivatives, are measured at amortized cost using the effective interest method. The carrying amount of liabilities that are hedged items, for which fair value hedge accounting is applied, are adjusted for gains or losses attributable to the hedged risks. For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

Fair value hierarchy

Financial instruments at fair value are classified in a hierarchy that shows the significance of the inputs used in the measurements. Level 1 includes financial instruments with a quoted price in an active

market. Level 2 includes financial instruments with inputs based on observable data other than quoted prices in an active market. Level 3 includes financial instruments with inputs that are not based on observable market data.

Derecognition

Financial assets are derecognized when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards. Financial liabilities are derecognized when they are extinguished.

Allowance for doubtful accounts

Management maintains an allowance for doubtful accounts for expected losses on trade receivables resulting from the inability of customers to make required payments. When evaluating the need for an allowance, management considers the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in customer payment terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits, debt securities and other liquid investments that have a maturity of three months or less at the time of acquisition.

Hedge accounting

General

The Group applies hedges aimed at reducing risks related to the volatility of balance sheet items and future cash flows, which otherwise would affect the income statement. A distinction is made between cash flow hedges, fair value hedges and hedges of net investment in foreign operations based on the nature of the hedged item. Hedge accounting is used to reflect the outcome of the hedges in the financial statements. Derivative instruments which provide effective economic hedges, but which either do not qualify for hedge accounting under IAS 39 or are otherwise not designated for hedge accounting by the Group, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial income or expense or in the operating result depending on the nature of the hedged item.

Cash flow hedges

Hedge accounting is applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted net sales and forecasted electricity consumption. Forward exchange contracts are used as hedge instruments for forecasted net sales and electricity derivatives for forecasted electricity consumption. Changes in the fair value of the derivative financial instruments designated as hedge instruments that meet the criteria for hedging future cash flows are recognized in the hedging reserve in equity via other comprehensive income.

In the same period during which the forecasted net sales and electricity consumption affects the income statement, the cumulative gain or loss recognized in the hedging reserve is recycled to the income statement and included in net sales and cost of goods sold, respectively. When a hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedging reserve, and is recognized in the income statement when the committed or forecasted transaction is recognized in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in the hedging reserve in equity is transferred via other comprehensive income to the income statement as net sales or cost of goods sold depending on the nature of the hedged item.

Fair value hedges

Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. The currency and interest risk exposure is hedged by cross-currency interest rate swaps. Changes in the fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for fair value hedges are recognized in the income statement under financial items. The carrying amount of the hedged item is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognized in the income statement under financial items.

Hedges of net investments in foreign operations

Hedge accounting is applied to financial instruments which are effective in offsetting the exposure to translation differences arising when the net assets of foreign operations are translated into the Parent company's functional currency. Any gain or loss on the hedging instrument meeting the criteria for hedges of net investments is recognized in the foreign currency translation reserve via other comprehensive income.

Financial income and financial expenses

Financial income consists of interest income on funds invested, dividend income and gains on the disposal of financial assets available-for-sale. Financial expenses consists of interest expense on financial liabilities, the discounting effect of provisions and impairment losses recognized on financial assets. Foreign exchange gains on loans and receivables and other financial liabilities are recognized in financial income while the foreign exchange losses are recognized in financial expense.

Share-based compensation

The share-based compensation programmes of the Group are mainly equity-settled. The instruments granted are shares and the fair value is the market value at grant date reduced by the present value of future dividends which the employees will not receive until the shares are delivered. The dividend compensation amount is recognized as employee benefit expense separately from the share-based compensation expense.

The estimated cost for these programmes, which is based on the fair value of the instruments at grant date and the number of instruments expected to vest, is recognized both in equity and as an operating expense over the vesting period. The cost for the programmes is adjusted annually by the expectations of vesting and for the forfeitures of the participants' rights that no longer satisfy the programme conditions.

To fulfill AB SKF's obligations under the Performance Share Programme 2008 which was settled 2011, SKF International AB entered into an equity swap agreement with a financial institution. The agreement includes the possibility to get delivery of SKF shares from the financial institution to the participants of the program. As the financial institution's acquisition of SKF B shares is equivalent to, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the difference between the fair value at grant date and the share price is recorded as a decrease in equity.

A provision for social costs to be paid by the employer in connection with share-based compensation programmes is calculated based on the fair value of the SKF B-share at each reporting date and expensed over the vesting period.

A minor part of the remuneration granted to the Board of Directors of the Parent company is a cash-settled share-based compensation. The liability and expense incurred is recognized over the period when the services are rendered. At each balance sheet date, and ultimately

1 Accounting policies (cont.)

at settlement date, the fair value of the liability is remeasured with any changes in fair value recognized in the income statement for the period.

Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders of the Parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potentially dilutive ordinary shares. Performance shares are considered dilutive if vesting conditions are fulfilled on the balance sheet date.

Income taxes

General

Taxes include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income taxes are recognized in the income statement, except to the extent that they relate to items directly taken to other comprehensive income or to equity, in which case they are recognized in other comprehensive income or directly in equity.

Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax provisions and assets. The process involves estimating the current tax together with assessing temporary differences arising from differing treatment of items for tax and accounting purposes. In particular, management assesses the likelihood that deferred tax assets will be recoverable from future taxable income.

Current taxes

All the companies within the Group compute current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable. Provisions have been made in the financial statements for estimated taxes on earnings of subsidiaries expected to be remitted in the following year, but not for taxes, which may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries as they can be distributed free of tax or as the Group does not intend to internally distribute them in the foreseeable future.

Deferred taxes

The Group applies the required balance sheet approach for measuring deferred taxes, where deferred tax assets and provisions are recorded based on enacted tax rates for the expected future tax consequences of existing differences between accounting and tax reporting bases of assets and liabilities, as well as for tax loss and tax credit carry-forwards. Such tax loss and tax credit carry-forwards can be used to offset future income. Deferred tax assets are recorded to the extent that it is probable in management's opinion that sufficient future taxable income will be available to allow the recognition of such benefits.

Other taxes

Other taxes refer to taxes other than income taxes, which should not be included elsewhere in the income statement.

Impairment of intangible assets and property, plant and equipment

Assets with definite useful lives

Intangible assets with definite useful lives and property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The determination is usually performed at the cash generating unit (CGU) level but could also be at the individual asset level. Factors that are considered important are:

- Underperformance relative to historical and forecasted operating results;
- Significant negative industry or economic trends;
- Significant changes relative to the asset including plans to discontinue or restructure the operation to which the asset belongs.

When there is an indication that the carrying value may not be recoverable based on the above indicators, the profitability of the CGU to which the asset belongs is analyzed to further confirm the nature and extent of the indication. When an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected CGU exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested annually for impairment and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the lowest level of CGU or groups of CGUs at which these assets are monitored for internal management purposes. In most cases this is the acquisition level but over time as full integration is reached, can become the product level or sub-segment level.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Any impairment loss would first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Calculation of recoverable amount

The recoverable amount is the greater of the estimated fair value less costs to sell and value in use.

In assessing value in use, a discounted cash flow model (DCF) is used. This assessment contains a key source of estimation uncertainty because the estimates and assumptions used in the DCF model encompass uncertainty about future events and market conditions. The actual outcomes may be significantly different. However, estimates and assumptions have been reviewed by management and are consistent with internal forecasts and business outlook.

The DCF model involves the forecasting of future operating cash flows and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the revenue growth rates and the discount rate.

These forecasts of future operating cash flows are built up from the following time frames:

- *business and strategic plans for a three-year period* representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information;
- *extrapolated for another seven years* using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors;

- *after which a terminal value* is calculated based on the Gordon Growth model, which includes a terminal growth factor representing the real growth rate and inflation expected in the country in which the assets operate.

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, taking into account the country risk premium where applicable, and the systematic risk of the CGU at the date of evaluation. Management determines the discount rate to be used based on the risk inherent in the related activity's current business model and industry comparisons.

If the calculated recoverable amount is less than the carrying amount of the CGU an impairment is recognized. The impairment loss would then first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Provisions

In general, a provision is recognized when there is a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as provisions is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. As the estimates may involve uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

When an obligation does not meet the criteria for recognition it may be considered a contingent liability and disclosed. Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. They also include existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

Restructuring provisions including termination benefits

Restructuring provisions for programmes that materially change the manner in which the business unit operates are recognized when a detailed formal plan has been established and a public announcement of the plan has occurred, creating a valid expectation that the plan will be carried out. Restructuring provisions often include termination benefits, which can be either voluntary or involuntary. Termination benefits are recognized in accordance with the above, except where there is a service requirement in connection with the benefits, in which case the cost is allocated over the service period.

Restructuring provisions involve estimates of the timing and cost of the planned future activities. The most significant estimates involve the costs necessary to settle employee severance or other employee separation obligations, as well as the costs involved in contract cancellations and other exit costs. Such estimates are based on historical experience and the expected future cash outflows, based on the current status of negotiations with the affected parties and/or their representatives.

Provisions for claims

Provisions for claims include provisions for litigations and warranty.

Provisions for litigation are estimates of the future cash flows necessary to settle the obligations. Such estimates are based on the nature of the litigation, the legal processes and potential level of damages in the jurisdiction in which the litigation has been brought, the progress of the cases, the opinions and view of internal and external legal counsel and other advisers regarding the outcome of the case and experience with similar cases.

Warranty provisions involve estimates of the outcome of warranty claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers or to the customers of these customers and potential liability for consequential damage. Assumptions are required for determining both the likelihood of favorable outcomes of warranty disputes and the cost incurred when replacing the defective products and compensating customers for damage caused by the Group's products. Warranty provisions are estimated with consideration of historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the company.

Post-employment benefits

The post-employment provisions and assets arise from defined benefit obligations in plans which are either unfunded or funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation adjusted for unrecognized past service costs.

For funded defined benefit plans, the assets of the plans are held in trusts legally separate from the Group. The related balance sheet provision or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation, taking into account any unrecognized past service cost. However, an asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of reductions in future contributions or refunds from the plan. When such excess is not available it is not recognized, but is disclosed in the notes.

The projected unit credit method is used to determine the present value of all defined benefit obligations and the related current service cost and where applicable, past service cost. Valuations are carried out quarterly for the most significant plans and annually for other plans. External actuarial experts are used for these valuations.

Estimating the obligations and costs involves the use of assumptions. Such assumptions vary according to the economic conditions of the country in which the plan is located and are adjusted to reflect market conditions at valuation point. However, the actual costs and obligations that in fact arise under the plans may be materially different from the estimates based on the assumptions due to changing market and economic conditions.

The most sensitive assumptions are related to the discount rate, expected return on assets, future compensation increases and health care cost rates. The selection of the discount rate is based on rates of return on high-quality AA corporate bond indexes that have maturity dates matching the duration of the obligations. In countries where there is no deep market for such bonds government bonds are used. The expected return on assets is based on the market expectations (at the beginning of each period) for returns over the entire life of the related obligation. In developing the long term rate of return, management considers the historical returns and the future expected return based on current market developments for each asset class as well as the target allocations of the portfolio. The salary growth assumptions reflect the non-current actual experience, the near term outlook and assumed inflation. Health care cost trend rates are developed based on historical cost data, the near term outlook, and an assessment of likely non-current trends.

Actuarial gains and losses arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized

1 Accounting policies (cont.)

immediately in other comprehensive income and are never reclassified to the income statement.

For all defined benefit plans the cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets (only funded plans), past service cost, curtailments and settlements. The past service cost for changes in benefits is recognized when such benefits vest, or amortized over the periods until vesting occurs.

Interest cost and the expected return on assets to the extent that it covers that plan's interest cost, is classified as financial expense. Other expense items as well as any remaining expected return on assets and all defined contribution expenses are allocated to the operations based on the employee's function as manufacturing, selling or administrative.

The defined benefit accounting described above is applied only in the consolidated accounts. Subsidiaries, as well as the Parent company, continue to use the local statutory pension calculations to determine pension costs, provisions and assets in the stand-alone statutory reporting.

Some post-employment benefits are also provided by defined contribution schemes, where the Group has no obligation to pay benefits after payment of an agreed-upon contribution to the third party responsible for the plan. Such contributions are recognized as expense when incurred.

A portion of the ITP pensions arrangements in Sweden is financed through insurance premiums to Alecta. This arrangement is considered to be a multi-employer plan where defined benefit accounting is required. Alecta is currently unable to provide the information needed to do such accounting. As a result, such insurance premiums paid are currently accounted for as a defined contribution expense.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect reported assets, liabilities, revenues and expenses. These estimates can be based on historical experiences, other internal/external sources, and/or assumptions that management believes are reasonable under the circumstances. These estimates also form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from management's estimates which could have a significant impact on the Group's financial statements.

Management believes that the following are the most key judgements, assumptions and other estimation uncertainties used in the preparation of the financial statements, where a different opinion or estimate could lead to significant changes to the reported results. The key judgements and estimates used in these areas are described fully in their individual accounting policy descriptions within Note 1:

- Judgements on the realizability of deferred tax assets, see Note 9.
- The estimates and key assumptions used in the calculation of value in use for impairment testing of goodwill and other intangibles with indefinite lives, see Note 10.
- The estimates used in the determination of net realizable value of inventory, see Note 13
- Discount rate on post-employment benefits, see Note 18.

Restatement due to finalisation of Lincoln acquisition

In 2011 the purchase price allocation for Lincoln, which was acquired December 2010, was completed, see Note 3. Restatements have been made to the Consolidated balance sheet as well as to Industrial Division's assets and liabilities, net as shown in the table below. Related notes have also been restated.

Final valuations resulted in reclassifications between intangibles, deferred taxes and goodwill for SEK 379 m. Additionally deferred tax assets and provisions for deferred taxes were netted of SEK 544 m.

2010 (SEKm)	As previously reported	As restated
<i>SKF Group</i>		
Goodwill	6,309	5,931
Other intangible assets	4,164	4,263
Deferred tax assets	1,695	1,151
Provisions for deferred taxes	2,132	1,309
<i>Industrial Division</i>		
Assets and liabilities, net	23,496	23,217

New accounting principles

New accounting principles 2011

IASB issued several new or amended accounting standards effective starting 1 January 2011. None of these had a material impact on the SKF Group's financial statements.

Issued but not yet effective

The following have been issued from the IASB and are effective as from 1 January 2012, and are not expected to have any material effect on the Group's financial statements when applied.

- IFRS 7 amendment "Disclosures for Transfer Transactions of Financial Assets" requires disclosures of transfer transactions including the possible effects of any remaining risks, as well as the existence of disproportionate transactions occurring near the end of a reporting period.

The following have been issued from the IASB and are effective for annual periods after 2012 as noted. The effect upon the Group's financial statements has not yet been determined.

* IFRS 10 "Consolidated Financial Statements" reaffirms the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements (2013).

* IFRS 12 "Disclosures of Interest in Other Entities" standardizes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles (2013).

* IFRS 13 "Fair value measurement" provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements (2013).

* IAS 19 "Employee Benefits" amendment requires the immediate recognition of actuarial gains and losses. Additionally, it aligns the expected return on plan assets to the discount rate and adds more disclosures for defined benefit plans. The Group already recognises

actuarial gains and losses immediately in other comprehensive income as now required by the amendment, but is currently investigating the effect of the other changes (2013).

* Amendments to IAS 1 "Presentation of Financial Statements" require companies to present together items within other comprehensive income that may be reclassified to the income statement (2013).

* IFRS 9 "Financial instruments - Classification and Measurement", simplifies accounting for financial assets by requiring a single

approach to determine whether a financial asset is measured at cost or fair value. For financial liabilities, classification and measurement have been moved from IAS 39 to IFRS 9. The main difference is "Fair Value for Financial Liabilities" which requires that if an entity chooses to measure a liability at fair value the portion of the change in its fair value due to changes in the entity's own credit risk will be presented in other comprehensive income rather than within the income statement (2015).

* Indicates that these have not yet been endorsed by the EU.

2 Segment information

SKF has more than 130 manufacturing sites in 32 countries and is represented in over 130 countries through its own sales companies and over 15,000 distributor locations. The Group does business mainly through three divisions: Industrial Division, Service Division and Automotive Division. The divisions are each focusing on specific customer segments representing groups of related industrial and automotive products worldwide, see Note 1.

With manufacturing and operational sites and sales offices across the globe, the Industrial Division works closely with OEM customers to develop new solutions based on the five technology platforms – bearings and units, seals, mechatronics, services and lubrication systems – to bring increasing value to customers. Many of the solutions strongly focus on helping customers increase their energy efficiency, as industries play an essential role in global greenhouse gas emission reductions and resource-use efficiency.

The Service Division serves the global industrial aftermarket providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division has five condition monitoring centres, who design and produce world-leading hardware and software. The Service Division is also responsible for all SKF's sales in certain markets.

The Automotive Division serves manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle service market, supporting them in bringing innovative and sustainable solutions to global markets. In addition, the division provides energysaving solutions for home appliances, power tools and electric motors. Within the Automotive Division, SKF develops and manufactures bearings, seals and related products and services. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, and mechanical and electrical products for engine, steering and driveline applications. For the vehicle service market, the division provides complete repair kits, including a range of drive shafts and constant velocity joints.

Other operations include businesses managed outside of the three divisions, primarily PEER, SKF Logistics Services and other minor operations, as well as divested businesses. PEER mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings to customers mainly located in North America. SKF Logistic Services provides warehousing, transportation, packaging and inventory management based on seamless information and communication technology for the SKF Group worldwide.

Previously published amounts have been reclassified to conform to the current Group structure in 2011.

SEKm	Net sales		Sales including intra-Group sales		Contribution to Profit before tax	
	2011	2010	2011	2010	2011	2010
Industrial Division	23,924	20,050	34,458	29,836	4,421	3,558
Service Division	23,024	21,403	23,387	21,746	3,656	2,976
Automotive Division	17,771	18,231	21,453	21,995	1,362	1,855
Other operations	1,497	1,345	4,293	3,853	313	341
Subtotal operating segments	66,216	61,029	83,591	77,430	9,752	8,730
Eliminations of intra Group sales	–	–	-17,375	-16,401	–	–
Timing differences related to intra-Group sales and other timing differences	–	–	–	–	-342	-32
Eliminations and unallocated items, net	–	–	–	–	202	-246
Financial net	–	–	–	–	-680	-903
	66,216	61,029	66,216	61,029	8,932	7,549

2 Segment information (cont.)

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2011	2010	2011	2010	2011	2010
Industrial Division	1,005	908	39	121	920	1,028
Service Division	95	117	2	30	87	105
Automotive Division	577	693	-1	47	781	593
Other operations	54	52	4	–	79	57
Eliminations and unallocated items	15	24	–	–	61	-86
	1,746	1,794	44	198	1,928	1,697

SEKm	Assets		Liabilities	
	2011	2010	2011	2010
Industrial Division	28,354	27,816 ¹⁾	4,749	4,599
Service Division	7,469	6,874	1,837	1,857
Automotive Division	11,734	11,622	3,221	3,586
Other operations	1,764	1,559	648	592
Subtotal operating segments	49,321	47,871	10,455	10,634
Financial and tax items	8,363	5,815 ¹⁾	24,000	21,419 ¹⁾
Other unallocated items	1,690	715	2,464	2,454
	59,374	54,401	36,919	34,507

Geographic disclosure SEKm	Net sales by customer location		Non-current assets	
	2011	2010	2011	2010
Sweden	2,152	1,900	1,431	1,402
Europe excl. Sweden	28,183	26,109	10,024	10,429 ¹⁾
North America	12,738	10,783	6,628	6,704 ¹⁾
Asia-Pacific	17,241	16,412	4,519	4,052 ¹⁾
Other	5,902	5,825	796	782
Eliminations	–	–	-107	-145
	66,216	61,029	23,291	23,224

¹⁾ Restated for finalised Lincoln PPA, see Note 1.

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 16.9% (15.7) were located in the USA, 13.6% (12.8) in Germany, and 11.7% (12.9) in China.

Non-current assets exclude financial assets, deferred tax assets and post-employment benefit assets. Non-current assets are allocated according to the location of the subsidiaries. Of the Group's total non-current assets as defined above, 28.2% (28.6) were located in the USA, 18.2% (18.8) in Germany, 11.2% (8.5) in China, 8.7% (9.0) in France and 6.6% (7.3) in Italy.

3 Acquisitions

SEKm	2011	Restated 2010
Total fair value of net assets acquired		
Non-current assets, excluding goodwill	60	3,600
Current assets	106	1,389
Non-current liabilities	–	-1,109
Current liabilities	-67	-344
Remaining non-controlling interests	–	35
Fair value net assets acquired	99	3,571
Book value of previously owned equity interest	-69	–
Loss on remeasurement of previously owned equity interest	19	–
Excess of net assets over acquisition cost	-19	–
Goodwill	40	3,511
Total acquisition cost	70	7,082
Less:		
Cash and cash equivalents acquired	-24	-283
Consideration payable on acquisition prior to IFRS 3 revised	-40	–
Cash outflow	6	6,799

In 2011, the Group had total cash outflows of SEK 6 m for acquisitions of businesses. Additionally an earnout payable was adjusted against goodwill for SEK 40 m related to an acquisition made prior to 2009.

In April, the Group acquired the remaining 50% of the International Component Supply (ICS) for SEK 6 m, net of cash acquired. The Group's initial 50% investments in ICS was made in 2001. ICS is located in Brazil and manufactures forged and turned steel rings for bearings and is part of the Automotive Division. The table above shows the fair value of net assets acquired in ICS. At the time of acquisition, the Group's initial equity interest of 50% was remeasured to fair value resulting in a loss of SEK 19 m which is included in other operating expenses. Additionally, since the fair value of the net assets acquired exceeded the acquisition costs, the difference of SEK 19 m was recorded in other operating income.

In 2010, the Group had total cash outflows of SEK 6,799 m for the acquisition of Lincoln and the minority interest in Berger Vogel, both relating to the Industrial Division. The remaining 49% interest in Berger Vogel, Italy was acquired in August 2010 for SEK 35 m, which was charged directly to equity. The Group's original investment was made in 2004. The acquisition of Lincoln in 2010 is described below.

Acquisition of Lincoln

On 28 December 2010 the Group acquired 100% of the shares of Lincoln Holdings Enterprises, Inc (Lincoln) from Harbour Group. Lincoln is a leader in the design, manufacture and supply of highly engineered lubrication systems, tools and equipment, and is headquartered in St. Louis, Missouri, USA.

Lincoln's three main product lines are automated lubrication systems, hose reels, and grease guns, with focus on grease-based systems. Sales are mainly generated from automated lubrication systems and related products. Major end markets include industrial, energy, off-highway, mining, agriculture, and steel. The company has a global footprint with around 50% of its sales generated in North America, 25% in Europe and 20% in Asia Pacific. The company has around 2,000 employees with manufacturing operations in the USA, Asia and Europe.

Lincoln is part of lubrication systems within SKF's Industrial Division. The acquisition of Lincoln is in line with SKF's strategy and builds on a series of acquisitions made in the lubrication systems sector over the last six years. Lincoln is highly complementary to SKF's existing lubrication systems business, with limited product and geographical overlap. The acquisition furthers SKF's strategy including:

- improving the lubrication systems platform through Lincoln's complementary product portfolio
- increasing the geographical sales coverage in North America and Asia.
- expanding the business to the automotive aftermarket in the USA
- expanding the manufacturing operations through Lincoln's strong US and Asian manufacturing footprint.

Lincoln is included in the Group's balance sheet at 31 December 2010, with no impact on the Group's income statement for the year 2010.

