

SKF

Annual Report 2012

Financial, environmental and social performance

A pair of hands is shown from the wrists up, holding a transparent globe. The globe is centered in the frame and contains the text 'SKF BeyondZero' in white. The background is a bright blue sky with wispy white clouds. At the bottom of the image, a blue ocean surface is visible. The hands are positioned as if they are carefully holding the globe, symbolizing environmental stewardship and the company's commitment to sustainability.

SKF
BeyondZero

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

Key data

	2012	2011
Net sales, SEKm	64,575	66,216
Operating profit, SEKm	7,333	9,612
Operating margin, %	11.4	14.5
Profit before taxes, SEKm	6,511	8,932
Basic earnings per share, SEK	10.37	13.29
Dividend per share, SEK	5.50 ¹⁾	5.50
Cash flow, after investments and before financing SEKm	3,555	3,848
Return on capital employed, %	16.2	23.6
Equity/assets ratio, %	37.0	37.8
Additions to tangible assets, SEKm	1,968	1,839
Registered number of employees, 31 December	46,775	46,039
Average number of employees	44,168	42,886
SKF BeyondZero portfolio revenue, SEKm	2,972	2,500 ²⁾

Number of shares on 31 December 2012: 455,351,068, of which 42,649,282 A shares and 412,701,786 B shares.

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

²⁾ From 2012, the portfolio is reviewed by third party auditors. The figure for 2011 is an estimation.

Topics related to SKF's annual report

The following topics are to be found at skf.com.
Choose Investors and Reports and presentations.

- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Carbon dioxide emission data*
- Environmental performance data*
- Zero Accidents awards*
- Production sites on 31 December 2012
- The compliance table to GRI G3 Guidelines (GRI Index Table)*
- Review activities 2012*
- Sustainability in SKF – Policies and practices*

* Documents included in the review performed by KPMG on environmental and social performance.



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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, engineering consultancy and training.



SKF was founded in 1907 and rapidly grew to become a global company. As early as the 1920s, the company was well-established in all five continents. SKF is present in nearly all industries, including cars and light trucks, aerospace, wind energy, railway, metal, machine tool, medical and food and beverage.

SKF mainly does business through its **three business areas**: SKF Industrial Market, Strategic Industries, SKF Industrial Market, Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to OEMs and end-users.

SKF groups its technologies on **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.

SKF has **around 140 manufacturing sites in 28 countries** and is represented in over 130 countries through its own sales companies and over 15,000 distributor locations.

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 investment in **research and development** has resulted in numerous innovations, forming bases for new standards, products and solutions in the bearing world and also in other platforms e.g. preventive maintenance and automated lubrication systems. In 2012, SKF recorded 663 (620) invention disclosures and successfully applied for 421 (325) first filing patent applications.





SKF BeyondZero is SKF's strategy to create a positive impact on the environment.

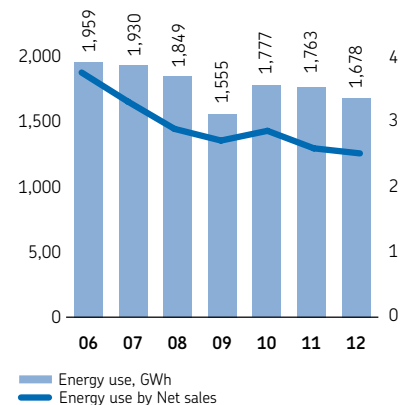
SKF BeyondZero consists of two simultaneous approaches:

► to reduce the environmental impact resulting from SKF's operations

► to provide customers with innovative technologies, products and solutions that offer improved environmental performance. This performance is verified with an SKF developed methodology which is reviewed by external auditors. »see pages 33–35

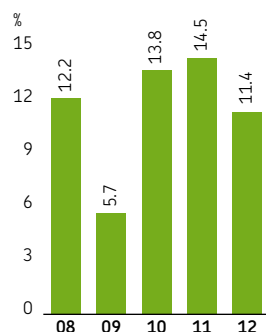
Total revenue from the portfolio in 2012 was SEK 2,972 million and the Group target is to reach SEK 10 billion by 2016.