Their results have been included in the Group's income statement as from 1 January 2011.

The allocation of the acquisition cost to the identifiable assets acquired and liabilities assumed (net assets) was finalized in 2011 as shown below. The Groups consolidated balance sheet and related notes for 2010 were restated for these final PPA adjustments, see Note 1 for this restatement.

SEKm	Originally published in 2010	Final PPA adjustments	Final PPA
Fair value of net assets acquired			
Trademarks	1,020	-13	1,007
Customer relationships	1,836	-47	1,789
Other intangibles	287	159	446
Plant, property and equipment	358	-	358
Trade receivables	441	-	441
Inventory	648	-	648
Other assets	300	-	300
Deferred tax provisions, net	-1,225	279	-946
Post-employment benefits	-163	-	-163
Other liabilities	-344	-	-344
	3,158	378	3,536
Goodwill	3,889	-378	3,511
Total acquisition cost	7,047	0	7,047
Less:			
Cash and cash equivalents acquired	-283	-	-283
Cash outflow	6,764	-	6,764

The acquisition was paid using existing cash and credit facilities. Acquisition related costs of SEK 100 m were expensed, of which SEK 80 m was included as Other operating expense and SEK 20 m was included as Selling expense in the Group's income statement. The acquisition of Lincoln included all Lincoln, Alemite and Reelcraft entities and brands. Consequently the opening balances include a valuation of trademarks of SEK 1,007 m, which the Group considers to have an indefinite life, as it is intended to continue to promote these brands in the foreseeable future. Values were allocated to other significant intangibles which included customer relationships to be amortized over an expected life of 15 years.

None of the goodwill is deductible for tax purposes. The goodwill arises due to Lincoln's expected ability to continuously renew its technology resulting in improved sales opportunities as well as their ability to deliver strong financial performance on a consistent basis.

4 Divestments of businesses and assets held for sale

SEKm	Divestments of businesses		Assets held for sale	
	2011	2010	2011	2010
Assets				
Property, plant and equipment	266	–	–	184
Inventory	157	–	–	143
Trade receivables and other assets	154	–	–	61
	577	–	–	388
Liabilities				
Provisions for post-employment benefits	87	–	–	89
Trade payables	159	–	–	145
Other provisions and liabilities	93	–	–	72
	339	–	–	306
Net assets disposed of	238	–		
Profit	-14	–		
Total consideration	224	–		
Less:				
Cash and cash equivalents divested	-73	–		
Consideration receivable, net	-26	–		
Total cash inflow	125	–		

During 2011, SKF sold its Automotive Division's forgings business in OMVP, in Villar Perosa, Italy to the German based company Neumayer Tekfor Holding GmbH. SKF also sold the Industrial Division's cage

factory in Gothenburg to the Japanese component manufacturer Nakanishi Metal Works CO., Ltd

Assets held for sale for 2010 included the Automotive Division's forging businesses in Villar Perosa, Italy and Tudela, Spain.

5 Research and development

Research and development expenditures totaled SEK 1,481 m (1,184). Additionally, the Group entered into external research contracts where

the Group produces prototypes of various products on behalf of a third party. Expenses under such contracts were SEK 28 m (3).

6 Expenses by nature

SEKm	2011	2010
Employee benefit expenses including social charges	18,716	18,155
Raw material and components consumed, including shop supplies	22,374	19,373
Change in work in process and finished goods	-1,271	-1,259
Depreciation, amortization, and impairments	1,790	1,992
Other expenses, primarily purchased services, utilities and goods	15,015	14,177
Total operating expenses	56,624	52,438

Depreciation, amortization and impairments were accounted for as (SEKm)

	2011			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,431	66	44	1,541
Selling expenses	66	182	–	248
Administrative expenses	1	–	–	1
	1,498	248	44	1,790

Depreciation, amortization and impairments were accounted for as (SEKm)

	2010			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,562	59	72	1,693
Selling expenses	81	88	126	295
Administrative expenses	1	3	–	4
	1,644	150	198	1,992

7 Other operating income and expenses

SEKm	2011	2010
Other operating income		
Exchange gain on trade receivables/payables	666	423
Profit from sale of property, plant and equipment	65	31
Profit from sale of businesses	10	–
Other	119	73
	860	527
Other operating expenses		
Exchange loss on trade receivables/payables	-737	-512
Loss from sale of property, plant and equipment	-4	-14
Loss from sale of businesses	-34	–
Acquisitionrelated expenses (Lincoln)	–	-80
Other	-49	-60
	-824	-666

8 Financial income and financial expenses

<i>Financial net specified by nature (SEKm)</i>	2011	2010
Interest income	219	218
Interest expense	-545	-368
Net gains/losses:		
Interest on post-employment benefits, net	-247	-267
Exchange differences	9	-178
Dividend income	3	4
Other financial income & expense	-119	-312
Financial net	-680	-903
<i>Reflected as:</i>		
Financial income	368	391
Financial expenses	-1,048	-1,294
Financial net	-680	-903

Other financial income and expense includes impairment of financial receivables of SEK 34 m. In 2010 other financial income and expense

relates mainly to the impairment of SEK 225 m on the Ovako vendor note.

<i>Financial net specified by category of financial instruments (SEKm)</i>	2011			2010		
	Interest income	Interest expense	Net gains/ losses	Interest income	Interest expense	Net gains/ losses
Financial assets/liabilities at fair value through profit or loss						
Designated upon initial recognition	20	–	–	11	–	12
Derivatives held for trading	13	-17	-261	27	-15	-907
Derivatives held for hedge accounting	164	-122	-22	100	-81	-358
Financial assets classified as loans and receivables	22	–	444	80	–	419
Financial assets classified as available-for-sale	–	–	3	–	–	4
Other financial liabilities, primarily loans	–	-406	-185	–	-272	431
Other non-financial liabilities	–	–	-333	–	–	-354
	219	-545	-354	218	-368	-753

See Note 1 for a description of the categories of financial instruments. For a specification of the underlying financial assets and financial liabilities to these categories see Note 14 and Note 20 respectively. Derivatives classified as held for trading are mainly used for economic hedging, which mitigate the effect of certain items in the categories loans and receivables and other financial liabilities.

Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for other non-financial liabilities, which includes primarily net interest costs on post-employment benefits and the interest caused by the discounting of provisions.

For 2011 net gain/losses for loans and receivables includes an impairment of SEK 34 m (225).

9 Taxes

Tax expense (SEKm)	2011			2010		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,724	–	-2,724	-1,904	-163	-2,067
Deferred taxes	66	472	538	-298	219	-79
Other taxes	-50	–	-50	-51	–	-51
	-2,708	472	-2,236	-2,253	56	-2,197

Taxes charged to other comprehensive income includes SEK 447 m (229) related to actuarial gains and losses, SEK 52 m (-4) related to

cash flow hedges and SEK -27 m (-169) related to net investment hedges.

Gross deferred taxes per type (SEKm)	2011		2010	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	-70	1,140	-83	1,123 ¹⁾
Property, plant and equipment	-66	1,148	-63	1,151
Inventories	-447	469	-392	502
Trade receivables	-44	45	-37	49
Provisions for post-employment benefits	-2,008	21	-1,523	16
Other accruals and liabilities	-615	30	-753	30
Tax loss carry-forwards	-333	–	-257	–
Other	-69	438	-26	421
Gross deferred taxes	-3,652	3,291	-3,134	3,292
Net deferred taxes presented in the Consolidated balance sheet	-1,299	938	-1,151	1,309

¹⁾ Restated for finalised Lincoln PPA, se Note 1.

Unrecognized deferred tax assets

SKF Group had total unrecognized deferred tax assets of SEK 239 m (249), whereof SEK 49 m (113) related to tax loss carry-forwards, SEK 155 m (73) related to tax credits and SEK 35 m (62) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Unrecognized deferred tax assets of SEK 16 m are related to tax losses which will expire during the period 2012 to 2016. The remaining unrecognized assets will expire after 2017 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 20 m (11) relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that impacted deferred tax expense was SEK 61 m (4) which resulted from a revised judgement on the realizability of certain tax assets in future years.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2011	2010
Tax calculated using statutory tax rate in Sweden	-2,349	-1,985
Difference between statutory tax rate in Sweden and foreign subsidiaries	-265	-212
Other taxes	-50	-51
Tax credits and similar items	87	97
Non-deductible/non-taxable differences	-126	-74
Tax loss carry-forwards	62	-62
Current tax referring to previous years	-40	-14
Other	-27	48
Actual tax	-2,708	-2,253

The corporate statutory income tax rate in Sweden was 26.3% (26.3). The actual tax rate on profit before taxes was 30.3% (29.8). There were no material changes in tax rates impacting deferred taxes in 2011 or 2010.

Gross value of tax loss carry-forwards

At 31 December 2011, certain subsidiaries had tax loss carry-forwards amounting to SEK 1,571 m (1,632), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2012	61
2013	156
2014	191
2015	111
2016	93
2017 and thereafter	959

10 Intangible assets

SEKm	2011 Closing balance	Additions	Businesses acquired/sold	Disposals	Impair- ments	Other	Translation effects	2011 Opening balance
<i>Acquisition cost</i>								
Goodwill	6,369	–	-38	–	–	–	59	6,348 ¹⁾
Patents, tradenames and similar rights	1,534	5	–	-6	–	–	8	1,527 ¹⁾
Software	462	4	–	-2	–	–	4	456
Customer relationships	2,562	–	–	-21	–	–	-21	2,604 ¹⁾
Leaseholds	80	47	–	–	–	-4	7	30
Capitalized development	276	27	–	-12	–	–	-1	262
Other intangible assets	656	6	–	-24	–	–	63	611 ¹⁾
	11,939	89	-38	-65	–	-4	119	11,838

SEKm

	2011 Closing balance	Depreciation	Businesses acquired/sold	Disposals	Impair- ments	Other	Translation effects	2011 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	377	–	-78	–	40	–	-2	417
Patents, tradenames and similar rights	236	18	–	-5	–	-1	-1	225
Software	454	7	–	–	–	–	–	447
Customer relationships	488	170	–	-20	–	1	5	332
Leaseholds	8	3	–	–	–	-12	–	17
Capitalized development	95	10	–	-11	–	–	–	96
Other intangible assets	124	40	–	-28	–	–	2	110
	1,782	248	-78	-64	40	-12	4	1,644
Net book value	10,157	-159	40	-1	-40	8	115	10,194

SEKm	2010 Closing balance	Additions	Businesses acquired ¹⁾	Disposals	Impair- ments	Other	Translation effects	2010 Opening balance
<i>Acquisition cost</i>								
Goodwill	6,348	–	3,511	–	–	–	-215	3,052
Patents, tradenames and similar rights	1,527	–	1,025	–	–	–	-56	558
Software	456	3	–	-37	–	2	-9	497
Customer relationships	2,604	–	1,789	-2	–	–	-88	905
Leaseholds	30	–	–	–	–	3	-1	28
Capitalized development	262	30	–	–	–	–	-37	269
Other intangible assets	611	13	428	–	–	-4	2	172
	11,838	46	6,753	-39	–	1	-404	5,481

SEKm	2010 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2010 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	417	–	–	–	131	–	-7	293
Patents, tradenames and similar rights	225	33	–	–	–	–	-22	214
Software	447	15	–	-36	–	–	-10	478
Customer relationships	332	66	–	-2	19	–	-20	269
Leaseholds	17	4	–	–	–	–	-1	14
Capitalized development	96	16	–	–	–	–	-10	90
Other intangible assets	110	16	–	–	–	–	-15	109
	1,644	150	–	-38	150	–	-85	1,467
Net book value	10,194	-104	6,753	-1	-150	1	-319	4,014

¹⁾ Restated for finalised Lincoln PPA, se Note 1.

10 Intangible assets (cont.)

In 2011, additions to capitalized software and development included SEK 27 m (28) that was internally generated.

Impairment losses related to intangible assets for 2011 totalled SEK 40 m and were related to the impairment of goodwill in the Industrial Division's Linear Motion operations, which experienced decreasing volumes and margins. The impairment was based on a value in use model using a discount rate of 10% (10).

Impairment losses in 2010 totalled SEK 150 m. The most significant was SEK 75 m related to the impairment of goodwill in certain of Industrial Division's mechatronics operations which experienced significantly decreased volumes and revenues. The remaining impairments in 2010 were individually insignificant and related primarily to goodwill in the Service Division's operations in Europe and the Industrial Division's spindles business in North America which experienced shrinking order-books and increased risks on some certain contracts.

Cash generating units (CGUs) containing significant goodwill and other intangible assets with indefinite useful lives

SEKm	Tradename		Goodwill	
	2011	2010	2011	2010
Lincoln (acquired 2010)	1,025	1,007 ¹⁾	3,559	3,511 ¹⁾
PEER Group (acquired 2008)	173	169	241	237
S2M Group (acquired 2007)	–	–	267	269
ABBA Group (acquired 2007)	–	–	296	251
SNFA Group (acquired 2006)	–	–	350	352
SKF Sealing Solutions NA (acquired 1990)	–	–	368	252
Other CGUs	–	–	911	1,059
Total	1,198	1,176	5,992	5,931

¹⁾ Restated for finalised Lincoln PPA, se Note 1

The goodwill and tradenames included in the above specific CGUs are individual intangible assets with indefinite lives that are material to the SKF Group, whereas the "Other CGUs" are considered individually insignificant. The recoverable amount for the "Other CGUs" are calculated using the same DCF model and assumptions as described in Note 1. The values assigned to the key assumptions and other parameters of the calculation are determined on an individual CGU basis.

The tradenames within Lincoln and PEER are considered to have indefinite useful lives as the SKF Group anticipates continuing to promote these brands in the foreseeable future.

Lincoln, PEER Group, S2M Group, ABBA Group, SNFA Group and SKF Sealing Solutions NA

The recoverable amounts for these CGUs have been determined based on the value in use model. As discussed in Note 1, the most significant assumptions used in determining value in use are the discount rates

and the growth rates, being both the terminal growth factor and the revenue growth rates. The average revenue growth rate used for the first two time frames covering a ten-year period was 3% for Lincoln, 14% (14) for PEER, 16% (17) for S2M, 7% (9) for ABBA, 7% (8) for SNFA and 2% (4) for SKF Sealing Solutions. The terminal growth factors used to calculate the terminal value were 3% (3) for ABBA and 2,5% (2,5) for the remaining CGU's. The pre-tax discount rate was 12% for Lincoln, 13% (13) for PEER, 12% (11) for S2M, 9% (9) for ABBA, 12% (11) for SNFA and 13% (13) for SKF Sealing Solutions.

Sensitivity analyses

A number of sensitivity analyses were performed to evaluate if any reasonably possible adverse changes in assumptions would lead to impairment. The analyses focused around decreasing the revenue growth rates and increasing the discount rates by 1 percentage point. No impairments were indicated.

11 Property, plant and equipment

SEKm	2011 Closing balance	Additions	Businesses acquired/sold	Disposals	Impair- ments	Other	Translation effects	2011 Opening balance
<i>Acquisition cost</i>								
Buildings	6,120	156	-18	-83	–	83	84	5,898
Land and land improvements	804	2	-3	-5	–	-1	-122	933
Machinery and supply systems	22,300	419	-113	-814	–	419	-179	22,568
Machine toolings and factory fittings	3,120	164	62	-255	–	95	7	3,047
Construction in process including advances	1,981	1,098	–	-5	–	-736	14	1,610
	34,325	1,839	-72	-1,162	–	-140	-196	34,056

SEKm	2011 Closing balance	Depreciation	Businesses acquired/sold	Disposals	Impair- ments	Other	Translation effects	2011 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	2,973	191	-8	-79	–	-34	-14	2,917
Land improvements	177	4	–	-2	–	2	-1	174
Machinery and supply systems	15,702	1,047	-37	-808	4	-11	-124	15,631
Machine toolings and factory fittings	2,397	256	–	-235	–	-58	22	2,412
	21,249	1,498	-45	-1,124	4	-101	-117	21,134
Net book value	13,076	341	-27	-38	-4	-39	-79	12,922

SEKm	2010 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2010 Opening balance
<i>Acquisition cost</i>								
Buildings	5,898	153	66	-57	–	104	-572	6,204
Land and land improvements	933	1	146	-14	–	16	-76	860
Machinery and supply systems	22,568	552	124	-1,017	–	40	-2,369	25,238
Machine toolings and factory fittings	3,047	136	15	-182	–	-55	-294	3,427
Construction in process including advances	1,610	809	7	-3	–	-976	-111	1,884
	34,056	1,651	358	-1,273	–	-871	-3,422	37,613

SEKm	2010 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2010 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	2,917	182	–	-49	–	-22	-326	3,132
Land improvements	174	11	–	-11	–	–	-24	198
Machinery and supply systems	15,631	1,194	–	-996	46	-530	-1,730	17,647
Machine toolings and factory fittings	2,412	257	–	-168	2	-135	-247	2,703
	21,134	1,644	–	-1,224	48	-687	-2,327	23,680
Net book value	12,922	7	358	-49	-48	-184	-1,095	13,933

¹⁾ Property, plant and equipment classified as held for sale is reflected under "Other", see Note 4.

Impairment losses for 2010 on property, plant and equipment amounted to SEK 48 m and were primarily related to the Automotive Division's forging business in Villar Perosa, Italy, which was classified as held for sale in 2010. See Note 4.

11 Property, plant and equipment (cont.)

<i>Leased property, plant and equipment consisted of the following (SEKm)</i>	2011	2010
<i>Acquisition value</i>		
Buildings	86	86
Land and land improvements	14	14
Machinery, machine toolings, factory fittings and supply systems	2	4
	102	104
<i>Accumulated depreciation</i>		
Buildings	15	12
Machine toolings and factory fittings	1	2
	16	14
Net book value	86	90

12 Jointly controlled and associated companies

<i>Investments in jointly controlled and associated companies (SEKm)</i>	2011	2010
Investments in jointly controlled companies	–	60
Investments in associated companies	11	27
	11	87
<i>Income from jointly controlled and associated companies (before taxes) (SEKm)</i>	2011	2010
Jointly controlled companies	-1	3
Associated companies	-15	-3
	-16	0

In 2011, SKF purchased the remaining 50% of the jointly controlled company International Component Supply Ltd in Brazil, refer to Note 3. Investments in associated companies include primarily CoLinx in the USA, AEC Japan Co. Ltd and Endorsia.com International AB.

<i>Aggregated financial statements of jointly controlled and associated companies (SEKm)</i>	2011	2010
Non-current assets	68	180
Current assets	100	193
Total assets	168	373
Equity	84	231
Non-current liabilities	24	25
Current liabilities	60	117
Total equity and liabilities	168	373
Net sales	808	1,135
Profit before taxes	8	14

13 Inventories

SEKm	2011	2010
Raw materials and supplies	3,892	3,794
Work in process	1,748	1,615
Finished goods	8,551	7,470
	14,191	12,879

Inventory values are stated net of a provision for net realizable value of SEK 1,072 m (1,147). The amount charged to expense for net

realizable provisions during the year was SEK 151 m (181). Reversals of net realizable provisions during the year were SEK 25 m (33).

14 Financial assets

Trade receivables by due date (SEKm)	Carrying amount	Not yet due	Past due, net of allowance			
			1-30 days	31-60 days	61-90 days	> 91 days
2011	10,713	9,033	1,114	268	110	188
2010	9,859	8,665	846	197	65	86

The average days outstanding of trade receivables in 2011 were 60 days (58). The Group's target is 57 days. Trade receivables as a percentage of annual net sales totalled 16.2% (16.2). Trade receivables included receivables sold with recourse amounting to SEK 120 m (146). The risk of customer default for these receivables has not

been transferred in such a way that the financial assets qualify for derecognition.

The table below shows the development of allowance accounts for credit losses on trade receivables.

Specification of reserve for doubtful accounts (SEKm)	2011	2010
Allowances as of 1 January	263	266
Additions	65	56
Reversals	-34	-47
Changes through the income statement	31	9
Allowances used to cover write-offs	-17	-5
Currency translation adjustments	-5	-7
Allowances as of 31 December	272	263

14 Financial assets (cont.)

2011 Financial assets per category

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Loans and receivables	209	–	–	–	–	209	35
Equity securities	–	415	–	–	–	415	–
Marketable securities	–	–	–	392	–	392	–
Debt securities	–	18	73	–	–	91	73
Trade receivables	10,713	–	–	–	–	10,713	10,713
Deposits	283	–	–	–	–	283	283
Cash and cash equivalent	2,183	–	2,642	–	–	4,825	4,825
Derivatives (see Note 28)	–	–	–	128	395	523	121
Carrying amount	13,388	433	2,715	520	395	17,451	16,050
Fair Value	13,385	433	2,715	520	395		

2010 Financial assets per category

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss		Derivatives for hedge accounting	Total	Of which current
			At initial recognition	Trading			
Loans and receivables	180	–	–	–	–	180	32
Equity securities	–	670	–	–	–	670	–
Marketable securities	–	–	–	341	–	341	–
Debt securities	–	18	135	–	–	153	135
Trade receivables	9,859	–	–	–	–	9,859	9,859
Deposits	320	–	–	–	–	320	320
Cash and cash equivalent	1,847	–	548	–	–	2,395	2,395
Derivatives (see Note 28)	–	–	–	245	99	344	264
Carrying amount	12,206	688	683	586	99	14,262	13,005
Fair Value	12,203	688	683	586	99	14,259	

Financial assets recorded at fair value, which includes the columns Available-for-sale, Fair value through profit or loss, and Derivatives for hedge accounting in the above table, are disclosed below according to the hierarchy that shows the significance of the inputs used in the fair value measurements. Level 1 includes financial assets with a

quoted price in an active market. Level 2 includes financial assets with inputs based on observable data other than quoted prices in an active market. Level 3 includes inputs that are not based on observable market data. Amounts for equity securities include SEK 30 m (25) valued at cost and consequently not included in the specification below.

Fair value hierarchy for financial assets at fair value (SEKm)

	Level 1	Level 2	Level 3	2011	Level 1	Level 2	Level 3	2010
Fair value through profit or loss								
Trading securities	345	–	120	465	358	–	118	476
Cash and cash equivalents	2,642	–	–	2,642	548	–	–	548
Trading derivatives	–	128	–	128	–	245	–	245
Available-for-sale								
Equity securities	385	–	–	385	645	–	–	645
Debt securities	18	–	–	18	18	–	–	18
Derivatives used for hedge accounting	–	395	–	395	–	99	–	99
Total	3,390	523	120	4,033	1,569	344	118	2,031

Reconciliation of financial assets in Level 3 (SEKm)	Total comprehensive income			Withdrawals	Translation effect	Opening balance	Profit/loss related to assets included in closing balance
	Closing balance	Financial net	Other comprehensive income				
Fair value through profit or loss							
Trading securities 2011	120	8	–	-8	2	118	8
Trading securities 2010	118	5	–	-9	-17	139	5

15 Other short-term assets

SEKm	2011	2010
Advances to suppliers	189	145
Prepaid expenses	473	397
Accrued income	258	136
Other current receivables	1,861	1,512
	2,781	2,190

16 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2010	45,421,004	409,930,064	455,351,068	1,138
Conversion of A shares to B shares	-505,400	505,400	–	–
Closing balance 31/12/2010	44,915,604	410,435,464	455,351,068	1,138
Conversion of A shares to B shares	-1,966,122	1,966,122	–	–
Closing balance 31/12/2011	42,949,482	412,401,586	455,351,068	1,138

¹⁾ Quota value for all shares is SEK 2.50

An A share has one vote and a B share has one-tenth of one vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 183,987,265 A shares have been converted to B shares.

Dividend policy

The SKF Group's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow while taking account of the Group's development potential and financial position. The Board of Director's view is that the ordinary dividend should amount to around one half of the SKF Group's average net profit calculated over a business cycle.

If the financial position of the SKF Group exceeds the target for capital structure, which is described in Note 28, an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or as a repurchase of the company's own share. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend payments

The Board has decided to propose to the Annual General Meeting a dividend of SEK 5.50 (5.00) per share to be paid to the shareholders on 4 May 2012. The proposed dividend for 2012 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 30 April 2012. The total proposed dividend to be paid is SEK 2,504 m (2,277).

The dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

On 6 May 2011, a dividend of SEK 5.00 (3.50) per share was paid to shareholders.

17 Earnings per share

	2011	2010
Net profit attributable to owners of AB SKF (SEKm)	6,051	5,138
Weighted average number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	13.29	11.28
Dilutive shares from Performance Share Programmes	–	–
Weighted average diluted number of shares	455,351,068	455,351,068
Diluted earnings per share (SEK)	13.29	11.28

No allotment of performance shares will be made under SKF's Performance Share Programme 2009 due to non-fulfilment of the TVA (Total Value Added) target. Consequently there is no effect on earnings per share from that programme.

Future allotment of performance shares covered by SKF's Performance Share Programmes 2010 and 2011 requires that all the conditions of the programmes are met. As of 31 of December 2011 conditions have not been met and therefore the performance shares are not currently considered dilutive, but may become dilutive in future periods.

Refer to Note 25 for more information regarding SKF's performance share programmes. TVA is described on page 51 under "Financial performance management model".

Weighted average number of ordinary shares outstanding used in the basic earnings per share calculation 2010 does not consider the equity swap agreement entered into in relation to SKF's Performance Share Programme 2008, see Note 1 under "Share-based compensation". If considered, the weighted average number of ordinary shares outstanding would have been reduced by 9,750 shares, which would have no material effect on basic earnings per share. The equity swap agreement would have no effect on weighted average diluted number of shares, nor the diluted earnings per share calculation.

18 Provisions for post-employment benefits

Amount recognized in the consolidated balance sheet (SEKm)	2011			2010		
	Pensions	Other	Total	Pensions	Other	Total
Present value of unfunded defined benefit obligations	968	1,663	2,631	966	1,762	2,728
Present value of funded defined benefit obligations	14,604	186	14,790	13,520	165	13,685
Less: Fair value of plan assets	-8,747	-75	-8,822	-9,189	-79	-9,268
Deficit	6,825	1,774	8,599	5,297	1,848	7,145
Unrecognized past service cost	–	–	–	0	-9	-9
Net post-employment benefit liabilities	6,825	1,774	8,599	5,297	1,839	7,136
<i>Reflected as</i>						
Other long-term assets	-35	–	-35	-46	–	-46
Liabilities related to assets as held for sale	–	–	–	–	89	89
Provisions for post-employment benefits	6,860	1,774	8,634	5,343	1,750	7,093
Net post-employment benefit liabilities	6,825	1,774	8,599	5,297	1,839	7,136

Post-employment pension benefits

The Group sponsors defined benefit pension plans in a number of companies, where the employees are eligible for retirement benefits based on pensionable remuneration and length of service. The most significant plans are in Sweden, Germany, the UK and the USA. The Swedish plan supplements a statutory pension where benefits are established by national organizations. Plans in Germany, the UK and the USA are designed to supplement these countries' social security pensions.

Other post-employment benefits

The majority of other post-employment benefits relate to post-retirement health care plans and retirement and termination indemnities.

The US subsidiary sponsors a post-retirement health care plan covering most salaried and hourly employees. The plan provides health care and life insurance benefits for eligible retired employees. The company is entitled to receive a subsidy under the US Medicare Program Part D, for plan prescriptions drug costs for certain plan participants. At 31 December 2011, this reimbursement right totalled SEK 30 m (31).

The subsidiaries in Italy sponsor termination indemnities, TFR, which are paid out immediately upon termination. As prescribed by Italian law, the TFR obligation related to benefits and services up to 31 December 2006 remains a defined benefit plan and as such is reflected in the Group's balance sheet. Benefits on employee's service from 1 January 2007 are a defined contribution plan where the Italian

subsidiaries pay a contribution to an external social security fund as defined by the employee.

The subsidiaries in France sponsor a retirement indemnity plan in accordance with French National Employer/Employee agreements where a lump sum is paid to employees upon retirement.

<i>Components of total post-employment benefit expense (SEKm)</i>	2011	2010
<i>Defined benefit expense</i>		
Current service cost	370	371
Interest cost	765	787
Expected return on assets	-523	-598
Curtailments	-6	0
Other	10	8
Post-employment defined benefit expense	616	568
Post-employment defined contribution expense	342	329
Total post-employment benefit expense	958	897
<i>Whereof</i>		
Amounts charged to operating profit	711	630
Amounts charged to financial expense	247	267
Total post-employment benefit expense	958	897
<i>Geographical distribution of total defined benefit obligations (SEKm)</i>	2011	2010
Europe	9,797	9,530
Americas	7,398	6,660
Rest of the world	226	223
	17,421	16,413
<i>Geographical distribution of total plan assets (SEKm)</i>		
Europe	4,649	4,888
Americas	4,068	4,249
Rest of the world	105	131
	8,822	9,268
<i>Specification of total plan assets (SEKm)</i>		
Government bonds	2,360	2,067
Corporate bonds	2,362	2,090
Equity instruments	2,989	3,832
Real estate	824	850
Other, primarily cash and other financial receivables	287	429
	8,822	9,268

The SKF Group strives to balance risk in the investments of plan assets, by aiming for a range of 30-50% equity instruments with the remainder in lower risk/fixed income investments such as corporate and government bonds.

The fair value of real estate in the specification of plan assets above includes SEK 85 m (80) related to buildings in the USA and Switzerland where the Group is the lessee under operating lease arrangements. Lease expenses for the Group under these leases was SEK 9 m (10).

18 Provisions for post-employment benefits (cont.)

Changes in the present value of the defined benefit obligation (SEKm)

	2011			2010		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	14,486	1,927	16,413	14,429	2,112	16,541
Interest cost	690	75	765	705	82	787
Current service cost	341	29	370	341	30	371
Settlements and curtailments	-25	-	-25	-	-	-
Actuarial gains (-)/losses	680	-18	662	728	22	750
Contributions by plan participants	34	14	48	32	12	44
Benefits paid	-774	-133	-907	-773	-161	-934
Business acquired/sold	-	-90	-90 ¹⁾	326	16	342
Other (including reclassifications)	-8	34	26	29	12	41
Translation differences	148	11	159	-1,331	-198	-1,529
Closing balance 31 December	15,572	1,849	17,421	14,486	1,927	16,413

¹⁾ Relates to OMVP classified as held for sale in 2010, see Note 4.

<i>Changes in the fair value of plan assets (SEKm)</i>	2011			2010		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	9,189	79	9,268	9,466	86	9,552
Expected return on assets	520	3	523	595	3	598
Settlements	-17	-	-17	-	-	-
Actuarial gains/losses (-)	-645	-9	-654	138	1	139
Contributions by employer	122	2	124	86	1	87
Contributions by plan participants	24	-	24	22	-	22
Benefits paid	-520	-	-520	-532	-1	-533
Business acquired/sold	-	-	-	179	-	179
Other (including reclassifications)	-16	-	-16	-17	-	-17
Translation differences	90	-	90	-748	-11	-759
Closing balance 31 December	8,747	75	8,822	9,189	79	9,268

Actual return on plan assets -131 737

Accumulated actuarial gains and losses

The balance of accumulated actuarial gains and losses recorded in retained earnings, including social charges, was an accumulated loss of SEK 4,023 m (2,687).

Expected cash outflows

Cash outflows for 2012 are expected to be SEK 725 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Multi-employer plans

SKF Group has commitments for retirement pensions and family pensions for office personnel in Sweden which are secured through an insurance policy with Alecta. This is a defined benefit plan covering several employers, a so-called multi-employer plan. Alecta is currently unable to provide defined benefit accounting for such participants,

and therefore premiums paid to Alecta are accounted for as defined contribution expense. Fees for the year paid covering such arrangements were immaterial for both 2011 and 2010.

Alecta's profit in the form of the collective consolidation level amounted to 113 % (146). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's insurance calculation principles and assumptions which are not in conformity with IAS 19.

Sensitivity analysis

An increase of 1 percentage point in the discount rate would decrease the total defined benefit obligation by approximately SEK 1,600 m. A decrease by 1 percentage point in the discount rate would increase the total defined benefit obligation by approximately SEK 1,900 m.

<i>Principal weighted-average assumptions at end of year</i>	2011	2010
<i>Discount rate</i>		
Europe	4.6	4.8
Americas	4.5	5.3
Rest of the world	4.7	4.9
<i>Expected return on plan assets</i>		
Europe	4.7	5.0
Americas	7.0	7.4
Rest of the world	7.0	6.2
<i>Rate of salary increase</i>		
Europe	3.0	3.4
Americas	4.7	5.0
Rest of the world	5.7	7.3
<i>Medical cost trend rate</i>		
USA	8.50	8.75
<i>A one percentage point increase in the assumed medical care cost trend rate</i>		
Effect on the aggregate current service cost and interest cost	4	4
Effect on the defined benefit obligation	66	63
<i>A one percentage point decrease in the assumed medical care cost trend rate</i>		
Effect on the aggregate current service cost and interest cost	-3	-4
Effect on the defined benefit obligation	-58	-56

The assumed medical care cost trend rate at the end of 2011 was 8.50%, and is projected to decline by 0.25% per year, to an ultimate rate of 4.50% in 2027.

<i>Historical information (SEKm)</i>	2011	2010	2009	2008	2007
Total present value of defined benefit obligations	17,421	16,413	16,541	15,840	14,099
Fair value of plan assets	-8,822	-9,268	-9,552	-9,515	-10,697
Deficit	8,599	7,145	6,989	6,325	3,402
Experience adjustments on plan liabilities, losses/gains(-)	-93	131	-41	94	171
Experience adjustments on plan assets, losses (-)/gains	654	-139	358	-2,492	-11

Experience adjustments are a portion of the actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the period and actual experience during the period.

19 Other provisions

SEKm	2011 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2011 Opening balance
Restructuring	148	15	-243	-46	-9	–	431
Environmental	91	4	-7	–	6	1	87
Claims	649	96	-143	-65	16	2	743
Long-term employee benefits	474	111	-72	-4	49	-11	401
Other	474	57	-78	-9	4	–	500
	1,836	283	-543	-124	66	-8	2,162

Restructuring activities include, among other things, plant closures and relocations, as well as significant changes in organizational structure which are expected to be resolved within 18 months.

Environmental provisions and provisions for claims cover obligations not settled at year-end.

Long-term employee benefits primarily include jubilee bonuses and part-time retirement programmes which are provided to employees in certain countries and are expected to be settled before employment ends. The increase in Long-term employee benefits for 2011 refers mainly to Jubilee provisions in Italy.

Other provisions primarily include insurance and anti-dumping duties.

20 Financial liabilities

SEKm	Maturity	2011		2010	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term financial liabilities					
EUR 500 m (Outstanding EUR 396 m)	2013	3,640	3,739	3,681	3,796
EUR 150 m (Outstanding EUR 50 m)	2013	–	–	450	450
EUR 130 m	2014	1,163	1,169	1,170	1,176
EUR 400 m	2014	–	–	3,601	3,602
EUR 100 m	2015	916	916	895	895
EUR 100 m	2016	895	895	900	900
SEK 1,000 m	2017	1,000	1,001	–	–
EUR 500 m	2018	4,762	4,762	–	–
Other long-term loans	2012-2016	119	121	152	153
Derivatives held for trading		5	5	1	1
Subtotal long term financial liabilities		12,500	12,608	10,850	10,973
Short term financial liabilities					
SEK 1,500 m (Outstanding SEK 556 m)	2011	–	–	556	557
Medium-term loans	> 3 months	16	15	26	25
Trade payables	2012	4,698	4,698	4,476	4,476
Short-term loans	=< 3 months	341	341	366	366
Derivatives held for trading		729	729	137	137
Derivatives held for hedge accounting		27	27	240	240
Subtotal short term financial liabilities		5,811	5,810	5,801	5,801
		18,311	18,418	16,651	16,774

Only derivatives are classified in the category "Fair value through profit or loss" and fall into Level 2 of the fair value hierarchy for both 2011 and 2010, see Note 1 for a description of the fair value hierarchy. The remaining financial liabilities are classified in the category "Other financial liabilities".

The EUR 100 m loan with maturity 2016 can be repaid at any time. For the rest of bonds and loans, the maturities stated in the table above are based on the earliest date on which they can be required to be repaid.

EUR 166 m out of the outstanding EUR 396 m bond have been hedged with cross-currency interest rate swaps. The fixed EUR interest rates have been swapped into floating 3 months' SEK interest rates. EUR 500m bond and one of the EUR 100m loans have been hedged with interest rate swaps. The fixed EUR interest rates have

been swapped into floating 3 months' EUR interest rates. These bonds, which are subject to fair value hedging, are further described in Note 28.

EUR 130 m loan has been hedged with a cross-currency interest rate swap. The fixed EUR interest rates have been swapped into floating 3 months' SEK interest rates.

The two EUR 100 m loans, EUR 230 m out of the EUR 396 m bond loan and the EUR 500 m bond have been designated as hedge instruments in net investment hedges of foreign operations, see Note 28. The fair value of these EUR loans and bond amounted to SEK 8,715 m.

Derivatives are further described in Note 28. Methods used for establishing fair value are described in Note 1. Rates for the loans are disclosed in Note 9 of the Parent company.

21 Leasing

	2011		2010	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
<i>Future minimum lease payments at 31 December (SEKm)</i>				
Within one year	8	449	9	384
Later than one year but within five years	29	980	29	859
Later than five years	37	495	43	478
Total	74	1,924	81	1,721
Less: Interest	-12		-11	
Present value of minimum lease payments under finance leases	62		70	
Less: Current portion	-6		-6	
Non-current portion	56		64	

Net rental expense primarily related to operating leases was SEK 533 m (551). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in the

USA, Sweden, Germany and Belgium. Contingent rentals, sub-lease revenues and future minimum lease payments for finance leases were not significant in any of the years presented.

22 Other short-term liabilities

SEKm	2011	2010
Accrued salaries	1,175	1,376
Vacation pay	674	576
Social charges	528	437
Other current liabilities	1,755	1,681
Accrued expenses and deferred income	2,128	2,012
	6,260	6,082

23 Assets pledged and contingent liabilities

<i>Assets that have been pledged to secure loans and other obligations (SEKm)</i>	2011	2010
Mortgages on real estate	10	28
Chattel mortgages	46	46
	56	74

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of SEK 6 m (11) at 31 December.

<i>Contingent liabilities at nominal values (SEKm)</i>	2011	2010
Guarantees	26	40
Other contingent liabilities	15	21
	41	61

24 Related parties

	2011		2010	
	Associated companies	Jointly controlled companies	Associated companies	Jointly controlled companies
<i>The SKF Group's transactions with related parties (SEKm)</i>				
Sales of goods and services	34	3	31	–
Purchases of goods and services	116	143	115	438
Receivables as of 31 December	3	–	5	–
Liabilities as of 31 December	4	–	2	1

In 2007 Knut och Alice Wallenbergs Stiftelse transferred its shares in the Parent company to Foundation Asset Management Sweden AB ("FAM").

FAM's mission is to create, through co-ordination and in an efficient way, good and sustainable return for Knut och Alice Wallenbergs Stiftelse, Marianne och Marcus Wallenbergs Stiftelse and Stiftelsen Marcus och Amalia Wallenbergs Minnesfond (the "Foundations"). Aim of the Foundations is to support research and education through contributions, primarily to Swedish universities.

SKF Group has had no indication that FAM has obtained its ownership interest in the Group for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to FAM. At the end of 2011 FAM is the major shareholder of the Parent company, holding 29.4 % (28.6) of the voting rights and 12.9 % (12.0) of the share capital.

Other related party transactions include remuneration to key management as specified in Note 25. For a list of subsidiaries, see Note 6 to the financial statements of the Parent company.

25 Remuneration to Key Management

Salaries and other remunerations for SKF Board of Directors, President and Group Management

Principles of remuneration for Group Management

In April 2011, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

The objective of the principles is to ensure that the SKF Group can attract and retain the best people in order to support the SKF Group's mission and business strategy. Remuneration for Group Management shall be based on market competitive conditions and at the same time support the shareholders' best interests.

The total remuneration package for a Group Management member consists primarily of the following components: fixed salary, variable salary, performance shares, pension benefits, conditions for notice of termination and severance pay, and other benefits such as a company car. The components shall create a well balanced remuneration reflecting individual performance and responsibility as well as the SKF Group's overall performance.

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. It will be based on competence, responsibility and performance. The SKF Group uses an internationally well-recognized

evaluation system, International Position Evaluation (IPE), in order to evaluate the scope and responsibility of the position. Market benchmarks are conducted on a regular basis. The performance of Group Management members is continuously monitored and used as a basis for annual reviews of fixed salaries.

Variable salary

The variable salary of a Group Management member runs according to a performance-based programme. The purpose of the programme is to motivate and compensate value-creating achievements in order to support operational and financial targets.

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF management model Total Value Added (TVA). TVA is a simplified economic value-added model. This model promotes greater operating profit, capital efficiency and profitable growth. TVA is the operating profit, less the pre-tax cost of capital in the country in which the business is conducted. The TVA result development for the SKF Group correlates well with the trend of the share price over a longer period of time.

The maximum variable salary according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 40% and 70% for Group Management members.

If the financial performance of the SKF Group is not in line with the requirements of the variable salary programme, no variable salary will be paid. The maximum variable salary will not exceed 70% of the accumulated annual fixed salary of Group Management members.

Performance Shares

The Annual General Meeting 2011 decided on the introduction of SKF's Performance Share Programme 2011. The terms and conditions of SKF's Performance Share Programme 2011 are in essence the same as the terms and conditions of SKF's Performance Share Programmes 2008, 2009 and 2010, included in the principles of remuneration for Group Management decided at the Annual General Meetings 2008, 2009 and 2010 and summarized in the Consolidated Financial Statements Note 25 of the Annual Report 2010. The programme covers a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares.

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2011, and the TVA development for the financial year 2013 compared to the financial year 2011. Under the programme, no more than 1,000,000 B shares may be allotted.

Based on the TVA for the financial year 2011, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

- CEO and President – 10,000 shares
- Division Presidents and Executive Vice President – 5,000 shares
- Other members of Group Management – 3,500 shares
- Managers of large business units and other senior managers – 1,250 - 1,800 shares

Following the expiry of the financial year 2013 a comparison is made between TVA for the financial year 2011 and TVA for the financial year 2013. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

- CEO and President – 20,000 shares
- Division Presidents and Executive Vice President – 10,000 shares
- Other members of Group Management – 7,000 shares
- Managers of large business units and other senior managers – 2,500 - 3,600 shares

The participants shall not provide any consideration for their rights under the programme.

Other benefits

The SKF Group provides other benefits to Group Management members in accordance with local practice. The accumulated value of other benefits shall, in relation to the value of the total remuneration, be limited and shall, as a principle, correspond to what is customary on the relevant market.

Other benefits can for instance be a company car, medical insurance and home service.

Pension

The SKF Group strives to establish pension plans based on defined contribution models, which means that a premium is paid amounting to a certain percentage of the employee's annual salary. The commitment in these cases is limited to the payment of an agreed premium to an insurance company offering pension insurance.

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. The normal retirement age for Group Management members is 62 years.

Notice of termination and severance pay

A Group Management member may terminate his/her employment by giving six months' notice. In the event of termination of employment at the request of the company, employment shall cease immediately. The Group Management member shall however receive a severance payment related to the number of years' service, provided that it shall always be maximized to two years' fixed salary.

The Board of Directors' right to deviate from the principles of remuneration

In certain cases, the Board of Directors may deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration for Group Management

The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of a maximum four Board members. The Remuneration Committee prepares all matters relating to the principles of remuneration for Group Management, as well as the employment conditions of the President.

The principles for remuneration of Group Management are presented to the Board of Directors that submits a proposal for such principles to the Annual General Meeting for approval. The Board of Directors must approve the employment conditions of the President.

Board of Directors

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2011 it was decided that the Board be entitled to a fixed allotment of SEK 4,500,000 to be distributed with SEK 1,200,000 to the Chairman of the Board and with SEK 412,500 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that the Board be entitled to a variable allotment, calculated as below. The Chairman is entitled to a variable allotment corresponding to the value of the number of SKF B shares, the value of which after the Annual General Meeting 2011 shall amount to SEK 400,000. Each other Board member is entitled to a variable allotment corresponding to the value of the number of SKF B shares, the value of which after the Annual General Meeting 2011 shall amount to SEK 137,500. When deciding upon the variable allotment, (i) the number of shares shall be determined by dividing the amount of SEK 400,000 and SEK 137,500, respectively, with the average latest payment rate of an SKF B share according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days immediately following the day on which the share is traded without any right to receive dividend for 2011 and (ii) the value of an SKF B share shall be

25 Remuneration to Key Management (cont.)

determined at the average latest payment rate according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days after publication of the company's press release for the financial year 2011.

Finally, it was decided that an allotment of SEK 765,000 for committee work shall be divided with SEK 175,000 to the Chairman of the Audit Committee, with SEK 125,000 to each of the other members of the Audit Committee, with SEK 100,000 to the Chairman of the Remuneration Committee and with SEK 80,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Tom Johnstone, President and Chief Executive Officer of AB SKF received from the company in year 2011 as salary and other remunerations a total of SEK 11,103,301 which includes SEK 593,739 related to SKF's Performance Share Programme 2008. Additionally, Tom Johnstone was entitled to short-term variable salary of SEK 5,250,000 related to 2010 performance. The short-term variable salary was, however, not paid out in cash to Tom Johnstone but converted into additional pension contribution. Tom Johnstone's fixed annual salary 2012 will remain unchanged and will amount to SEK 10,000,000.

The variable salary in 2011 was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 51.

Tom Johnstone was in the beginning of 2011 allotted 3,330 SKF B shares under SKF's Performance Share Programme 2008. SKF's Performance Share Programmes are further described on pages 119 and 121.

In the event of termination at the request of AB SKF, Tom Johnstone will receive severance payments amounting to maximum two years' salary.

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 40% of SEK 3,575,812 corresponding to SEK 1,430,325 per year. The amount SEK 3,575,812 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the Act (1998:674) on income-based retirement pension) but not more than 5% for each year. The defined benefit pension is gradually earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment.

In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension. The 2011 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 5,419,364.

Group Management

SKF's Group Management, consisting of 14 people at the end of the year, received in 2011 (exclusive of the President) salary and other remunerations amounting to a total of SEK 63,451,771, of which SEK 44,796,839 was fixed annual salary, SEK 15,998,613 was short-term variable salary related to 2010 performance and SEK 2,656,319 was related to SKF's Performance Share Programme 2008. The fixed salary is for the managers that have joined or left Group Management during the year, accounted in relation to the period that each individual has been a member of Group Management.

The variable salary for Group Management was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 51.

Group Management was in the beginning of 2011 allotted 16,421 SKF B shares under SKF's Performance Share Programme 2008. SKF's Performance Share Programmes are further described on pages 119 and 121.