Result of energy use at SKF's operations

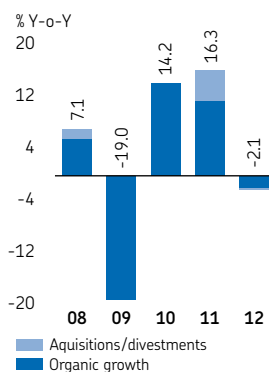


SKF's long-term financial targets are to achieve an operating margin level of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 27%. These results shall be obtained by conducting SKF business in accordance with the principles defined by SKF Care.

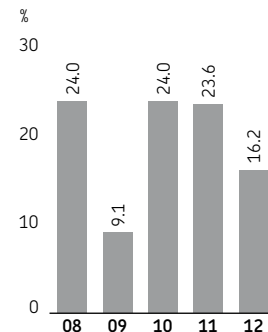
Operating margin



Changes in sales in local currency



Return on capital employed



President's letter

2012 review – An interesting year!

The Group faced a difficult business environment during 2012 and one which weakened as the year progressed. Development was different depending on the regions of the world with both North and South America enjoying good growth while the debt crisis in Europe impacted demand in the whole region and Asia faced its most challenging demand development in many years.

This affected our business with many industries and while organic sales for the full year were down only 2.5% in local currencies the trend weakened as the year progressed. Faced with this demand situation and to reduce inventories we took steps to reduce our manufacturing by nearly 10% which impacted our results. The operating profit for the Group declined by 24% with an operating margin of 11.4% and earnings per share fell by 22% to 10.37 SEK.

We can never be happy to see a drop in profits but I believe our people responded well and delivered a good performance. The steps which we have taken to be able to respond quickly to a changing business environment are working and enabled us not only to reduce our manufacturing and inventories but also to do this at the same time as improving service to our customers.

I am very pleased with the cash flow development during the year which was nearly 4.2 BSEK, excluding acquisitions and divestments, and this means we have a strong balance sheet in this more difficult business environment.

Growth and cost in strong focus

We have already started implementing a programme to further reduce our cost base, improve efficiency and strengthen our profitable growth to enable us to meet our long-term profit and growth targets of a 15% operating margin level and an 8% sales growth per annum in local currencies. The programme, which is far reaching and aggressive, aims at reducing our costs by some 3 BSEK when fully implemented.

There are a number of steps in the programme:

- consolidation of manufacturing in Europe
- move of manufacturing to the faster growing areas of the world
- improved efficiency in our manufacturing and demand chain
- consolidation of and efficiency improvements in administration and support functions
- reduced purchasing cost through standardization and rationalization of our supply base

This will ensure that SKF will be a stronger and better partner to our customers, distributors and suppliers and also enable us to deliver a better return to our shareholders. This programme is an integral part of the strategic initiatives which we launched in 2010:

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



Tom Johnstone, President and CEO

“The initiatives which we are driving in SKF and the actions we are taking to address cost and strengthen growth give us a strong foundation to build on during this year and into the coming years.”

Investing in the future

We made significant progress with these initiatives during 2012 and you can read a lot more about them in the annual report. I would like to highlight a few examples:

- In May SKF launched the SKF BeyondZero portfolio of products and solutions which will enable us to help our customers be more energy-efficient and reduce their environmental impact. At the launch there were twelve different solutions in the portfolio which have now risen to thirty-four by the end of the year. Our intention is to increase our sales of this portfolio from 2.5 BSEK in 2011 to 10 BSEK in 2016. In 2012 they increased by nearly 20%.
- In conjunction with this launch we announced the new climate targets for the SKF Group and also announced that we have become a member of the WWF Climate Savers programme. These targets are very ambitious and will further strengthen our leadership in this area.
- For the 13th successive year the SKF Group has been chosen as a member of the Dow Jones Sustainability World Index (DJSI) and for the 12th consecutive year SKF has been included in the FTSE4Good Index series.
- At the start of the year we implemented a new organization to strengthen our focus on the Industrial market by forming two new business areas. Each business area focuses on specific industries and specializes in working with both OEMs and end-users through optimizing the full asset life cycle. This will enable us to develop more new products and solutions which are specifically designed for the demands of each industry. We have received very good feedback from our customers about this approach and can already see that it is bringing results with our customers.

“Our journey towards Business Excellence continued during the year and we can already see that this is enabling us not only to serve our customers more effectively and efficiently but also to improve the working environment for our employees.”

Tom Johnstone, meeting players from the Gothia Cup tournament in Gothenburg.