In the event of termination of employment at the request of the company of a person in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

During 2003, the Board decided to introduce a defined contribution supplementary pension plan for Group Management of the Swedish companies within the SKF Group. Since 2005 the retirement age is 62 years. The President is not covered by this pension plan. The plan entitles senior managers covered to receive an additional pension over and above the pension covered by the ITP-plan. The contributions paid for senior managers covered by the defined contribution plan are based on each individual's pensionable salary (i.e. normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. Some members of Group Management employed before 2005 have defined benefit pension entitlements relating to previous pension plans. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements.

	Fixed salary and other benefits ¹⁾ /fixed Board remuneration		Short-term variable salary/variable Board remuneration		Performance Share Programmes		Remuneration for committee work	Gross pension costs ²⁾
	Amounts paid in 2011 ³⁾	Amounts expensed in 2011 ³⁾	Amounts paid in 2011 related to 2010 ³⁾	Amounts expensed in 2011 ³⁾	Amounts paid in 2011 related to prior years ³⁾	Amounts expensed in 2011 ³⁾	Amounts paid and expensed in 2011 ³⁾	Amounts expensed in 2011 ³⁾
<i>Amounts in SEK</i>								
Board of directors of AB SKF								
Leif Östling	1,050,000	1,200,000	541,312	273,427	–	–	225,000	–
Ulla Litzén	368,750	412,500	202,992	91,747	–	–	125,000	–
Winnie Fok	368,750	412,500	202,992	91,747	–	–	–	–
Lena Treschow Torell	368,750	412,500	202,992	91,747	–	–	–	–
Peter Grafoner	368,750	412,500	202,992	91,747	–	–	80,000	–
Lars Wedenborn	368,750	412,500	202,992	91,747	–	–	255,000	–
Joe Loughrey	368,750	412,500	202,992	91,747	–	–	–	–
Jouko Karvinen	368,750	412,500	202,992	91,747	–	–	80,000	–
Baba Kalyani	206,250	412,500	–	118,675	–	–	–	–
Former Board member								
Hans-Olov Olsson	162,500	–	202,992	-26,928	–	–	–	–
CEO ⁴⁾	10,509,562	12,062,892	5,250,000 ⁵⁾	4,549,998	593,739	1,657,339	–	5,419,364
Group Management ^{4), 6)}	44,796,839	46,658,167	15,998,613	11,307,669	2,656,319	8,194,759	–	22,775,432
whereof AB SKF	36,566,785	38,374,392	13,451,686	8,371,646	2,300,253	6,742,913	–	20,976,285
Total	59,306,401	63,221,059	23,413,861	16,865,070	3,250,058	9,852,098	765,000	28,194,796
whereof AB SKF	51,076,347	54,937,284	20,866,934	13,929,047	2,893,992	8,400,252	765,000	26,395,649

¹⁾ Other benefits include housing, car and similar items.

²⁾ Represents premiums paid under defined contribution plans as well as gross expenses under defined benefit plans.

³⁾ *Amounts paid* represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes.

Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual. The most significant difference relates to the variable salary, variable Board remuneration and Performance Share Programmes, but also include difference related to accrued vacations and accumulated leave. However, no differences exist related to remuneration for committee work.

⁴⁾ Total pension obligations related to Group Management (including CEO) and former CEO were SEK 81 m.

⁵⁾ The short-term variable salary was not paid out in cash to the CEO but converted into a pension contribution.

⁶⁾ Exclusive of CEO. Includes managers who have joined or left the Group Management during the year accounted in relation to the period that each individual has been a member of Group Management and includes only remuneration in their capacity as member of Group Management.

SKF's Performance Share Programmes

Since 2008 AB SKF's Annual General Meeting has resolved each year upon a performance share programme. All of the programmes cover each a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares. The number of shares that may be allotted must be related to the degree of achievement of the Total Value Added (TVA) target level, as defined by the Board, for the financial year at start of the respective programme, and the TVA development for the financial year at the end of the three year calculation period compared to the financial year at start of the programme (i.e. 2011 compared to 2009 for SKF's Performance Share Programme 2009, 2012 compared to 2010 for SKF's Performance Share Programme 2010, and 2013 compared to 2011 for SKF's Performance Share Programme 2011).

Under each of the programmes, no more than 1,000,000 B shares may be allotted. The participants shall not provide any consideration for their rights under the programmes and shall receive compensation in cash equal to the dividend paid out during the three year calculation period. Allotment of shares normally requires that the persons covered by each of the programmes are employed in the SKF Group during the entire calculation period.

Allotment of shares under SKF's Performance Share Programme 2008 was made in the beginning of 2011. In total 116,790 SKF B shares were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA target level for the financial year 2008, and TVA growth of 33.3% (the financial year 2010 compared to the financial year 2008). No allotment of shares will be made under SKF's Performance Share Programme 2009 due to non-fulfilment of the TVA target for the financial year 2009. If all the conditions included in SKF's Performance Share Programmes 2010 and 2011, respectively, are met, allotment of shares shall be made following the expiry of the three year calculation period, i.e. during 2013 for SKF's Performance Share Programme 2010, and during 2014 for SKF's Performance Share Programme 2011.

For further details of SKF's Performance Share Programmes, see page 119.

Costs for SKF's Performance Share Programmes

SKF's Performance Share Programmes are equity settled programmes and the Group accounts for them in accordance with IFRS 2.

The expenses for SKF's Performance Share Programmes are recognized both directly in equity and as an operating expense over the vesting period 2009-2011, 2010-2012 and 2011-2013, respec-

25 Remuneration to Key Management (cont.)

tively. The expenses are based both on the fair value of the SKF B share at grant date and the number of shares expected to vest on 31 December of each year. The fair value of the SKF B share at grant date was determined as SEK 80 for SKF's Performance Share Programme 2009, SEK 141 for SKF's Performance Share Programme 2010, and SEK 177.6 for SKF's Performance Share Programme 2011. Amounts expensed in 2011 were SEK 57 m excluding social charges, relating to programmes 2008, 2010 and 2011. In 2009 no costs were taken for any programmes.

To fulfil AB SKF's obligations under the Performance Share Programme 2008, which was settled in 2011, SKF International AB entered into an equity swap agreement with a financial institution. The agreement included the possibility to get delivery of SKF shares from the financial institution to the participants of the programme.

A provision amounting to SEK 9 m (10), covering all programmes, was recorded for social charges payable by the employer when the shares are allocated. The social charges were calculated for the number of shares expected to vest and were based on the price of the SKF B share on 31 December 2011, SEK 145.60.

Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted by the Annual General Meeting 2011 a variable allotment, calculated as below. The variable allotment is corresponding to the value of the number of SKF B shares, the value of which after the Annual General Meeting 2011 shall amount to in total SEK 1,500,000. When deciding upon the variable allotment, (i) the number of shares shall be determined by dividing the amount of SEK 1,500,000 with the average latest payment rate of an SKF B share according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days immediately following the day on which the share is traded without any right to receive dividend for 2011 and (ii) the value of an SKF B share shall be determined at the average latest payment rate according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days after publication of the company's press release for the financial year 2011.

Also the Annual General Meeting in 2010 granted the Board a variable allotment as part of their remuneration. This allotment corresponded to 12,800 SKF B shares. The compensation was based on the average latest price paid for the SKF B share on NASDAQ OMX Stockholm AB during the five trading days following the publication of the press release for the financial year 2010.

Men and women in Board of Directors and Group Management

	2011		2010	
	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	12	75%	12	75%
Group Management incl. CEO	14	79%	13	77%
Parent Company				
Board of Directors of the Parent company incl. CEO	12	75%	12	75%
Group Management incl. CEO	11	73%	11	73%

26 Fees to the auditors

<i>Fees to SKF Group statutory auditors were split as follows (SEKm)</i>	2011	2010
Audit fees	36	35
Audit related fees	1	2
Tax fees	4	3
Other fees to auditors	1	1
	42	41
<i>The Parent Company's share (SEKm)</i>		
Audit fees	3	3
Audit related fees	–	1
Tax fees	–	–
Other fees to auditors	1	–
	4	4

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks.

All other tasks are defined as Audit related fees, Tax fees or other fees to auditors. At the Annual General Meeting of Shareholders in 2009, KPMG AB was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2013.

27 Average number of employees

	2011		2010	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent Company in Sweden	249	56%	223	56%
Subsidiaries in Sweden	2,684	81%	2,813	82%
Subsidiaries abroad	39,953	79%	37,170	78%
	42,886	79%	40,206	79%

<i>Geographic specification of average number of employees in subsidiaries abroad</i>	2011		2010	
	Number of employees	Whereof men	Number of employees	Whereof men
France	3,548	82%	3,552	78%
Italy	3,418	76%	4,131	77%
Germany	5,235	87%	5,153	87%
Other Western Europe excluding Sweden	3,982	81%	3,580	83%
Central and Eastern Europe	4,023	65%	3,662	64%
USA	5,142	75%	4,091	74%
Canada	231	75%	200	77%
Latin America	3,393	82%	2,772	80%
Asia	10,727	80%	9,759	80%
Middle East and Africa	254	74%	270	75%
	39,953	79%	37,170	79%

28 Financial risk management

The Group's overall financial objective is to create value for its shareholders. Over time, the return on the shareholders' investment in the SKF share should exceed the risk-free interest rate by around five percentage points. This is the basis for the Group's financial objectives and the financial performance management model.

The SKF Group defines its managed capital as the capital employed. One of the Group's long term financial targets is to achieve a return on capital employed of 27%.

- The capital structure target of the Group is
- a gearing of around 50%, which corresponds to
 - an equity/assets ratio of around 35% or
 - a net debt/equity of around 80%

<i>Key figures¹⁾</i>	2011	2010
Total equity, SEKm	22,455	19,894
Gearing, %	48.9	48.6
Equity/assets ratio, %	37.8	36.6 ²⁾
Net debt/equity, %	72.5	80.5
Return on capital employed, %	23.6	24.0

¹⁾ Definition of these key figures is available on page 158.

²⁾ Figure restated for finalized Lincoln PPA, see Note 1.

The purpose of the targeted and current capital structure is to keep an appropriate balance between equity and debt financing. This will ensure financial flexibility and enable the Group to continue investing in its business while maintaining a strong credit rating. The Group's policy and structure of debt financing are presented below.

The SKF Group's operations are exposed to various types of financial risks; market risks (being currency risk, interest rate risk and other price risks), liquidity risks and credit risks, each being discussed below.

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are largely centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Financial derivative instruments are used primarily to manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. The Group also uses financial derivative instruments for trading purposes, limited according to Group policy.

Market risk – Currency risk

The Group is exposed to changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions and to loans and investments in foreign currencies, i.e. transaction exposure. The Group's accounts are also affected by translating the results and net assets of foreign subsidiaries into SEK, i.e. translation exposure.

28 Financial risk management (cont.)

Transaction exposure

Transaction exposure mainly arises as a result of intra-Group transactions between the Group's manufacturing companies and the Group's sales companies, situated in other countries and selling the products to end-customers normally in local currency on their local market. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. Currency rates and payment conditions to be applied to the internal trade between SKF companies are set by SKF Treasury Centre. Currency exposure and risk is primarily, and to a large extent, reduced by netting internal transactions. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from SEK 55,616 m (53,383) to SEK 5,753 m (5,338). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from 3 to 12 months on average. Hedge accounting as defined by IAS 39 has been limited to USD only.

<i>Net currency flows (SEKm)</i>	2011	2010
USD	5,720	5,587
USD related ¹⁾	3,024	3,345
EUR	-3,501	-3,702
Other ²⁾	510	108
SEK	-5,753	-5,338

¹⁾ AUD, CAD, NZD, SGD, THB and ZAR

²⁾ Other is comprised of 10 different currencies

For the commercial foreign exchange exposure, the SKF Group is primarily exposed to USD and USD related currencies against EUR and SEK, as shown in the table above. Based on the assumption that the net currency flows in USD and USD related currencies will be the same for 2012 as in 2011, a sensitivity analysis shows that a 10% stronger SEK against the USD and related currencies would have a negative effect on profit before taxes of approximately SEK 588 m (661), including the effects of hedging transactions. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered. At year end, the outstanding USD hedges covered approximately 75% of estimated net USD flows for 5 months (6).

The sensitivity analysis based on the outstanding positions at 31 December shows that profit before taxes for the year would have decreased and increased by SEK 12 m (10) if SEK had strengthened and weakened, respectively, by 10% against all other currencies. The corresponding effect on the hedge reserve in equity would have been an increase of SEK 149 m (81) and a decrease of SEK 149 m (81), respectively.

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to SEK. To reduce the translation exposure, the Group has hedged some of its net investment in foreign subsidiaries, for details see page 126 and note 20.

Market risk – 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. At year-end, total interest bearing financial liabilities amounted to SEK 21,486 m (18,889) and total interest bearing financial assets amounted to SEK 5,881 m (3,454). Liquidity management and borrowing is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced. The objective of the SKF Group is to have a relatively short interest duration on the interest bearing assets and liabilities.

To manage the interest rate risk and currency risk in the borrowing, the SKF Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating SEK interest rates and floating EUR interest rates are swapped into floating SEK interest rates. The Group also has interest rate swaps where fixed SEK interest rates are swapped into floating SEK interest rates.

At 31 December 2011, given the prevailing net amount of interest bearing financial liabilities an unfavorable change of the interest rates for the year by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by SEK 74 m (106). For details on interest rates of individual loans, see note 9 of the Parent company's financial statements.

Market risk – Price risks

Market risks also include other price risks, where the relevant risk variables for the Group are stock exchange prices or indexes.

As of 31 December, the Group held investments in equity securities with quoted stock prices, amounting to SEK 385 m (645), which are categorized as available for sale. If the market share prices had been 10% higher/lower at 31 December, equity would have increased/decreased by SEK 39 m (65).

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 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, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks at 31 December 2011 that will expire in 2014, and committed credit facilities of SEK 3,000 m that will expire in 2017.

A good rating is important in the management of liquidity risks. The long-term rating of the Group by Standard & Poor's and Moody's Investor Service is A- and A3 respectively.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment outflows.

All instruments held at 31 December 2011 and for which payments were already contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were translated at closing rate. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December 2011. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

SEKm	2011 Cash flows			
	2012	2013	2014-2016	2017 and thereafter
Loans	-809	-4,062	-3,543	-6,047
Trade payables	-4,698	-	-	-
Derivatives				
Outflows	-37,988	-413	-661	-
Inflows	37,618	480	946	-
Total	-5,877	-3,995	-3,258	-6,047

SEKm	2010 Cash flows			
	2011	2012	2013-2015	2016 and thereafter
Loans	-1,243	-313	-9,271	-1,879
Trade payables	-4,476	-	-	-
Derivatives				
Outflows	-31,891	-147	-163	-
Inflows	31,995	153	164	-
Total	-5,615	-307	-9,270	-1,879

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 SKF Group is exposed to credit risk from its operating activities and certain financing activities.

The maximum exposure to credit risk for the Group amounted to SEK 17,036 m (13,592) as of the balance sheet date. The exposure is represented by total financial assets that are carried on the balance sheet with the exception of equity securities. No granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed as of the balance sheet date.

<i>Credit risk (SEKm)</i>	2011	2010
Trade receivables	10,713	9,859
Other receivables	975	994
Derivatives	523	344
Cash and cash equivalent	4,825	2,395
Total	17,036	13,592

At operational level, the outstanding trade receivables are continuously monitored locally in each area. The Group's concentration of credit risk related to trade receivables is mitigated primarily due to its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

With regard to financing activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The major part of these financial institutions has signed an ISDA agreement (International Swaps and Derivatives Association, Inc.). Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored.

Hedge accounting

Fair Value Hedges

To hedge the fair value risk of fixed-interest liabilities, the SKF Group used cross-currency interest rate swaps (receive fixed EUR interest, pay SEK variable interest) for an amount of EUR 166 m (266) and interest rate swaps (receive fixed EUR interest, pay EUR variable interest) for an amount of EUR 600 m (0). Fixed-interest bonds denominated in EUR were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the EUR swap curve were offset against the changes in the value of the interest rate swaps. For the cross-currency interest rate swaps, the aim of this hedging was to transform the EUR fixed-income bonds into variable SEK interest debt, thus hedging the fair value of the financial liabilities. For the interest rate swaps, the aim of this hedging is to transform the EUR fixed-income bonds into variable EUR interest debt, thus hedging the fair value of the financial liabilities related to interest risk. For those bonds the risk related to currency is hedged using a net investment hedge, see page 126.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the dollar-offset method. The dollar-offset method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the used derivatives expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period adjusted for accrued interest. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125%). When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item.

As the list of the fair values of derivatives shows (see table in the Derivatives section), the Group had designated interest rate derivatives with a net amount of SEK 382 m (-163) as fair value hedges as of 31 December 2011.

The following table shows the changes in the fair value of the hedges recorded in interest expense during the year.

SEKm	Financial expense 2011	Financial expense 2010
Financial liabilities (hedged items)	318	23
Cross-currency interest-rate swaps (hedging instruments)	-327	-21
Difference (inefficiency)	-9	2

Cash flow hedges

During 2011, forward exchange contracts were the derivative financial instruments used by the Group to hedge its foreign currency rate exposure.

Cash flow hedge accounting was applied to hedges of highly probable forecasted USD sales and the associated foreign currency risks arising from changes in USD rates. In the 2011 financial year, losses totaling SEK 43 m (loss of 4) resulting from the change in the fair values of currency derivatives used as cash flow hedges were taken to other comprehensive income. These changes constitute the effective portion of the hedging relationship. During the year gains of SEK 119 m (gain of 10) were transferred via other comprehensive income to net sales. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

28 Financial risk management (cont.)

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity derivatives were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2011 financial year, losses totaling SEK 25 m (gains of 34) resulting from the change in fair value of the electricity derivatives were taken to other comprehensive income. These changes constitute the effective portion of the hedging relationship. During the year a gain of SEK 8 m (gain of 2) was transferred via other comprehensive income to cost of goods sold. The ineffective part of the hedges amounted to a loss of SEK 4 m (loss of 3) which was recorded in cost of goods sold.

The following table shows the contractual maturities of the outstanding cash flow hedge instruments. The gain/loss of these hedge instruments will be recognized in profit or loss in the same period during which the forecasted hedged items affect profit or loss, see Note 1.

Nominal value	2012				2013-2014	Total
	Q1	Q2	Q3	Q4		
Currency derivatives, USDm ¹⁾	162	151	6	6	–	325
Electricity derivatives, SEKm	12	11	10	12	22	67

¹⁾ The hedging effect of the majority of the USD contracts will be recognized in profit or loss 3 months after maturity. For the outstanding USD hedge contracts the average rate was 6.6520.

A list of the fair values of derivatives is shown in the table in the derivatives section below.

Hedges of net investments

During 2011, net investments in foreign operations totalling EUR 1,142 m (884) were hedged by the Group against changes in the EUR/SEK exchange rate. EUR loans for an amount of EUR 930 m, a cross currency swap to buy EUR for an amount of EUR 112 m to closing rate and a forward contract to buy EUR for an amount of EUR 100 m were designated as hedge instruments, see Note 20. The result of the hedges totaled SEK 106 m (641) before tax in 2011 and was recognized as a translation difference in other comprehensive income. No amount has been recycled from other comprehensive income to the income statement in 2011 or in 2010.

Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 14 and liabilities in Note 20. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, net investment hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e. a component of a hybrid instrument that contains a non-derivative host contract).

<i>Derivative assets and liabilities, net (SEKm)</i>	Category	2011	2010
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	382	-163
Net investment hedges	Hedge accounting	25	–
Economic hedges	Trading	-245	3
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	-46	-2
Net investment hedges	Hedge accounting	19	–
Economic hedges	Trading	-364	105
Electricity derivatives			
Cash flow hedges	Hedge accounting	-12	24
Embedded derivatives	Trading	3	-1
		-238	-34

29 Events after balance sheet date

As from 1 January 2012 SKF formed two new business areas, Industrial Market, Strategic Industries and the Industrial Market, Regional Sales and Service. They will replace the former Industrial Division and Service Division. Both business areas will focus on

managing the total life cycle of the customers' assets and will deliver a full range of products, services and solutions to both OEMs and end users within different industries.

Parent Company income statements

SEKm	Note	Years ended December 31	
		2011	2010
Net sales		2,018	1,683
Cost of services provided	5, 8, 11	-2,018	-1,683
Gross profit		-	-
Administrative expenses	5, 8, 11	-205	-213
Other operating income		3	-
Other operating expenses		-19	-14
Operating loss		-221	-227
Income from participations in group companies	2	3,852	3,562
Financial income	2	404	295
Financial expenses	2	-867	-502
Profit after financial items		3,168	3,128
Change in untaxed reserves	3	-123	-178
Profit before tax		3,045	2,950
Taxes	4	-255	-274
Net profit		2,790	2,676

Parent Company statements of comprehensive income

SEKm	Note	Years ended December 31	
		2011	2010
Net profit		2,790	2,676
Other comprehensive income			
Change in fair value of available-for-sale assets	7	-260	169
Other comprehensive income		-260	169
Total comprehensive income		2,530	2,845

Parent Company balance sheets

SEKm	Not	As of December 31	
		2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	3	4
Investments in subsidiaries	6	22,634	22,257
Long-term receivables from subsidiaries		11,952	10,591
Investments in associated companies	6	1	15
Investments in equity securities	7	385	645
Deferred tax assets	4	23	25
		34,998	33,537
Current assets			
Short-term receivables		1	–
Short-term receivables from subsidiaries		2,154	2,616
Tax receivables		13	–
Other short-term receivables		81	132
Prepaid expenses		5	4
Cash and cash equivalents		2	–
		2,256	2,752
Total assets		37,254	36,289
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		1,138	1,138
Statutory reserve		918	918
		2,056	2,056
Unrestricted equity			
Fair value reserve		165	425
Retained earnings		6,769	6,333
Net profit		2,790	2,676
		9,724	9,434
		11,780	11,490
Untaxed reserves	3	1,540	1,417
Provisions			
Provisions for post-employment benefits	8	193	162
Other provisions		1	3
		194	165
Non-current liabilities			
Long-term loans	9	11,945	10,581
Long-term liabilities to subsidiaries		140	–
		12,085	10,581
Current liabilities			
Short-term loans	9	–	556
Trade payables		14	17
Short-term liabilities to subsidiaries		11,329	11,792
Tax payables		–	42
Other short-term liabilities		30	29
Accrued expenses and deferred income		282	200
		11,655	12,636
Total shareholders' equity, provisions and liabilities		37,254	36,289
Assets pledged		–	–
Contingent liabilities		5	5

Parent Company statements of cash flow

SEKm	Years ended December 31	
	2011	2010
Operating activities		
Operating loss	-221	-227
<i>Adjustments for</i>		
Depreciation and amortization	1	1
Net gain(-) on sales of property, plant and equipment	-	-2
Net gain(-) on sales of equity securities	-	4
Income taxes paid	-306	-418
Payments under post-employment defined benefit plans	-25	-21
Exercise of Performance Share Programmes	-20	-
<i>Changes in working capital</i>		
Trade payables	-3	-
Other operating assets and liabilities, net	429	3,207
Interest received	401	292
Interest paid	-836	-470
Other financial items	-28	-29
Net cash flow from operating activities	-608	2,337
Investment activities		
Additions to property, plant and equipment	-	1
Sales of property, plant and equipment	-	8
Dividends received from subsidiaries	2,389	1,945
Sales of shares in subsidiaries	18	18
Investments in subsidiaries	-395	-5,089
Net cash flow used in investing activities	2,012	-3,117
Net cash flow after investments before financing	1,404	-780
Financing activities		
Proceeds from medium- and long-term loans	5,443	4,642
Repayment of medium- and long-term loans	-4,568	-2,268
Cash dividends to AB SKF's shareholders	-2,277	-1,594
Net cash flow used in financing activities	-1,402	780
Increase(+)/decrease(-) in cash and cash equivalents	2	-
Cash and cash equivalents at January 1	-	-
Cash and cash equivalents at December 31	2	-

<i>Change in net interest-bearing liabilities (SEKm)</i>	2011 Closing balance	Exchange rate effect	Change in items	2011 Opening balance
Loans, long- and short-term	11,945	-67	875	11,137
Provisions for post-employment benefits	193	-	31	162
Liabilities to subsidiaries, long- and short-term	11,263	-	-408	11,671
Receivables from subsidiaries, long- and short-term	-12,075	67	-845	-11,297
Cash and cash equivalents	-2	-	-2	-
Net interest-bearing liabilities	11,324	-	-349	11,673

<i>Change in net interest-bearing liabilities (SEKm)</i>	2010 Closing balance	Exchange rate effect	Change in items	2010 Opening balance
Loans, long- and short-term	11,137	-1,200	2,374	9,963
Provisions for post-employment benefits	162	-	18	144
Liabilities to subsidiaries, long- and short-term	11,671	-	4,058	7,613
Receivables from subsidiaries, long- and short-term	-11,297	1,224	-2,392	-10,129
Cash and cash equivalents	-	-	-	-
Net interest-bearing liabilities	11,673	24	4,058	7,591

Parent Company statements of changes in equity

SEKm	Restricted equity		Unrestricted equity		Total
	Share capital ¹⁾	Statutory reserve	Fair value reserve	Retained earnings	
Opening balance 1/1/2010	1,138	918	256	7,896	10,208
Net profit	–	–	–	2,676	2,676
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	169	–	169
Cost under Performance Share Programmes ²⁾	–	–	–	31	31
Dividend	–	–	–	-1,594	-1,594
Closing balance 31/12/2010	1,138	918	425	9,009	11,490
Net profit	–	–	–	2,790	2,790
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	-260	–	-260
Cost under Performance Share Programmes ²⁾	–	–	–	57	57
Exercise of Performance Share Programmes ²⁾	–	–	–	-20	-20
Dividend	–	–	–	-2,277	-2,277
Closing balance 31/12/2011	1,138	918	165	9,559	11,780

¹⁾ The distribution of share capital between share types is shown in Note 16 to the Consolidated financial statements.

²⁾ See Note 25 to Consolidated financial statements for information about Performance Share Programmes.

Restricted equity includes share capital and statutory reserves which are not available for dividend payments.

Unrestricted equity includes retained earnings which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets.

Notes to the financial statements of the Parent Company

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2010.

1 Accounting policies

Basis of presentation

The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities" as well as their interpretation (UFR).

In accordance with RFR 2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the Consolidated financial statements.

Post-employment benefits

With regard to pensions, the Group applies IAS 19, "Employee Benefits", where as the Parent company continues to apply FAR's Recommendation RedR 4, "Accounting of Pension Liabilities and Pension Costs".

Investments in subsidiaries

Investments in subsidiaries are recorded at acquisition cost, reduced by any impairment.

Untaxed reserves

The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation.

Restatements due to withdrawal of UFR2

During the year 2011, the Swedish Financial Reporting Board withdrew UFR2 "Group contributions and Capital injections". Accounting is now done in accordance with the RFR2. Both received and paid group contributions are now accounted for in a manner similar to dividends received and paid from group companies in the Income statement. Previously they were shown directly in equity. The Income statements, Balance sheets and Statement of equity for 2010 have been restated accordingly.

2 Financial income and financial expenses

SEKm	2011	2010
Income from participations in Group companies		
Dividends from Group companies	2,389	1,945
Received group contribution	1,612	1,645
Paid group contribution	-9	-8
Other financial income from investments in subsidiaries	-	4
Impairment of investments in subsidiaries	-140	-24
	3,852	3,562
Interest income and similar items		
Interest income from subsidiaries	401	292
Other financial income	3	3
	404	295
Financial expenses		
Interest expenses to subsidiaries	-434	-182
Interest expenses to external parties	-402	-288
Other financial expense	-31	-32
	-867	-502

Other income from investments in subsidiaries consists of Group-internal profits in connection with sales of shares in subsidiaries and liquidation surpluses.

3 Untaxed reserves

<i>Change in untaxed reserves (SEKm)</i>	2011	2010
Change in tax allocation reserves	-123	-179
Change in accelerated depreciation reserve	-	1
	-123	-178
<i>Untaxed reserves (SEKm)</i>		
Accelerated depreciation reserve	1	1
Tax allocation reserves	1,539	1,416
	1,540	1,417

4 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2011	2010
Current taxes	-252	-276
Deferred taxes	-3	2
	-255	-274

<i>Net deferred taxes per type (SEKm)</i>	2011	2010
Provisions for post-employment benefits	20	23
Other	3	2
Deferred tax assets	23	25

<i>Reconciliation of the statutory tax in Sweden and the current tax (SEKm)</i>	2011	2010
Tax calculated using the statutory tax rate in Sweden	-801	-776
Non-taxable dividends and other financial income	629	512
Other non-deductible and non taxable profit items, net	-83	-10
Actual tax	-255	-274

The corporate statutory income tax rate in Sweden was 26.3% in 2011 and 2010.

5 Property, plant and equipment

SEKm	2011 Closing balance	Additions	Disposals	2010 Opening balance
<i>Acquisition cost</i>				
Buildings	4	-	-	4
Machine toolings and factory fittings	13	-	-	13
	17	-	-	17
	2011 Closing balance	Depreciation	Disposals	2010 Opening balance
<i>Accumulated depreciation</i>				
Buildings	1	-	-	1
Machine toolings and factory fittings	13	1	-	12
	14	1	-	13
Net book value	3	-1	-	4

6 Investments in subsidiaries and associated companies

Significant investments in subsidiaries are specified below. Investments in associated companies were SEK 1m (15) and include a 50% holding in AEC Japan Co. Ltd and a 30% holding in Endorsia.com International AB.

<i>Investments in subsidiaries held by the Parent company on December 31 (SEKm)</i>	2011	Additions	Disposals and capital Impairm. repayments	2010	Additions	Disposals and capital Impairm. repayments	2010
Investments in subsidiaries	22,634	535	-140 -18	22,257	5,089	-25 -18	17,211

Name and location	Registration number	2011			2010		
		No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Manufacturing companies							
SKF USA Inc., USA	-	1,000	100	2,234	1,000	100	2,234
SKF Österreich AG, Austria	-	200	100	176	200	100	176
SKF Española S.A., Spain	-	3,650,000	100	383	3,650,000	100	383
SKF Polska S.A, Poland	-	3,701,466	100	156	3,701,466	90.6	156
SKF Bearings Bulgaria EAD, Bulgaria	-	24,664,309	100	183	24,664,309	100	183
SKF Ukraine, Ukraine	-	821,379,918	99.8	176	821,379,918	99.8	113
SKF do Brasil Limitada, Brazil	-	243,461,248	99.9	540	243,461,248	99.9	538
SKF Argentina S.A., Argentina	-	890,144	2.4	3	890,144	2.4	3
SKF India Ltd., India	-	246,390,480	46.7	94	246,390,480	46.7	94
SKF Couplings Systems AB, Hofors, Sweden	556019-4150	7,500	100	259	7,500	100	259
SKF Sealing Solutions AB, Landskrona, Sweden	556133-3625	-	-	-	10,000	100	18
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	-	153,200	51.0	15	153,200	51.0	15
PT. SKF Indonesia, Indonesia	-	76,380	85.8	35	76,380	85.8	35
SKF de Mexico S.A. de C.V., Mexico	-	108,224,966	32.3	65	108,224,966	32.3	65
SKF Technologies (India) Private Limited, India	-	826,500,101	82.7	243	626,500,101	78.3	187
Sales companies							
SKF Danmark A/S, Denmark	-	5	100	7	5	100	7
SKF Norge A/S, Norway	-	50,000	100	0	50,000	100	0
Oy SKF Ab, Finland	-	48,100	100	12	48,100	100	12
SKF Logistics Services Belgium NV/SA, Belgium	-	29,907,952	99.9	28	29,907,952	99.9	6,236
SKF Portugal, Portugal	-	61,601	95.0	4	61,601	95.0	4
SKF Ložiska, a.s., Czech Republic	-	430	100	10	430	100	10
SKF Budaors, Hungary	-	20	100	0	20	100	0
SKF Canada Limited, Canada	-	100,000	76.9	0	100,000	76.9	0
SKF del Peru S.A., Peru	-	2,564,903	99.9	0	2,564,903	99.9	0
SKF Chilena S.A.I.C., Chile	-	88,192	100	0	88,192	100	0
SKF Venezolana S.A., Venezuela	-	194,832	100	35	194,832	100	35
SKF Asia Pacific Pte Ltd., Singapore	-	1,000,000	100	0	1,000,000	100	0
PT. Skefindo Primatama, Indonesia	-	5	5.0	1	5	5.0	1
SKF Pakistan private Ltd, Pakistan	-	1,781,295	100	2	1,781,295	100	2
SKF New Zealand Ltd, New Zealand	-	375,000	100	0	375,000	100	0
SKF Lubrication Comp. Center, Linköping, Sweden	556124-6082	1 000	100	8	1,000	100	8
SKF Eurotrade AB, Göteborg, Sweden	556206-7610	83,500	100	12	83,500	100	12
SKF Multitec AB, Helsingborg, Sweden	556236-4595	29,500	100	5	29,500	100	5
Monitoring Control Center MCC AB, Kiruna, Sweden	556644-8295	3,375	67.5	1	3,375	67.5	1
SKF Condition Monitoring Center (Luleå) AB, Luleå, Sweden	556236-9263	5,000	100	10	5,000	100	10
Carried forward				4,697			10,802

6 Investments in subsidiaries and associated companies (cont.)

Name and location	Registration number	2011			2010		
		No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Carried forward	–			4,697			10,802
Other companies							
Bearing Holdings UK, United Kingdom	–	6,965,000	100	120	6,965,000	100	120
SKF Holding B.V., The Netherlands	–	60,002	100	5,042	60,002	100	5,042
SKF Belgium NV/SA, Belgium	–	650,506	99.9	9,802	650,505	99.9	3,593
SKF Verwaltungs AG, Switzerland	–	500	100	502	500	100	502
SKF Holding Mexicana, S.A. de C.V., Mexico	–	2,268,763	98	104	2,268,763	98.0	104
SKF China Company Ltd. Shanghai, China	–	133,400	100	1,135	133,400	100	935
SKF Korea LTD, Republic of Korea	–	128,667	100	74	128,667	100	74
SKF Treasury Centre Asia Pacific Pte Ltd., Singapore	–	61,500,000	100	467	61,500,000	100	468
SKF South Africa Pty.Ltd, South Africa	–	1,422,480	100	43	1,422,480	100	43
SKF Australia (Manufacturing) Pty. Ltd., Australia	–	96,500	100	0	96,500	100	0
SKF Thailand Ltd, Thailand	–	1,847,000	92.4	37	1,847,000	92.4	37
SKF Uruguay S.A., Uruguay		209,989,200	100	73	–	–	–
SKF International AB, Göteborg, Sweden	556036-8671	20,000	100	320	20,000	100	320
Återförsäkringsaktiebolaget SKF, Göteborg, Sweden	516401-7658	30,000	100	125	30,000	100	125
SKF Förvaltning AB, Göteborg, Sweden	556350-4140	124,500	99.6	40	124,500	99.9	40
Bagaregården 16:7 KB, Göteborg, Sweden	916622-8529	–	–	53 ¹⁾		99.9	52 ¹⁾
				22 634			22,257

¹⁾ The Parent company's share of the equity in the limited partnership company is disclosed as the nominal value.

Investments in major SKF subsidiaries held by other subsidiaries

Name and location (Holding in percent)	2011	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	100	The Netherlands
SKF Industrie S.p.A, Airas, Italy	100	The Netherlands
SKF France S.A., Montigny-le-Bretonneux, France	100	France
Transrol S.A.S, Chambéry, France	99.9	France
SKF (U.K.) Ltd., Luton, United Kingdom	100	United Kingdom
SKF China Ltd., Hong Kong, China	100	China
SKF India Ltd., Mumbai, India	0.4	Sweden
SKF India Ltd., Mumbai, India	6.5	United Kingdom
RFT S.p.A., Turin, Italy	100	Italy
SKF Lubrication Systems Germany AG, Berlin, Germany	100	Germany
SKF Aerospace France, Saint-Vallier-sur-Rhône, France	100	France
SKF Argentina S.A., Buenos Aires, Argentina	97.5	Switzerland
SKF de Mexico, Puebla, Pue, Mexico	67.6	Mexico
SKF Canada Ltd., Scarborough, Canada	23.1	The Netherlands
SKF Sealing Solutions GmbH, Leverkusen-Opladen, Germany	100	Germany
SKF Malaysia Sdn.Bhd., Kuala Lumpur, Malaysia	100	China
SKF Linearsysteme GmbH, Schweinfurt, Germany	100	Germany
SKF Japan Ltd., Tokyo, Japan	100	The Netherlands
SKF B.V., Nieuwegein, The Netherlands	100	The Netherlands
SKF Sverige AB, Göteborg, Sweden	100	Sweden
SKF Mekan AB, Katrineholm, Sweden	100	Sweden
Economos Austria GmbH, Judenburg, Austria	100	Austria
SKF Aeroengine France, Valenciennes, France	100	France
Lincoln Holdings Enterprises Inc., USA	100	USA
SKF Taiwan Co. Ltd., Taipei, Taiwan	100	The Netherlands
ABBA Taipei, Taipei, Taiwan	99.3	Taiwan
SKF Wazhou Bearings, Dalian, China	51.0	China
Nankou SKF Bearings, Peking, China	51.0	China
SKF SS Wuhu Co. Ltd., Wuhu, China	100	China

7 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	2011 Book value, SEKm	2010 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	33	356	586
NN, Inc., USA	4.5	700,000	USD	2	29	59
					385	645

8 Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally the Company sponsors a complementary defined contribution, (DC) scheme for a

limited group of managers. This DC-scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

<i>Amount recognised in the balance sheet (SEKm)</i>	2011	2010
Present value of funded pension obligations	180	169
Less: Fair value of plan assets	-157	-156
Net obligation	23	13
<i>Present value of unfunded pension obligations</i>	170	149
Net provisions for post-employment benefits	193	162

SEK 193 m (162) of the net provision relates to "Tryggande-lagen".

<i>Change in provision for the year (SEKm)</i>	2011	2010
Opening balance January 1	162	144
Pension cost excluding interest expense	52	41
Interest expense	5	5
Return on plan assets	-1	-7
Pension payments	-25	-21
Closing balance December 31	193	162
<i>Components of expense (SEKm)</i>		
Pension cost excluding interest expense	52	41
Interest expense	5	5
Return on plan assets	-1	-7
Defined benefit expense	56	39
Defined contribution expense	43	39
Total expense	99	78

The calculation of defined benefit pension obligations have been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan is 4.0% (4.0%) and for the other defined benefit plan it is 3.5% (3.6%). Expected cash outflows for 2012 are SEK 21 m.

9 Loans

SEKm	Maturity	Interest rate	2011		2010	
			Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
SEK 485 m	2011		–	–	111	112
EUR 500 m (Outstanding EUR 396 m)	2013	4.25	3,542	3,739	3,565	3,796
EUR 100 m	2015	2.95	895	916	895	895
SEK1,000 m	2017	3.42	1,000	1,001	–	–
EUR 500 m	2018	3.88	4,450	4,762	–	–
Long-term loans						
SEK 1,015 m (Outstanding SEK 445 m)	2011		–	–	445	445
EUR 150 m (Outstanding EUR 50 m)	2013	1.30	–	–	450	450
EUR 130 m	2014	4.22	1,163	1,169	1,170	1,176
EUR 400 m	2014		–	–	3,601	3,602
EUR 100 m	2016	1.71	895	895	900	900
			11,945	12,482	11,137	11,376

The current portion of bonds is included in short-term loans. Fair value has been calculated by discounting future cash flows at the market interest rate for each maturity.

10 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

See Note 25 to the Consolidated financial statements for information on remuneration to the Board and president as well as men and women in management and the board. Refer to Note 27 to the Consolidated

financial statements for the average number of employees and to Note 26 to the Consolidated financial statements for fees to the auditors.

SEKm	2011	2010
Salaries, wages and other remuneration	299	259
Social charges (whereof post-employment benefit expense)	172 (99)	177 (78)

11 Related parties

Information regarding sales to and costs invoiced from subsidiaries is included in the reported cost of services provided and amounted to SEK 1,528 m (1,288). Financial income from and financial expense to subsidiaries is presented in Note 2. Assets and liabilities attributable

to subsidiaries are presented in the balance sheet. For related party transactions involving key management, see Note 25 to the Consolidated financial statements.

12 Events after balance sheet date

The Group has in 2012 introduced a new Transfer Pricing Policy and will during a phase out period centralize the majority of the ownership of intellectual property to AB SKF. This means that AB SKF's business

model has changed and will shift from being a service provider to being an entrepreneur with the right to the residual profit, taking costs for R&D and other management services.

Proposed distribution of surplus

Fair value reserve	SEK	164,939,950
Retained earnings	SEK	6,767,952,001
Net profit for the year	SEK	2,790,310,570
Total surplus	SEK	9,723,202,521
The Board of Directors and the President recommend to the shareholders, a dividend of SEK 5.50 per share ¹⁾ to be carried forward:		
Fair value reserve	SEK	164,939,950
Retained earnings	SEK	7,053,831,697
	SEK	9,723,202,521

¹⁾ Suggested record day for right to dividend, April 30, 2012.

²⁾ Board Members' statement: The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on Company and Group equity imposed by the type, scope and risks of the business and with regards to the Company's and the Group's financial strength, liquidity and overall position.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2011 are given in the income statements and in the balance sheets together with related notes.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, January 26, 2012

Leif Östling (<i>Chairman</i>)	Peter Grafoner (<i>Board member</i>)	Lennart Larsson (<i>Board member</i>)
Ulla Litzén (<i>Board member</i>)	Lars Wedenborn (<i>Board member</i>)	Kennet Carlsson (<i>Board member</i>)
Tom Johnstone (<i>President and CEO, Board member</i>)	Joe Loughrey (<i>Board member</i>)	Jeanette Stenborg (<i>Deputy board member</i>)
Winnie Fok (<i>Board member</i>)	Jouko Karvinen (<i>Board member</i>)	Martin Björkman (<i>Deputy board member</i>)
Lena Treschow Torell (<i>Board member</i>)	Baba Kalyani (<i>Board member</i>)	

Our auditors' report for this Annual Report and the consolidated Annual Report was issued February 29, 2012.

KPMG AB

Thomas Thiel
Authorized public accountant

Notes – Environmental and social performance

Environmental data

In these notes, quantitative information and data about SKF's environmental performance is provided. For qualitative information and examples of how SKF works to improve environmental performance please see Administration Report, Environmental Care, pages 56–62. For more detailed data please refer to the Environmental data performance spreadsheet available on skf.com, choose Investors and Reports.

Scope and data collection: All environmental data reported in the SKF Annual Report – Environmental Care and in notes to environmental data was compiled either quarterly or annually using a web-based reporting tool. It covers all the Group's manufacturing sites, technical and engineering centres and logistics centres. Sales

units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/division, and Group level. Data verification is performed at each level before submitting to external auditors for verification. The reporting of greenhouse gas emissions is done in accordance with the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resource Institute.

1 Carbon dioxide emissions (tonnes) from Scope 1 and 2

Emissions generated directly by SKF units – Scope 1

	2011	2010	2009	2008	2007	2006
LPG	4,234	3,608	2,671	3,770	3,907	4,176
Fuel oil	5,082	6,364	5,182	5,543	6,369	11,495
Natural gas	54,656	57,921	55,554	64,726	67,139	66,664
Total	63,972	67,893	63,407	74,039	77,415	82,336

Emissions generated by energy suppliers to SKF – Scope 2

	2011	2010	2009	2008	2007	2006
Electricity	406,147	382,517	318,563	394,228	433,408	435,312
Heating energy	33,898	42,075	34,376	37,309	41,902	45,983
Total	440,045	424,592	352,940	431,537	475,310	481,294

	2011	2010	2009	2008	2007	2006
Result before purchase of VER, tonnes*	504,017	492,485	416,347	505,576	552,725	563,630
Result after purchase of VER's**	424,017	452,485				

* 2006 to 2011 figures adjusted for acquisitions in accordance with the GHG protocol.

** Voluntary Emission Reduction (VER) certificates which had been produced according to the Voluntary Carbon Standard (VCS). For the 2011 period, these VERs have been produced by the Changtu Wind Power Project located in Liaoning Province, China (a province in which SKF has several large manufacturing sites). This project uses wind energy to generate clean electricity for the North-East China power

grid. Fifty-eight wind turbines have been constructed, with a total installed capacity of 49.3 MW.

In total, the Changtu Wind Power Project provides approximately 101,420 MWh of electricity per year and delivers an estimated 115,689 tonnes of emissions reductions per year (of which SKF has purchased 80,000 tonnes) as well as providing local employment.

Note 2a–2d: Transport data

SKF Logistics Services downstream (from SKF to customer) transportation of goods. The reporting scope includes global air and sea freight and the express and road transportation networks within the European Union. Road transportation in markets outside Europe has

not yet been included due to the difficulties of obtaining reliable data from logistics providers in these locations. The reporting period was Q4 2010 to Q3 2011. It lags one quarter due complexity of data compilation.

2a Shipped weight and CO₂ emission per year (Q4 2010 to Q3 2011)

Tonnes	2011	2010	2009
Shipped weight	532,795	401,270	289,000
CO ₂ emissions	57,800	46,300*	41,000

*Restatement from last year. The general assumptions for calculation of CO₂ emissions from sea freight were changed during the year, figures are adjusted from 48,000 tonnes.

2b Fill rate

	2011	2010	2009
	81%	77%	72%

The fill rate indicator covers SKF Logistics Services' own shipments by truck in the DTS network (Daily Transportation System Network).

2c Shipped weight per transport mode per year (Q4 2010 to Q3 2011)

	2011	2010
Shipped weight per transport mode		
Road	63%	67%
Sea	35%	31%
Express	<0.5%	<0.5%
Air	1.5%	2%

2d Proportion of CO₂ emission per transport mode per year (Q4 2010 to Q3 2011)

	2011	2010
Shipped weight per transport mode		
Road	16%	18%
Sea	23%	23%
Express	2%	2%
Air	59%	57%

3 Material use

Tonnes	2011	2010	2009	2008	2007	2006
Metal as raw material in total	523,237	546,934	387,348	572,210	625,289	602,454
Metal as raw material from external suppliers	410,487	412,068	297,950	431,781	431,076	361,953
Rubber as raw material in total	5,519	5,050	3,945	5,221	5,043	4,791
Rubber as raw material from external suppliers	4,354	3,915	2,961	3,757	2,621	2,265
Coal*	1,124	783	488	237	441	1,180

*Coal is used by SKF as an alloying element in steel production, not as fuel.

4 Chemical use

	2011	2010	2009	2008	2007	2006
Alcohols, tonnes	1,542	1,514	1,293	1,569	1,395	1,283
Solvents, tonnes	847	1,144	1,075	1,435	1,596	1,888
Hydraulic Oil, tonnes	2,515	2,501	1,932	3,039	3,209	3,016
Grease, tonnes	1,515	1,416	1,175	1,639	1,728	1,804
PCB, Sites with	1	1	1	1	2	1
Other oils, tonnes	3,856	3,114	3,160	4,130	8,103	8,910
Lubrication Oils, tonnes	986	880	649	887	–	–
Cutting Oils, tonnes	2,442	2,656	1,971	9,478	–	–
ODS-Class I Manufacturing, kilogram	0	0	0	0	0	19
ODS-Class II Manufacturing, kilogram	0	15	1	88	121	191
ODS-Class III Manufacturing, kilogram	138	119	24	–	–	–
ODS-Class I Non-Manufacturing, kilogram	0	30	30	–	–	–
ODS-Class II Non-Manufacturing, kilogram	124	107	253	–	–	–
ODS-Class III Non-Manufacturing, kilogram	294	477	281	–	–	–

5 Water use and discharge

	2011	2010	2009	2008	2007	2006
Water consumption (1,000 N cubic metre)	5,584	5,652*	6,898	7,622	6,956	7,084

*Restatement from last year: Due to a reporting error from one site, the water consumption figure for 2010 must be restated. The corrected figure is 5,652 million cubic metres.

6 Residual products and recycling

	2011	2010	2009	2008	2007	2006
Turning Chips, tonnes	54,536	64,782	51,085	83,444	92,919	90,713
Turning Chips Recycled, %	100%	100%	100%	100%	100%	100%
Other metal scrap, tonnes	6,090	7,487	7,670	18,413	76,599	73,522
Other metal scrap recycled, %	100%	100%	100%	100%	100%	100%
Grinding swarf, tonnes	23,221	20,899	15,740	24,324	25,125	23,427
Grinding Swarf Recycled, %	68%	67%	70%	64%	67%	65%
Used oils, tonnes	3,899	4,275	3,880	5,742	5,510	4,869
Used oils recycled, %	95%	94%	96%	97%	93%	76%
Paper and carton, tonnes	4,171	4,084	3,390	4,194	4,223	3,946
Paper and carton recycled, %	96%	98%	96%	97%	97%	98%
Waste sent to landfill, tonnes	10,938	10,722	7,740	10,046	16,194	13,250

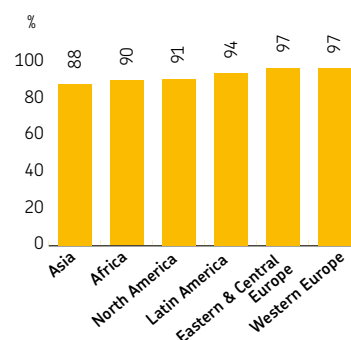
Social data

In this section the quantitative data of SKF's Social performance is presented. Qualitative information and examples on SKF's social performance can be found in the Administration Report under the Employee Care and Community Care sections, pages 63-71. For more information, please also visit skf.com, choose Investors and Reports.

Scope: The SKF Group Employee Data published in the Employee Care section (and below in note 7-11) is collected annually, compiled and aggregated from local operating unit levels. All figures in the employee data reflects the current state on the 31 of December each year. Figures are not adjusted for acquisitions and divestments. Data verification is performed at each level before submitting to external auditors for verification.

7 Employee retention rate by region, %

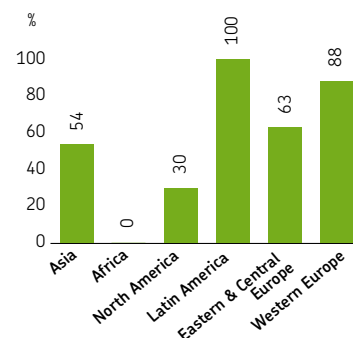
Percent	2011	2010	2009	2008	2007	2006
Asia	88	91	94	86	87	91
Africa	90	94	95	88	86	90
North America	91	95	96	91	90	91
Latin America	94	93	96	95	94	96
Eastern and Central Europe	97	96	95	90	95	96
Western Europe	97	96	96	96	96	97
Group	94	95	95	93	94	95



8 Units by region with independent trade union, %

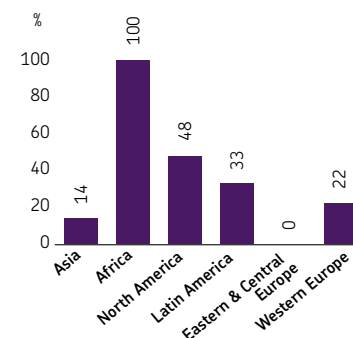
Percent	2011	2010	2009	2008	2007	2006
Asia	54	52	65	60	61	61
Africa	0	0	0	0	0	0
North America	30	28	30	28	35	35
Latin America	100	100	100	100	100	80
Eastern and Central Europe	63*	100	100	100	100	100
Western Europe	88	88	90	88	88	84
Group	65	66	71	67	70	68

*Two new units (SKF Solution Factories) was included which not yet have put this in place.



9 Units by region with HIV/Aids programme, %

Percent	2011	2010	2009	2008	2007	2006
Asia	14	16	20	25	17	6
Africa	100	100	100	100	100	100
North America	48	48	52	45	46	12
Latin America	33	33	33	40	20	20
Eastern and Central Europe	0	0	0	0	0	0
Western Europe	22	20	20	20	16	10
Group	26	26	28	27	24	11



10 Local site management with at least one female, by region, %

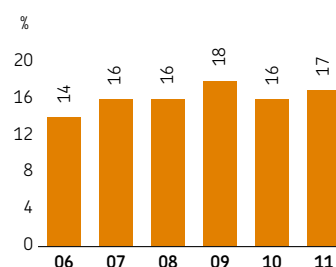
Percent	2011	2010	2009	2008	2007	2006*
Asia	54	56	50	60	67	–
Africa	100	100	100	100	100	–
North America	85	70	70	72	77	–
Latin America	67	67	67	60	60	–
Eastern and Central Europe	88	100	100	100	100	–
Western Europe	82	78	86	80	80	–
Group	76	72	76	75	77	68

*2006 data per region is not available.

11 Total percentage of females in site management, by region, %

Percent	2011	2010	2009	2008	2007	2006
Asia	9	8	8	9	9	9
Africa	33	50	20	20	24	15
North America	18	16	16	15	18	15
Latin America	17	13	11	9	7	10
Eastern and Central Europe	38	46	46	46	35	24
Western Europe	18	17	19	18	17	14
Group*	17	16	18	16	16	14

*The proportion of females in the Group's total workforce is 21%.



12 Accident rate for the Group

	2011	2010	2009	2008	2007	2006
Accident rate	1.05	1.18	1.29	1.54	1.53	1.72

Health and safety data was also collected quarterly using the web-based reporting tool described previously. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates.

The accident rate for the Group is calculated using the formula:

$$\text{Accident rate} = R \times 200,000 / H$$
 where
 R = number of recordable accidents and
 H = total hours worked at the site/company

Auditor's report

To the Annual General Meeting of the shareholders of AB SKF (publ).
Corporate identity number 556007-3495

We have been engaged by the annual general meeting of AB SKF (publ) to conduct audit regarding the financial year 2011. Further we have been engaged by the board of AB SKF (publ) to conduct a review of the environmental and social performance in SKF Annual Report 2011 – Financial, environmental and social performance. We have conducted the audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We have conducted the review in accordance with RevR6 Assurance of sustainability reports published by Far. Both engagements are reported to the annual general meeting of AB SKF (publ) through this report.

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2011 with exception of the environmental and social performance in SKF Annual Report 2011 – Financial, environmental and social performance. The environmental and social performance is primarily constituted by information listed under the heading "Review Report on the environmental and social performance". The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 9–141.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2011.

Review Report on the environmental and social performance

We have reviewed the environmental and social performance in SKF Annual Report 2011 – Financial, environmental and social performance. The environmental and social performance is constituted by the sustainability information on business care (page 45), environmental care, employee care and community care found on pages 56–71, Notes – Environmental and social performance on pages 138–141 in the annual accounts and consolidated accounts as well as documents on SKF's website in "Topics related to Annual Report 2011" marked with *.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

The Board of Directors and the Group Management are responsible for the ongoing activities regarding environment, health and safety, social responsibility and sustainable development and for the preparation and presentation of the environmental and social performance in accordance with the applicable criteria.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and

Our responsibility is to, with limited assurance, express an opinion on the environmental and social performance. We have performed our review in accordance with RevR 6 Assurance of sustainability reports issued by Far (the institute for the accountancy profession in Sweden). A review consists of making inquiries, primarily of persons responsible for preparing the environmental and social performance, and applying analytical and other review procedures. A review is substantially

Auditor's responsibility, cont.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our assurance does not comprise the assumptions used by SKF or whether or not it is possible for SKF to reach certain future targets described in the report (e.g. goals, expectations and ambitions).

The criteria on which our review is based on are the parts of the "Sustainability Reporting Guidelines, G3" published by the Global Reporting Initiative (GRI), which are applicable to the environmental and social performance, as well as the accounting and calculation principles that SKF have developed. We consider these criteria suitable for the preparation of the environmental and social performance.

Our review has, based on an assessment of materiality and risk, among other things included a large number of review activities, which are briefly expressed on SKF's website in "Topics related to Annual Report 2011" in the document "Review activities 2011".

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. Our opinion does not include the information listed in the "Review Report on the environmental and social performance".

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

We recommend to the annual meeting of shareholders that the profit dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Based on our review, nothing has come to our attention that causes us to believe that the environmental and social performance in SKF Annual Report 2011 and on SKF's website in "Topics related to Annual Report 2011" marked with * has not, in all material respects, been prepared in accordance with the above stated criteria.

Göteborg, February 29, 2012
KPMG AB
Thomas Thiel
Authorized Public Accountant

Corporate Governance Report



Content

146	Introduction
146	Nomination Committee
147	General information about how the company is managed
147	The Board of Directors
152	President and Chief Executive Officer
152	The auditor of the company
152	Financial reporting
152	Internal control and risk management regarding financial reporting
153	Auditor's report of the Corporate Governance Report

Corporate Governance Report

Introduction

SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote capital market confidence in SKF. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility, that the financial reporting is transparent and that the company in all respects maintains good corporate citizenship.

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

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

- Annual Accounts Act Chapter 6, § 6, section 3; see page 48
- Annual Accounts Act Chapter 6, § 6, section 4; see page 49
- Annual Accounts Act Chapter 6, § 6, section 5; see page 55
- Annual Accounts Act Chapter 6, § 6, section 6; see page 51

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July 2005. A revision of the Code came into force on 1 July 2008 and applied until 31 January 2010. In December 2009 the Swedish Corporate Governance Board presented yet another revision of the Code. The new revised Code came into force on 1 February 2010. The Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the

Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2011 was also held in accordance with the Code rules. The auditor of the company has reviewed this Corporate Governance Report.

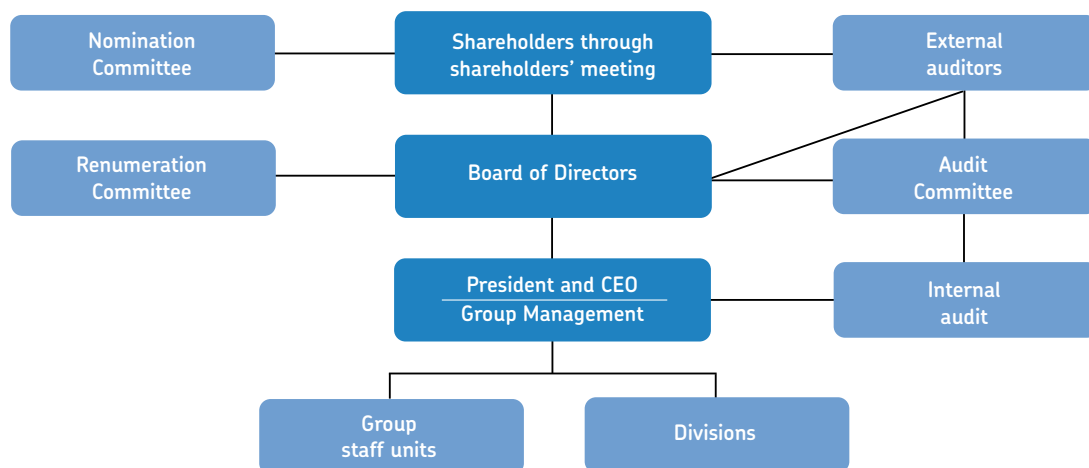
Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2011, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2011 would determine which shareholders are the largest with regard to the number of votes held. The names of the four shareholder representatives were to be published as soon as they had been elected, however not later than six months before the Annual General Meeting 2012. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 19 September 2011, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2012:

- Claes Dahlbäck, Foundation Asset Management
- Ramsay Brufer, Alecta
- Marianne Nilsson, Swedbank Robur Funds
- Hans Sterte, Skandia Liv

Governance structure



The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2012:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the Auditor
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2013

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2012.

General information about how the company is managed

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

The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board annually adopts written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF's operations are organized into three divisions: Industrial Division, Service Division and Automotive Division. Further, there are seven Group staff units: Group Finance and IT, Group Technology Development, Group Legal and Sustainability, Group People and

Business Excellence, Group Demand Chain, Group Purchasing and Group Communications and Government Relations. See pages 154-155 in the Annual Report 2011.

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

The Board of Directors

Composition and remuneration of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of ten 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.

Ten Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2011. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the President, is included in the management of the company.

Information on the remuneration of the Board members decided upon by the Annual General Meeting 2011 can be found in the Annual Report 2011, Consolidated Financial Statements, Note 25. It should be noted that the Annual General Meeting decided, in accordance with the proposal of the Nomination Committee, that a part of the remuneration to the Board members is to be received as a variable allotment corresponding to the value of a certain number of SKF B shares after the publication of the press release for the financial year 2011. The variable allotments will be paid out in April 2012. This is a deviation from Rule 9.8 in the Code, which states, inter alia: "The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years." By Instruction 1-2010 the Rules' scope of application has been extended to include also synthetic options and other types of incentive programmes that do not involve the acquisition of shares. The Nomination Committee has informed the company that it is of the opinion that the proposal presented for decision by the Annual General Meeting is appropriate particularly considering that the Nomination Committee has told the Board of Directors that it is an appropriate principle that each Board member elected by the Annual General Meeting during a period of three years should invest an amount equal to the annual board allotment after tax in shares in SKF, and keep these shares as long as the relevant person is a Board member of SKF.

Members of the Board of Directors as of 31 December 2011



Leif Östling

Chairman, Board member since 2005

Born 1945

Education and job experience: Master of Engineering (Chalmers University of Technology, Gothenburg), Bachelor of Economics (School of Business, Economics and Law, University of Gothenburg), and President and CEO of Scania AB since 1994.

Other assignments: Board member of ISS A/S, Scania AB and the Confederation of Swedish Enterprise, and Chairman of the Association of Swedish Engineering Industries.

Shareholding (own and/or held by related parties): 20,000 SKF B



Tom Johnstone

Board member since 2003

Born 1955

President and Chief Executive Officer of AB SKF.

For more details, see page 152.



Ulla Litzén

Board member since 1998

Born 1956

Education and job experience: Master of Science in Economics (Stockholm School of Economics), MBA (Massachusetts Institute of Technology), Managing Director and member of the Management Group of Investor AB 1996-2001, and President of W Capital Management AB (wholly owned by the Wallenberg Foundations) 2001-2005.

Other assignments: Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB.

Shareholding (own and/or held by related parties): 34,000 SKF B



Winnie Fok

Board member since 2004

Born 1956

Education and job experience: Bachelor of Commerce (University of New South Wales, Australia) and Senior Advisor of Investor AB and of Husqvarna AB.

Other assignments: Board member of Volvo Car Corporation, G4S plc and Kemira Oyj.

Shareholding (own and/or held by related parties): 4,600 SKF A



Lena Treschow Torell

Board member since 2007

Born 1946

Education and job experience: Ph.D. (University of Gothenburg). Professor at University of Uppsala and then at Chalmers University of Technology, Gothenburg. Vice President at Chalmers University of Technology, Gothenburg, 1995-1998, and Research Director of the Joint Research Centre, European Commission in Brussels 1998-2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001-2008 and 2009-2011 Chairman of the Academy. Other assignments: Vice Chairman of Micronic Laser Systems AB and AB ÅF. Board member of SAAB AB, Investor AB and Chalmers University of Technology Foundation. Chairman of European Council of Applied Sciences, Technologies and Engineering, and Chairman of MISTRA, the Foundation for Strategic Environmental Research. Shareholding (own and/or held by related parties): 0



Lars Wedenborn

Board member since 2008

Born 1958

Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991-2000, Executive Vice President and CFO of Investor AB 2000-2007, and presently CEO of FAM (Foundation Asset Management) owned by the Wallenberg Foundations. Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group USA, The Grand Hotel and FAM (Foundation Asset Management). Shareholding (own and/or held by related parties): 10,000 SKF A, 1,500 SKF B



Peter Grafoner

Board member since 2008

Born 1949

Education and job experience: Doctor's degree in Engineering (University of Dortmund). Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996-2000 and vice Chairman of the Management Board of Linde AG during 2000-2001. Other assignments: Board member of Symrise AG and Chairman of VTI Technologies Oy and President of the Board of Scania Schweiz AG. Shareholding (own and/or held by related parties): 0



Joe Loughrey

Board member since 2009

Born 1949

Education and job experience: Bachelor of Science degree in Economics and African Studies (University of Notre Dame). Several managerial and executive positions within Cummins over 35 years, the last as vice Chairman of the Cummins Inc. Board 2008-2009, President and Chief Operating Officer of Cummins Inc. 2005-2008 and President of Cummins Engine Business 1999-2005. Other assignments: Board member of Hillenbrand, Inc., the Vanguard Group, Oxfam America, The V Foundation for Cancer Research and the Lumina Foundation for Education. Chairman of Conexus Indiana, Chairman of the Advisory Council of the College of Arts and Letters and member of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame. Shareholding (own and/or held by related parties): 7,500 SKF B

Employee representatives



Jouko Karvinen

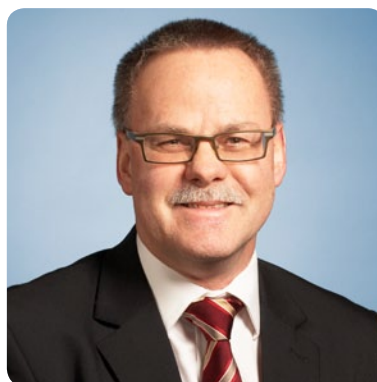
Board member since 2010

Born 1957

Education and job experience: Master of Science (Tampere University of Technology). Employed by ABB Group Limited from 1987 and served in several international positions; head of the Automation Technology Products Division, and member of the ABB Executive Committee from 2000-2002. President and CEO of Philips Medical Systems, USA, 2002-2006, and appointed to the Board of Management of Royal Philips Electronics in the Netherlands in 2006. CEO of Stora Enso Oyj since March 2007.

Other assignments: Board member of Nokia Oyj, of the Finnish Forest Industries Federation and of Confederation of European Paper Industries (CEPI), member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU-Russia Industrialists' Round Table (IRT).

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



Lennart Larsson

Board member since 2004

Born 1948

Education and job experience: Employed in the SKF Group since 1965.

Other assignments: Chairman Unionen, SKF, Gothenburg.

Shareholding (own and/or held by related parties): 8 SKF B



Baba Kalyani

Board member since 2011

Born 1949

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

Other assignments: Chairman of the Kalyani Group, Bharat Forge Ltd, and of a number of other companies in the Kalyani Group. Board member of a number of companies in the Kalyani Group and of Hikal Limited, member of the World Economic Forum, and Founder Chairman of Pratham Pune Education Foundation.

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



Kennet Carlsson

Board member since 2008 and deputy board member 2001-2008

Born 1962

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

Other assignments: Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Council, Gothenburg.

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



Jeanette Stenborg

Deputy board member since 2005

Born 1967

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

Other assignments: Board member Unionen, SKF, Gothenburg.

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



Martin Björkman

Deputy board member since 2011

Born 1970

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

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

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

Auditor

Thomas Thiel,
Authorized Public Accountant
KPMG AB

Independence requirements

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

Name of the Board members elected by the Annual General Meeting	Independence in relation to the company/senior management	Independence in relation to the major shareholders of the company
Leif Östling	•	•
Ulla Litzén	•	•
Tom Johnstone		•
Winnie Fok	•	•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•

Activities of the Board of Directors

The Board held eight meetings in 2011. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	8/8
Ulla Litzén	8/8
Tom Johnstone	8/8
Winnie Fok	6/8
Hans-Olov Olsson (resigned in April 2011)	3/8
Lena Treschow Torell	8/8
Peter Grafoner	8/8
Lars Wedenborn	8/8
Joe Loughrey	7/8
Jouko Karvinen	8/8
Baba Kalyani (elected in April 2011)	4/8
Lennart Larsson	8/8
Kennet Carlsson	8/8
Jeanette Stenborg	8/8
Marie Petersson (resigned in June 2011)	3/8
Martin Björkman (elected in June 2011)	3/8

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

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

The Board has also issued written instructions on:

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

Issues dealt with by the Board in 2011 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, the strategic direction and business plan of the Group and management issues.

Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Leif Östling, and the Board members Peter Grafoner, Lars Wedenborn and Jouko Karvinen.

The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President. The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval. The employment conditions for the President shall be approved by the Board.

The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than two weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held four meetings in 2011. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	4/4
Hans-Olov Olsson (resigned in April 2011)	2/4
Peter Grafoner	3/4
Lars Wedenborn (elected in April 2011)	2/4
Jouko Karvinen	4/4

Audit Committee

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

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

The Audit Committee held five meetings in 2011. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	5/5
Ulla Litzén	5/5
Lars Wedenborn	5/5

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

President and Chief Executive Officer

Tom Johnstone

Board member of AB SKF's Board since 2003

Born 1955

Education and job experience: Master of Arts degree (the University of Glasgow), Honorary Doctor's degree in Business Administration (the University of South Carolina, USA), and Honorary Doctor's degree in Science (Cranfield University, UK). Several management posts within

the SKF Group, the latest as Executive Vice President of AB SKF and President of Automotive Division.

Other assignments: Board member of Investor AB and Husqvarna AB. Shareholdings (own and/or held by related parties) in the company: 137,325 SKF B

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

The auditor of the company

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

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2009, KPMG was re-elected as auditor for the time up to the closing of the Annual General Meeting in 2013. KPMG was present at the Annual General Meeting. Thomas Thiel is the auditor in charge. Thomas Thiel is also the auditor in charge at a number of other listed companies, such as Ratos and Swedish Match.

The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice.

SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, according to rules adopted by the Audit Committee. KPMG applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.

KPMG has during the last two years only to a limited extent been involved in matters besides the auditing for 2010-2011. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2011 amount to SEK 5 million, and they amounted to SEK 4 million in 2010.

Financial reporting

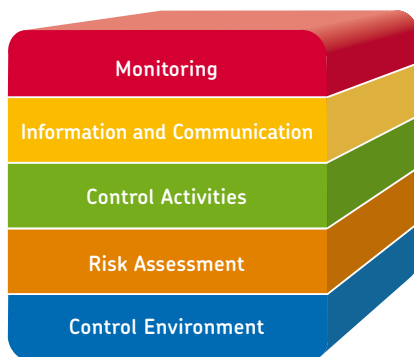
The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

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

The Board of Directors had one meeting with the auditor in 2011 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with three Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SKF applies a subset of the CobiT standard for IT security. The COSO consists of five interrelated components, where a number of objectives have to be met in each component:



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

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

In the area of control activities, SKF has previously documented in detail, all the critical finance processes and controls for the parent company and all main subsidiary companies, covering more than 70% of the Group's net sales and total assets. In 2008 SKF implemented these requirements as a Group standard also for smaller subsidiary companies. The documentation standards require an extensive risk assessment at Group and subsidiary company level in the area of financial reporting. For all material risks that are identified, action is taken to eliminate the risk or reduce it to an acceptable level. The financial process and control documentation is reviewed annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the

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

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables the online real-time follow-up and monitoring of SKF's financial internal control system.

The COSO internal control framework was implemented in 2005. This work consisted primarily of adapting the process and control descriptions to a common framework, as required by COSO, and putting in place a comprehensive system for management testing of the controls. Following SKF's deregistration from the U.S. Securities & Exchange Commission (SEC) in 2007, it was decided that SKF should further develop the financial internal control system. Based on the SOX 404 experience the internal control system was updated and SKF has now established the modified system as a Group standard, also covering those companies that were excluded from the SOX 404 project. SKF has implemented a risk-based annual testing programme of critical controls. The test programme is reassessed annually and from 2009 it also covers companies previously excluded from the SOX 404 project.

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

Stockholm, 26 January 2012
The Board of Directors

Auditor's report of the Corporate Governance Report

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

It is the board of directors who is responsible for the Corporate Governance Report for the year 2011 on pages 146-153 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report is

different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

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

Gothenburg, 29 February 2012
KPMG AB

Thomas Thiel
Authorized Public Accountant

Group Management

as of 31 December 2011



Tom Johnstone



Tore Bertilsson



Henrik Lange



Vartan Vartanian



Tryggve Sthen



Alan Begg



Carina Bergfelt

Tom Johnstone*

President and Chief Executive Officer

Born 1955

Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA and Honorary Doctor's degree in Science, the Cranfield University, UK

Employed since 1977

Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions

Board member: Investor AB and Husqvarna AB
Shareholding in SKF: 137,325

Tore Bertilsson*

Executive Vice President and Chief Financial Officer

Born 1951

Bachelor of Science in Economics, School of Business, Economics and Law, University of Gothenburg

Employed since 1989

Previous positions within SKF: Group Treasury Director

Board member: Gamla Livförsäkringsbolaget SEB Trygg Liv, Ågrenska AB, AB Ludvig Svensson and PRI Pensionsgaranti
Shareholding in SKF: 16,665

Henrik Lange*

President, Industrial Division

Born 1961

Bachelor of Science in Economics, School of Business, Economics and Law, University of Gothenburg

Employed since 2003 and 1988-2000

Previous positions within SKF: Senior Vice President, Group Business Development and several other positions

Board member: Association of Swedish Engineering Industries, GU School of Executive Education and Partnertech AB
Shareholding in SKF: 5,165

As of 1 January 2012

President, SKF Industrial Market, Strategic Industries

Vartan Vartanian*

President, Service Division

Born 1953

Bachelor of Applied Sciences-Mechanical Engineering, University of Toronto

Employed since 1990

Previous positions within SKF: Area Director, Europe and several other positions

Board member: Endorsia.com International AB
Shareholding in SKF: 11,881

As of 1 January 2012

President, SKF Industrial Market, Regional Sales and Service

Tryggve Sthen*

President, Automotive Division

Born 1952

Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Institute of Technology at Linköping University

Employed since 2003

Board member: Green Cargo

Shareholding in SKF: 1,665

As of 1 January 2012

President, SKF Automotive

Alan Begg

Senior Vice President, Group Technology Development

Born 1954

Masters degree and PhD, University of Cambridge

Employed since 2007

Fellow of Royal Academy of Engineering, UK

Board member: NV Bekaert SA

Shareholding in SKF: 1,165

Carina Bergfelt

General Counsel and Senior Vice President, Group Legal and Sustainability

Born 1960

Master of Law, Lund University

Employed since 1990

Previous positions within SKF: Legal Counsel,

Secretary to the Board since 1996

Board member: The Association of Exchange-listed Companies

Shareholding in SKF: 2,165

*Member of Group Executive Committee



Eva Hansdotter



Poul Jeppesen



Magnus Johansson



Rakesh Makhija



Manfred Neubert



Bo-Inge Stensson



Ingalill Östman

Eva Hansdotter

Senior Vice President, Group People and Business Excellence
Born 1962
Bachelor of Science in Information Systems, University of Gothenburg
Employed since 1987
Previous positions within SKF: Human Resources Director, Industrial Division and several other positions
Member of SNS Board of Trustees
Shareholding in SKF: 2,165

Poul Jeppesen

President, North America
Born 1953
Engineering, Aalborg Technical College and Business Administration, Silkeborg Business School
Employed since 1982
Board Member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA, American Bearing Manufacturers Association, Family Answers (Charity Organization)
Previous positions within SKF: President, SKF Actuation System and several other positions
Shareholding in SKF: 416

Magnus Johansson

Senior Vice President, Group Demand Chain
Born 1955
Education: Bachelor of Science in Behaviourism, University of Gothenburg
Employed since 2004 and 1981-2002
Previous positions within SKF: President, SKF China Co Ltd. and several other positions
Board member: West Sweden Chamber of Commerce,

Elektroautomatik i Sverige AB and Haldex AB
Shareholding in SKF: 416

As of 1 January 2012
Director, Vehicle Service Market

Rakesh Makhija

President, Asia
Born 1951
Bachelor of Technology in Chemical Engineering, Indian Institute of Technology, New Delhi, India
Employed since 2002
Previous positions within SKF: Managing Director, SKF India Ltd.
Board member: Wafangdian Bearing Co, Ltd
Shareholding in SKF: 423

Manfred Neubert

President, SKF GmbH
Born 1953
Master of Economics, Business Administration
Employed since 2004
Advisory Board member: WEHACO Hannover
Council member: VDA, VDMA, VBM/BAYME (Employers association German Metal Industry)
Shareholding in SKF: 1,965

Bo-Inge Stensson

Senior Vice President, Group Purchasing
Born 1961
Master of Science Industrial and Mechanical Engineering, Institute of Technology at Linköping University
Employed since 2006
Previous positions within SKF: Senior Vice President, Group Demand Chain
Shareholding in SKF: 1,765

Ingalill Östman

Senior Vice President, Group Communications and Government Relations
Born 1956
Master of Science in Mechanical Engineering, Luleå University of Technology
Employed since 2008
Board member: SOIC AB, FKG and International Council of Swedish Industry (NIR)
Shareholding in SKF: 3,165



As of 1 January 2012

Lars Wilsby

Senior Vice President, Group Business Transformation
Born 1962
Master of Science Industrial Engineering and Management, Chalmers University of Technology, Gothenburg; MBA, INSEAD, Fontainebleau, France
Employed since 2005
Previous positions within SKF: Director, Vehicle Service Market and Director, Business Development Automotive Division
Shareholding in SKF: 1,600

Glossary

Accident rate

The accident rate for the Group is calculated using the formula:

Accident rate = $R \times 200,000/H$, where

R = number of recordable accidents

H = total hours worked

This formula is provided by the US Occupational Safety and Health Administration (OSHA).

Ball bearings versus roller bearings

The main difference in the performance of these two bearing types is that ball bearings have lower friction than roller bearings, while roller bearings have a higher load-carrying capacity.

BeyondZero

BeyondZero is a strategy launched in 2005, defining SKF's commitment to realizing the vision of achieving a net positive contribution to the environment. This commitment is leading SKF in developing and providing new environmentally-sound, energy-efficient products and services, as well as introducing effective energy conservation programmes in its operations.

By-wire technology

In by-wire systems, the direct mechanical control is replaced by electronic control.

Carbon dioxide

A common gas with the chemical formula CO_2 . This gas is generated in various processes in nature and in combustion of most fuels. CO_2 contributes to the global greenhouse effect.

Carbon intensity

The amount of CO_2 released during the conversion of the total energy used.

Condition monitoring

By regularly measuring vibration levels in bearings and machines, maintenance factors impacting on bearing service life and machine operation can be controlled. Condition monitoring instrumentation and software enable the early detection of bearing and machinery problems, making it possible for technicians to take the necessary steps in order to address a problem before it results in breakdowns.

Elastomer

Synthetic rubber.

Employee retention rate

$1 - (R)/(\text{registered number of employees as of 31 Dec} - \text{newly hired during the year} + R)$

R = number of employees that left during the year.

Energy intensity

The total energy used in all forms in the manufacturing facilities divided by an accounting measure of manufacturing output.

Friction

A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh)

One million kilowatt hours (kWh). Measure of electrical energy quantity.

GHG protocol

The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (greenhouse gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Hub bearing unit

Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can be equipped with a sensor suitable for anti-lock braking systems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS)

An IMS contract is an expanded trouble-free operation programme which consists of services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

ISO

The International Organization for Standardization (ISO) is an international standard-

setting body composed of representatives from various national standards organizations. The organization promulgates world-wide proprietary industrial and commercial standards.

Landfill

Designated area for disposal of waste.

Large size bearings

The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Leadership in Energy & Environmental Design (LEED)

An internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, CO_2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

Life cycle analysis

Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Linear products

A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.

Lubricant

Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g. in a bearing.

OHSAS 18001

Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety risks as well as to improve performance in the area. It is compatible with ISO 14001 (Environmental Management System).



Six Sigma

SKF Six Sigma is a continuous improvement programme within SKF that targets waste and defects in all business processes. SKF Six Sigma

projects are run by extensively trained Black Belts and Green Belts, where Black Belts are required to run two projects a year and Green Belts one project a year. Within the SKF Six Sigma programme are a number of tools and methodologies ranging from traditional DMAIC and Design for Six Sigma to Lean and other

waste reducing methodologies. The foundations for SKF Six Sigma improvements are that they are fact based and sustainable and contribute to the business objectives.

Design for Six Sigma (DfSS)

A methodology which focuses on developing new products and services to the market with optimal performance levels.

Lean Six Sigma

A methodology which combines tools from both Lean Manufacturing and Six Sigma. Lean focuses on speed and waste, Six

Sigma on variation and quality – the result is better quality faster.

Six Sigma for Growth

A customer focused approach and targets improvements in the growth areas such as marketing, sales and distribution.

Transactional Six Sigma

Focuses on people processes such as service, sales and human resources.

Original equipment manufacturer (OEM)

Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

REACH

The REACH Regulation came into force on 1 June 2007, intended for the Registration, Evaluation, Authorization and Restriction of Chemical substances. Information about the chemical substances used or imported shall be registered in a central database run by the European Chemical Agency (ECHA).

Remediation

Clean-up and restoration of a contaminated site.

Residual product

Other product than the main product from a production process. It may or may not have a net value. Residual products without a positive net value are wastes.

Self-aligning ball bearing

This bearing type, invented in 1907 by SKF's founder Sven Wingquist, solved one of the largest industrial problems of the time – the continual production stoppages caused by bearing failure. As the alignment of the shafts was not accurate enough for the rigid ball bearings that were normally used, the bearings failed due to misalignment. The double-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.

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 Internal Control Standard (SICS)

A financial internal control framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), developed by SKF for ensuring that a basic, consistent system of financial internal control is maintained throughout the SKF Group.

SKF Solution Factory

The SKF Solution Factory combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers. This brings many SKF bearing services and integrated value-adding solutions close to the customers – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training.

Superfund site

Old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to a

federal law. Remediation funding is provided by those who contributed to the contamination.

Super-precision bearings

SKF's comprehensive assortment of super-precision bearings is designed for machine tool spindles and other applications that require a high level of running accuracy at high to extremely high speeds. Each bearing type incorporates unique features to make it suitable for specific operating conditions.

Transaction effects

Companies involved in international trade risk that currency exchange rates may change and thereby effect the value of the transactional currency flows.

Translation effects

The risk that a company's equities, assets, liabilities or income will change as a result of the translation of foreign currency into SEK.

Tribology

Tribology is the science and technology of interacting surfaces in relative motion. It includes the study and application of the principles of friction, lubrication and wear.

Working Climate Analysis (WCA)

An annual survey distributed to all employees with the aim of obtaining their feedback on SKF's performance in relation to the company's values and key focus areas.



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 utilizing 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, the most recent was SKF Manufacturing Excellence. 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 organization to consider whether it is achieving the right results in the best way possible. SKF Manufacturing Excellence focuses on reducing waste and eliminating non-value adding activities. The heart of the system is the people in the production process.

Definitions

Key figures

The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. Most of the key figures presented in the Annual Report have been calculated using average values based on these reports. Consequently, the calculation of these key figures using the year-end values presented may give slightly different results.

1. Portion of risk-bearing capital

Equity and provisions for deferred taxes, as a percentage of total assets at year end.

2. Equity/assets ratio

Equity as a percentage of total assets at year-end.

3. Gearing

Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity, all at year-end.

4. Net debt/equity

Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year-end.

5. Return on total assets

Operating profit/loss plus interest income, as a percentage of twelve months rolling average of total assets.

6. Return on capital employed

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

7. Return on equity

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

8. Operating margin

Operating profit/loss, as a percentage of net sales.

9. Turnover of total assets

Net sales in relation to twelve months rolling average of total assets.

10. Basic earnings/loss per share in SEK

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

11. Yield

Dividend as a percentage of share price at year end.

12. P/E ratio

Share price at year end divided by basic earnings per share.

13. Registered number of employees

Total number of employees included in SKF's payroll at the year-end.

14. Average number of employees

Total number of working hours of all employees, divided by the normal total working time over the year.

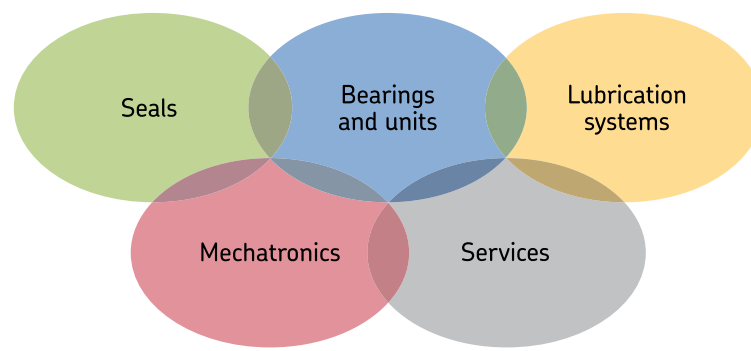
15. Equity per share

Equity excluding non-controlling interests divided by the ordinary number of shares.

SKF's platforms

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

SKF has defined about 40 customer segments in which it operates. Examples of these segments include the 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 utilizes the capabilities of all or some of its platforms to develop tailor-made offers for each of its customer segments. 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 customized 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 unique needs where SKF has specialist industrial-specific expertise.

SKF solutions for continuous casters – an example of “The Power of Knowledge Engineering”

During operation, the continuous casting lines used for making steel slabs are under constant strain. Extreme temperatures, high loads and low speeds can cause frequent and costly shutdowns for maintenance and increase grease consumption. SKF provides solutions from all its five technology platforms to help caster customers reduce costs and their environmental impact.

■ Telescopic electromechanical actuators for mould adjustment

SKF electromechanical actuators are a flexible and reliable actuator solution to adjust the mould to the desired slab width. The actuator's telescopic design enables a longer stroke for the same retracted length, so that a wider product range can be manufactured using the existing casting line. The robust and corrosion-free design delivers high reliability and longer service life. Due to the high efficiency, users of SKF electromechanical actuators also experience reduced energy use for mould adjustments as well as reduced maintenance costs.

■ SKF DryLube Bearings and SKF SNL housings for roll out tables

By filling the empty space inside a bearing with an engineered graphite mixture, SKF provides an efficient alternative to the use of grease in extremely hot steelmaking environments. Almost any SKF bearing type can be supplied as an SKF DryLube Bearing, providing an extremely high temperature limit of 350 °C. SKF DryLube Bearings do not require relubrication, eliminating the cost and environmental consequences of conventional greasing programmes. In addition to saving costs, SKF DryLube Bearings improve worker safety by reducing the risk of fires and slippery floors caused by spilt grease.

SKF SNL housings have a bore diameter and roundness designed and manufactured to precisely match those of the bearing. By carrying the bearing loads, SKF SNL housings contribute to excellent bearing performance and extend bearing service life.

■ SKF ConRo roll line units

SKF ConRo are robust, self-contained, modular roll line units that include bearings, seals, housings, grease and roll bodies.

SKF ConRo features a number of innovative components that improve the service life and reliability of the casting line. Most importantly, the relubrication-free sealed bearings require no maintenance while the roll is in operation. A patented sealing system protects bearings from process water and contaminants, thus providing longer bearing service life and reduced costs. SKF ConRo can reduce operating costs by up to 50% per roll line. SKF offers three variants of SKF ConRo – Top, Compact and Low – for the different slab caster segments.

SKF Caster Analyst System



SKF ConRo Compact



SKF DryLube Bearings and SNL Housings



■ SKF Caster Analyst System for roll lines

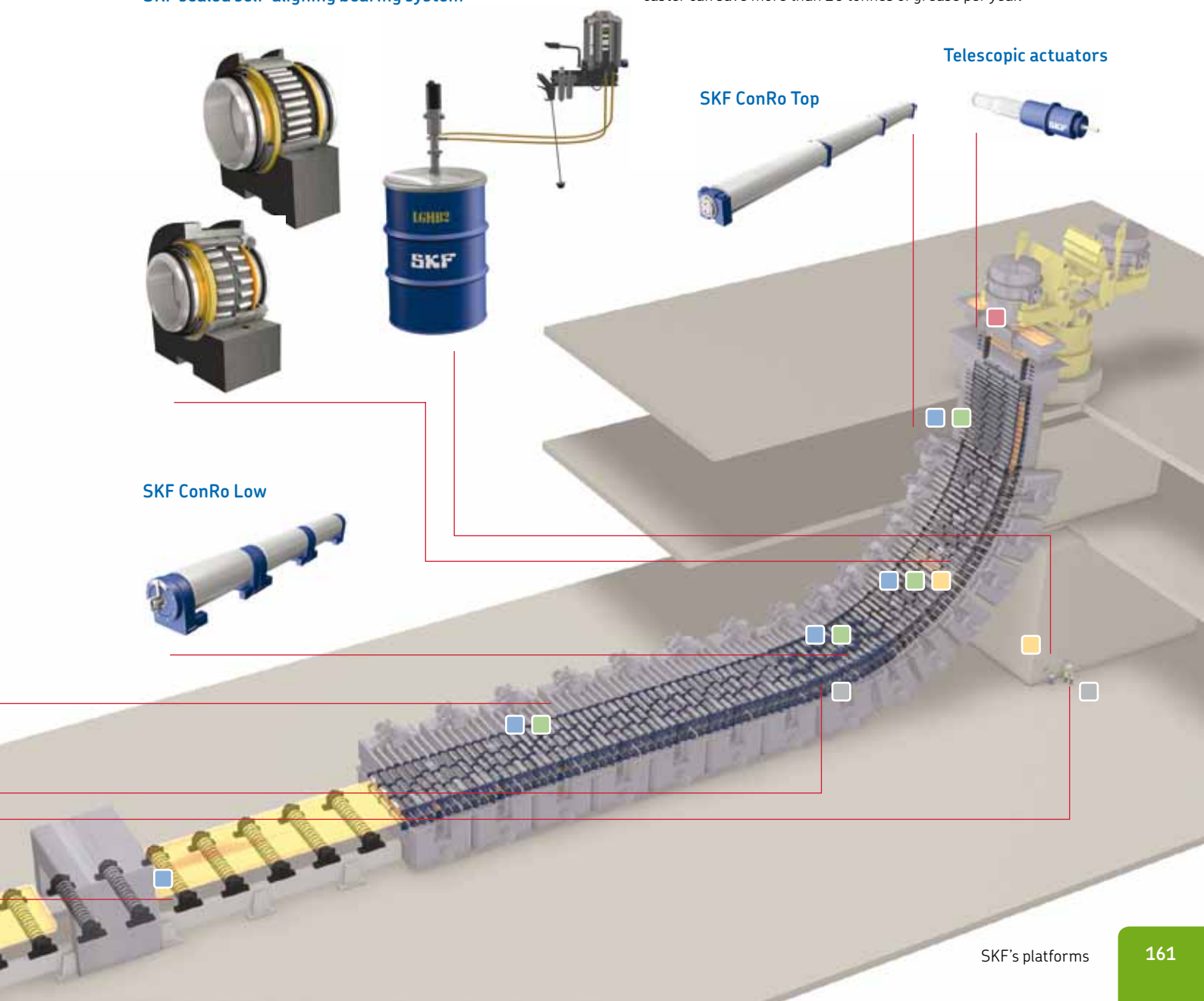
This system, consisting of a specialized on-line monitoring unit for advanced and reliable data collection, enables operators to measure critical temperature and load data during production. The SKF Caster Analyst System simplifies troubleshooting leading to increased output and enhanced product quality. The SKF Caster Analyst System contributes to optimizing equipment reliability, helping mills avoid unplanned stops and catastrophic failures by identifying potential problems such as uneven load distribution or inadequate cooling practices.

SKF sealed self-aligning bearing system

■ SKF sealed self-aligning bearing system and automatic lubrication system for roll lines

■ The SKF sealed, self-aligning bearing system for continuous casters consists of a sealed spherical roller bearing and a sealed CARB toroidal roller bearing, both manufactured to the SKF Explorer performance class. This combination offers a very high load-carrying capacity resulting in improved reliability and increased bearing system service life. This pre-lubricated and sealed SKF self-aligning bearing system significantly reduces grease consumption and costs.

The SKF Maxilube pumping centre for the SKF DuoFlex lubrication system provides the external seals with the appropriate quantity of SKF LGHB 2 high temperature bearing grease that forms an additional barrier against contamination. Using this combination of SKF solutions, compared to a system with open bearings, a typical two-strand slab caster can save more than 20 tonnes of grease per year.



Awards

SKF's products, solutions and services are highly esteemed. The following is a list of some of the awards received by the Group in 2011:

2011 Supplier Excellence Award, NOV National Oilwell Varco, USA
Achievement Award, Honda Motorcycle & Scooter India Pvt. Ltd., India
Acoplamentos (the best-known company for couplings), Rede Brasileira de Manutenção, Brazil
Asian Force Award, Asia Fortune Forum, China
Award for Support and Sponsorship, ELT International, South Africa
Best Employer 2011, Delegation of the European Union in Ukraine, Ukraine
Best Environmental Idea 2011, Deutschen Instituts für Ideen- und Innovationsmanagement GmbH Frankfurt, Germany
Best Performance in warranty improvement, Maruti Suzuki India Ltd., India
Best Place to Work, Você SA Exame Magazine, Brazil
Best Service Provider, The Belgian Shippers' Council Organization of Traffic Management, Belgium
Best Supplier Award, Lucas TVS Ltd., India
Consultoria em Gestão de Manutenção (the best-known company for Asset management services), Rede Brasileira de Manutenção, Brazil
CSR Excellence Award, Shanghai Association of Enterprises with Foreign Investment, China
Equipamentos de Análise de Vibração (the best-known company for Analysis tools), Rede Brasileira de Manutenção, Brazil
Excellence Award for exceptional contribution, Hindalco, India
Excellence in Service Division-Customer Service Operations, Ford, South Africa
Excellence in Quality Award, NAPA, USA
Excellent Contribution Award, Yeong Chin Machinery Industries Co., Ltd., Taiwan
Excellence prize, Economic Observer, China
Fabricante de Rolamentos (the best-known company for Industrial bearings), Rede Brasileira de Manutenção, Brazil
Good Cost Performance 2010/2011, Astra Daihatsu Motor, Indonesia
Hampton Clean Business of the Year, Hampton Clean City Commission (HCCC), USA
IMPOvation Award 2011, IMPO, USA
Leading Global Supplier, ARC Advisory Group, Global
Pesquisa Nacional de Preferência de Marca de Produtos Industriais, Revista NEI, Brazil
Marca Brasil-Best Bearing, O Mecanico Magazine, Brazil
Prêmio Fiat Qualitas, Fiat, Brazil
Rolta Corporate Awards, Dun & Bradstreet, India



SKF was awarded Marca Brazil – Best Bearing by the O Mecanico Magazine in Brazil.

Serviços de Análise de Vibração (the best-known company for vibration analysis), Rede Brasileira de Manutenção, Brazil
Serviço de Lubrificação (the best-known company for lubrication services), Rede Brasileira de Manutenção, Brazil
Setor de Manutenção, Reparo e Operação (the best-known company), Rede Brasileira de Manutenção, Brazil
Supplier Award 2011 – Best support Marketing Program, Astra Honda Motor-Parts Centre, Indonesia
Supplier Award, Brammer, UK
Supplier Award, Hung Sen propeller Co., Ltd, Taiwan
Supplier Award 2011, VW, South America
Supplier of the month – September 2011, Astra Honda Motor-Parts Centre, Indonesia
Supplier of the Year 2011, Autoasi-chain, Finland
Supplier of the Year 2010, GM, South Korea
Supplier of the Year 2010, Gropauto International, Europe
Supplier of the Year (Silver) Award for overall excellence, Maruti Suzuki India Ltd., India
The European Medal, Business Centre Club, Poland
The Great Supporter to the Education for Future Engineers, National Taiwan University of Technology & Science, Taiwan
Top Absolute Marca Brasil, Trio International Distinction, Brazil
Visão Agro 2011 destaque – Rolamentos Industriais (the best industrial bearing supplier), Visão Agro, Brazil

SKF's financial website

SKF's financial website – www.skf.com/investors – contains detailed and updated financial information, as well as information about SKF's objectives and strategies, corporate governance, Group-related news, etc. The website also has a subscription service for receiving press releases and reports by email. A selection of headlines and functions on the website is shown below.

About SKF

Targets and performance
Strategy
Financial risk management
Sensitivity analysis
Acquisition and divestment
Production sites

Reports

Financial reports
Annual reports
since 1907

Financial data

Tables
Graphs
Statistics

SKF's shares

Largest shareholder
Share price
Total return
Dividend

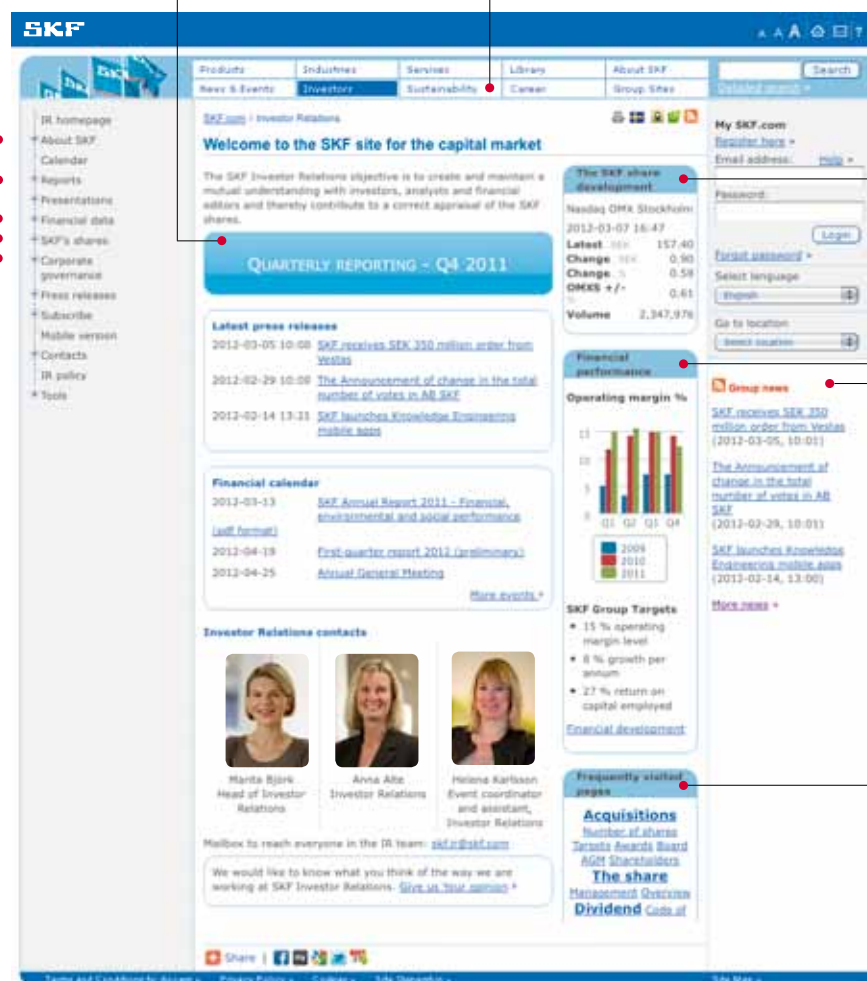
Corporate Governance

Annual General Meeting
Board of directors
Board committees
Group management

Quarterly reporting

Quarterly information

Sustainability



Current share price

Financial performance and targets

Group News

Frequently visited pages

SKF's global campaign 2011

This campaign has been used globally to demonstrate the real Power of Knowledge Engineering, through SKF's engineers, as they show how they help create new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact.



Reduce CO₂ emissions with exact stops and starts

The automotive industry is constantly finding ways of reducing CO₂ emissions, and developing more energy efficient vehicles. One is the stop-start functionality, where the engine automatically stops at traffic lights, queues or stop signs and is instantly re-started at green light.

SKF engineer Susanne Blokland and her SKF team have made a key contribution to this technology; the SKF Rotor Positioning Bearing. A magnetic field from this bearing provides the engine control system with the rotor's exact angular position, thus enabling the engine to be conveniently re-started. The bottom line is significantly reduced CO₂ emissions. Up to 30 percent in heavy city traffic. And fuel consumption may be cut proportionally.

It's another great example of knowledge engineering at work. Find out more at www.skf.com/poke

The Power of Knowledge Engineering



Stop-start functionality



SKF Rotor Positioning Bearing



Susanne Blokland, SKF



The automotive industry is constantly finding ways of reducing CO₂ emissions, and developing more energy efficient vehicles. One is the stop-start functionality, where the engine automatically stops at traffic lights, queues or stop signs and is instantly re-started at green light.

SKF engineer Susanne Blokland and her SKF team have made a key contribution to this technology; the SKF Rotor Positioning Bearing. A magnetic field from this bearing provides the engine control system with the rotor's exact angular position, thus enabling the engine to be conveniently re-started. The bottom line is significantly reduced CO₂ emissions. Up to 30 percent in heavy city traffic. And fuel consumption may be cut proportionally.

It's another great example of knowledge engineering at work. Find out more at www.skf.com/poke

The Power of Knowledge Engineering

Reduce downtime with remanufactured bearings

In high speed rail, there is no room for quick fixes. On the contrary. The pressure on railways to work more efficiently, safely and productively while meeting costs is higher than ever.

SKF service manager Stewart McLellan and SKF remanufacturing teams around the world offer a solution. They can have wheelset bearings correctly disassembled, washed, inspected, measured, greased and reassembled with new components. The bearings can also be upgraded to a higher standard. After this, the bearings are ready to be returned to the customer and the vehicle is right back on track.

The bottom line? Minimized downtime, optimized assets, and reduced environmental impact.

The Power of Knowledge Engineering




In high speed rail, there is no room for quick fixes. On the contrary. The pressure on railways to work more efficiently, safely and productively while reducing costs is higher than ever.

SKF service manager Stewart McLellan and SKF remanufacturing teams around the world offer a solution. They can have wheelset bearings correctly disassembled, washed, inspected, measured, greased and reassembled with new components. The bearings can also be upgraded to a higher standard. After this, the bearings are quickly returned to the customer, and the vehicle is right back on track.

The bottom line? Minimized downtime, optimized assets, and reduced environmental impact.

Produce smart phones faster with high speed bearings

Ever wonder how producers of extremely advanced consumer electronics, the smart phones, manage to keep launching new generations of these products at such a ferocious tempo with consistently high quality?

SKF product manager Satyen Bohidar and SKF's sales team have part of the answer – SKF-SNFA high-speed super precision bearings. They allow the machine tools used for manufacturing key components of these products to run flawlessly and precisely at up to 60,000 rpm 365 days a year.

The result? Smart products are brought to the market even faster.

The Power of Knowledge Engineering




Ever wonder how producers of extremely advanced consumer electronics, like smart phones, manage to keep launching new generations of these products at such a ferocious tempo with consistently high quality?

SKF product manager Satyen Bohidar and SKF's sales team have part of the answer – SKF-SNFA high-speed super precision bearings. They allow the machine tools used for manufacturing key components of these products to run flawlessly and precisely at up to 60,000 rpm 365 days a year.

The result? Smart products are brought to the market even faster.

Cut CO₂ by cutting weight by a third

In today's automotive industry, every gram of CO₂ emission counts. That's why reducing vehicle weight is so important. But that's easier said than done for drive line components, where demands on performance and durability are high.

SKF product development engineer Paolo Re and his SKF team have a solution; the SKF Low Weight Hub Bearing Unit. By minimizing the use of steel and replacing it with light alloy, weight is cut by almost one third without compromising performance or bearing life. This innovative hub bearing unit suits premium cars equally well as light trucks and electric vehicles. The bottom line is reduced emissions and fuel consumption. This solution may also help automotive manufacturers avoid CO₂ fees.

The Power of Knowledge Engineering




In today's automotive industry, every gram of CO₂ emission counts. That's why reducing vehicle weight is so important. But that's easier said than done for drive line components, where demands on performance and durability are high.

SKF product development engineer Paolo Re and his SKF team have a solution; the SKF Low Weight Hub Bearing Unit. By minimizing the use of steel and replacing it with light alloy, weight is cut by almost one third without compromising performance or bearing life. This innovative hub bearing unit suits premium cars equally well as light trucks and electric vehicles. The bottom line is reduced emissions and fuel consumption. This solution may also help automotive manufacturers avoid CO₂ fees.

Secure your operations with proactive maintenance

Imagine the conditions in the North Sea. They take their toll on all types of equipment. Bearings are no exception. At one of the major production platforms, failing motor bearings used to cause gas compressors to break down as often as every third month. Each time, that meant 25% lost production for several days.

Jim Marnoch and his team provided SKF ProActive Reliability Maintenance services. After thorough analysis of the vibration signatures and the damaged bearings, they found a long term solution. SKF NoWear bearings along with a new sealing arrangement made all the difference, allowing the compressors to run 6 times longer than before.

At today's high oil prices, for every breakdown that can be avoided, the platform operator saves tens of million dollars. On top of that, these improvements also reduce health, safety and environmental risks.

The Power of Knowledge Engineering




Imagine the conditions in the North Sea. They take their toll on all types of equipment. Bearings are no exception. At one of the major production platforms, failing motor bearings used to cause gas compressors to break down as often as every third month. Each time, that meant 25% lost production for several days.

Jim Marnoch and his team provided SKF ProActive Reliability Maintenance services. After thorough analysis of the vibration signatures and the damaged bearings, they found a long term solution. SKF NoWear bearings along with a new sealing arrangement made all the difference, allowing the compressors to run 6 times longer than before.

At today's high oil prices, for every breakdown that can be avoided, the platform operator saves tens of million dollars. On top of that, these improvements also reduce health, safety and environmental risks.

Seven-year review of the SKF Group

<i>SEKm unless otherwise stated</i>	2011	2010	2009	2008	2007	2006	2005
Income statements							
Net sales	66,216	61,029	56,227	63,361	58,559	53,101	49,285
Operating expenses	-56,624	-52,438	-52,939	-55,618	-51,036	-47,110	-44,215
Other operating income and expenses, net	36	-139	-74	-34	19	-22	85
Profit (+)/loss (-) from jointly controlled and associated companies	-16	0	-11	1	-3	738	172
Operating profit	9,612	8,452	3,203	7,710	7,539	6,707	5,327
Financial income and expense, net	-680	-903	-906	-842	-401	-320	-74
Profit before taxes	8,932	7,549	2,297	6,868	7,138	6,387	5,253
Taxes	-2,708	-2,253	-592	-2,127	-2,371	-1,955	-1,646
Net profit	6,224	5,296	1,705	4,741	4,767	4,432	3,607
Attributable to:							
Owners of AB SKF	6,051	5,138	1,642	4,616	4,595	4,317	3,521
Non-controlling interests	173	158	63	125	172	115	86
Balance sheets							
Intangible assets	10,157	10,194 ¹⁾	4,014	4,654	3,516	2,586	1,583
Deferred tax assets	1,299	1,151 ¹⁾	1,665	1,342	886	745	738
Property, plant and equipment	13,076	12,922	13,933	14,556	11,960	11,388	11,119
Non-current financial and other assets	1,494	1,411	1,502	1,366	2,643	2,032	2,531
Inventories	14,191	12,879	11,771	15,204	11,563	9,939	9,931
Current financial assets	16,050	13,005	14,540	15,668	14,169	17,848	13,020
Other current assets	3,107	2,839	3,590	3,310	2,365	2,100	1,571
Total assets	59,374	54,401 ¹⁾	51,015	56,100	47,102	46,638	40,493
Equity	22,455	19,894	18,280	19,689	19,009	19,706	17,961
Provisions for post employment benefits	8,634	7,093	7,020	6,356	4,600	5,145	5,562
Deferred tax provisions	938	1,309 ¹⁾	754	1,210	1,652	1,130	862
Other provisions	1,836	2,162	2,849	2,339	2,067	1,919	2,210
Financial liabilities	18,311	16,651	14,994	18,549	13,015	12,754	8,215
Other liabilities	7,200	7,292	7,118	7,957	6,759	5,984	5,683
Total equity and liabilities	59,374	54,401 ¹⁾	51,015	56,100	47,102	46,638	40,493
Key figures²⁾ (in percentages unless otherwise stated)							
Return on total assets	17.2	16.9 ¹⁾	6.5	16.1	17.1	16.1	14.8
Return on capital employed	23.6	24.0	9.1	24.0	24.9	23.0	21.9
Return on equity	29.7	28.4	9.0	26.3	24.6	23.5	20.6
Operating margin	14.5	13.8	5.7	12.2	12.9	12.6	10.8
Turnover of total assets, times	1.16	1.19 ¹⁾	1.04	1.25	1.25	1.22	1.31
Portion of risk-bearing capital	39.4	39.0 ¹⁾	37.3	37.3	44.0	44.7	46.5
Gearing	48.9	48.6	49.3	50.1	36.9	38.6	34.5
Equity/assets	37.8	36.6 ¹⁾	35.8	35.1	40.5	42.3	44.4
Investments and employees							
Additions to property, plant and equipment	1,839	1,651	1,975	2,531	1,907	1,933	1,623
Research and development expenses	1,481	1,184	1,217	1,175	900	875	837
Patents – number of first filings	325	251	218	179	186	175	176
Average number of employees	42,886	40,206	38,530	43,201	41,645	39,780	37,454
Number of employees registered at 31 December	46,039	44,742	41,172	44,799	42,888	41,090	38,748

¹⁾ Restated for finalized Lincoln PPA, see Note 1.

²⁾ See page 158 for definitions of key figures.

Three-year review of the SKF divisions/segments¹⁾

<i>SEKm unless otherwise stated</i>	2011	2010	2009
Industrial Division			
Net sales	23,924	20,050	19,951
Sales incl. intra-Group sales	34,458	29,836	28,805
Operating profit	4,421	3,558	1,640
Operating margin ²⁾	12.8%	11.9%	5.7%
Assets and liabilities, net	23,605	23,217 ³⁾	15,986
Registered number of employees	20,264	20,018	17,906
Service Division			
Net sales	23,024	21,403	19,182
Sales incl. intra-Group sales	23,387	21,746	19,531
Operating profit	3,656	2,976	2,511
Operating margin ²⁾	15.6%	13.7%	12.9%
Assets and liabilities, net	5,632	5,017	4,724
Registered number of employees	6,093	5,741	5,672
Automotive Division			
Net sales	17,771	18,231	16,051
Sales incl. intra-Group sales	21,453	21,995	19,107
Operating profit	1,362	1,855	-808
Operating margin ²⁾	6.3%	8.4%	-4.2%
Assets and liabilities, net	8,513	8,036	8,081
Registered number of employees	14,451	14,474	13,480

¹⁾ Previously published amounts have been restated to conform to the current Group structure in 2011.

The structural changes include business units being moved between the divisions and between other operations/Group activities and divisions.

²⁾ Operating margin is calculated on sales including intra-Group sales.

³⁾ Restated for finalized Lincoln PPA, see Note 1.

Per-share data¹⁾

<i>Swedish kronor/share unless otherwise stated</i>	2012	2011	2010	2009	2008	2007	2006	2005
Earnings per share		13.29	11.28	3.61	10.14	10.09	9.48	7.73
Dividend per A and B share		5.50 ²⁾	5.00	3.50	3.50	5.00	4.50	4.00
Total dividends, SEKm	2,504 ²⁾	2,277	1,594	1,594	2,277	2,049	1,821	1,366
Redemption per share		–	–	–	–	5.00	10.00	–
Total redemption, SEKm		–	–	–	2,277	4,554	–	2,846
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		145.60	191.60	123.60	77.25	104.79	113.22	99.80
Equity per share		47	42	38	41	40	42	38
Yield in percent (B)		3.8 ²⁾	2.6	2.8	4.5	4.8	4.0	4.0
Yield in percent (B), including share redemption						9.5	12.8	
P/E ratio, B (share price/earnings per share)		11.0	17.0	34.2	7.6	10.4	11.9	12.9
Cash flow after investments, before financing per share		8.45	-6.23	12.63	0.14	4.67	4.74	5.25

¹⁾ See page 158 for definitions.

²⁾ According to the Board's proposal for the year 2011.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 14.30 on Wednesday, 25 April 2012. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Thursday, 19 April 2012, and must notify the company at the latest by Thursday, 19 April 2012 via the internet, www.skf.com, or by letter to

AB SKF
c/o Computershare AB
Box 610
SE-182 16 Danderyd
Sweden

or by telephone +46 31 337 25 50
(between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place so that the

shareholder is recorded in the shareholders' register by Thursday, 19 April 2012. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee well in advance before that date.

Payment of dividend

The Board of Directors proposes a dividend of SEK 5.50 per share for 2011. 30 April 2012 is proposed as the record date for shareholders to be entitled to receive dividends for 2011. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Friday, 4 May 2012.

Financial information and reporting

AB SKF will publish the following financial reports in 2012:

Year-end report 2011	26 January
Annual Report 2011	13 March
First-quarter report 2012	19 April
Half-year report 2012	18 July
Nine-month report 2012	18 October

The reports are available in Swedish and English. The financial reports are published on SKF's website, www.skf.com, choose Investors and click on Reports. A subscription service for press releases and interim reports is available on the website under Investors, choose Subscribe.

The annual report is sent to those shareholders who have notified the company that they wish to receive a copy.

Reports can also be ordered from:

SKF Investor Relations
Helena Karlsson
SE-415 50 Göteborg
Sweden
Telephone: +46 31 337 21 42
fax: +46 31 337 17 22
email: skf.ir@skf.com

Contact persons:

Ingalill Östman
Senior Vice President, Group Communications
email: ingalill.ostman@skf.com

Marita Björk
Head of Investor Relations
email: marita.bjork@skf.com
www.skf.com (Investors)

SKF Group Headquarters
SE-415 50 Göteborg
Sweden
Telephone: +46 31 337 10 00
www.skf.com
Company reg.no 556007-3495

Rob Jenkinson
Director, Corporate Sustainability
SKF (UK) Limited
Sundon Park Road
Luton LU3 3BL
United Kingdom
Telephone: +44 1582 49 63 17
E-mail: rob.jenkinson@skf.com

Cautionary statement

This report contains forward-looking statements that are based on the current expectations of the management of SKF. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in the Administration Report in this Annual Report.

The following topics related to SKF Annual Report 2011 – Financial, environmental and social performance are to be found at www.skf.com, choose Investors and Reports.

- Articles of Association
- SKF Code of Conduct
- The SKF Environmental, Health and Safety (EHS) Policy
- Carbon dioxide emission data*
- Environmental performance data*
- Zero Accidents awards*
- Productions sites as of 31 December 2011
- The compliance table to GRI G3 Guidelines (GRI Index Table)*
- Review activities 2011*
- Sustainability in SKF – Policies and practices*

** Documents included in the review performed by KPMG on environmental and social performance.*

The SKF employees in the pictures included in this report are:

Cover and page 10:

From left: Sinisa Brajkovic, Nikolett Orosz, Johan Gavin and football players from the Bulgarian team at Gothia Cup 2011.

Page 2-3

From left: Na Kabin, Dugan Mastellaro, Kleverson Dalmaz, Carlos Rogerio Dias Lemos, and Paula Bonaglia.

Page 46

Liu Hang

® SKF, @PTITUDE, BeyondZero, BAKER, CARB, DUOFLEX, DURATEMP, LINCOLN, LUBRILEAN, MICROLOG, MULTILOG, NOWEAR, PEER, ROTOSTAT, SKF RELIABILITY SYSTEMS, SNFA and SPEEDI-SLEEVE are registered trademarks of the SKF Group.

® TILLXTREME is a registered trademark of PEER.

™ SKF EXPLORER and X-TRACKER are trademarks of the SKF Group.

© SKF Group 2012

The contents of this publication are the copyright of the publisher and may not be reproduced (even extracts) unless prior written permission is granted. Every care has been taken to ensure the accuracy of the information contained in this publication but no liability can be accepted for any loss or damage whether direct, indirect or consequential arising out of the use of the information contained herein. The report is originally written in English and translated to Swedish. SKF Annual Report including Sustainability Report 2010 was published on 11 March 2011.

PUB GCR/R1 12692 EN · March 2012

Production: AB SKF and Admarco

Photo: SKF Group, Anna Hult, Lasse Burell, Scanpix and Getty Images.

Certain images used under license from Shutterstock.com.

Paper: Arctic Silk+, FSC-certified

Printing: Billes, FSC-certified



Key data

	2011	2010
Net sales, SEKm	66,216	61,029
Operating profit, SEKm	9,612	8,452
Operating margin, %	14.5	13.8
Profit before taxes, SEKm	8,932	7,549
Basic earnings per share, SEK	13.29	11.28
Dividend per share, SEK	5.50¹⁾	5.00
Cash flow, after investments and before financing, SEKm	3,848	-2,838
Return on capital employed, %	23.6	24.0
Equity/assets ratio, %	37.8	36.6
Additions to tangible assets, SEKm	1,839	1,651
Registered number of employees, 31 December	46,039	44,742
Average number of employees	42,886	40,206

Number of shares 31 December 2011: 455,351,068, of which 42,949,482 A shares and 412,401,586 B shares.

¹⁾ Dividend according to the Board's proposed distribution of surplus.