- SKF celebrated 100 years of doing business in China during the year. A very special achievement. During one week of celebrations in China we opened a new factory in Jinan, Shandong province and we opened the next phase of our remanufacturing joint venture which we have with Bao Steel. We also announced the establishment of a new campus in Shanghai which will be the home for a new factory, an SKF Solution Factory, an SKF College and an expanded Global Technical Centre. We also broke ground for a new warehouse near Shanghai which will enable us to better support our customers in China and North Asia. Both the new warehouse and the Campus will be operational by the end of 2013 and will be built to the LEED standard. During the week we also held a number of important technical and business seminars with our customers, distributors and suppliers. I am convinced that this investment will strengthen our position in this important market.
- We acquired General Bearings Corporation – a US headquartered bearing company with its manufacturing operations in China. GBC is a very important addition to the Group and will further strengthen our second brand activities in addressing an important market.
- At the start of 2013 we announced the acquisition of Blohm & Voss Industries, a German-based ship components provider with a worldwide market presence. This brings us complementary expertise and solutions for the marine industry.
- We continued to step up our investment in R&D during the year and increased our number of first time patents by 30%, opened two new University Technology Centres bringing the total number to five worldwide and we further increased our activities in both India and China.
- In the last few years SKF has established a network of twenty-one SKF Solution Factory facilities where we bring together our expertise from a technology and industry viewpoint into these operations to better support our medium and smaller OEMs, our end-users and our distributors. During the year we opened five new facilities around the world and we will continue to expand this network to over fifty in the next three years.
- Our journey towards Business Excellence continued during the year with increased training of our management and also the start up of a number of practice grounds in our units. This is a journey but we can already see that this is enabling us not only to serve our customers more effectively and efficiently but also to improve the working environment for our employees. The investment which we have made in Six Sigma and our Belts is playing a major role in this development. By the end of 2012 we had 2,500 trained Six Sigma Belts at SKF and completed some 1,000 projects with hard savings of 360 MSEK.



- We strengthened our financial position by issuing a new 500 million Eurobond that matures in 2019 and extending the maturity of the existing 500 million euro revolving credit facility to 2017.

Looking ahead to 2013

The macro development for 2013 is uncertain and not easy to judge even if many steps have been taken to address the debt crisis in Europe, the fiscal cliff and debt ceiling in the USA and to stimulate growth in China. While the global economy is not expected to worsen significantly in 2013 it is not expected to exhibit strong growth either. My judgement just now is that we will see a slow start to the year but improving in the Americas and Asia as we go through the year whereas, I fear we will still see a weak development throughout the year in Europe.

The initiatives which we are driving in SKF and the actions we are taking to address cost and strengthen growth give us a strong foundation to build on during this year and into the coming years. We have invested heavily in our business both organically and through acquisitions in the last years and will continue to do so to enable us to be the partner of choice for our customers and distributors. As I said last year – this is a marathon and not a sprint and we have trained for it. This year I can say the training continues and has stepped up.

Looking back on 2012 I believe that we managed the uncertain business environment in a good way, with a strong cash flow and balance sheet. As I said earlier – while we can never be happy to see a drop in profit I think that our people did a great job and clearly kept the customer in focus.

I want to take this opportunity to sincerely thank each and every SKF employee for their strong commitment and support during the year.

Tom Johnstone
President and CEO

Administration Report



»see pages 198–199, SKF's global campaign 2012

In this report financial, environmental and social performances of the Group are presented and discussed 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 how the Group operates.

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SKF Care

This administration report is structured according to the four Care areas and will present recent developments, as well as explanations of how SKF works with these issues.

Business Care

Employee Care



Environmental Care

Community Care

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

Environmental Care 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. SKF BeyondZero combines this with the strategy to improve

customers' environmental performance through products, and solutions that improve energy efficiency and reduce environmental impact. These are defined, measured and verified through inclusion in the SKF BeyondZero portfolio.

Employee Care assures a safe working environment and promotes the health, education and wellbeing 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 2012 covers the reporting period 1 January to 31 December 2012, 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 Annual Report 2012 follows GRI guidelines and, as previous years, the GRI compliance table and other more detailed information is available on skf.com together with the annual report (Topics related to SKF's Annual Report).

SKF has been submitting its sustainability reports for third party verification for over ten years. The 2012 report will again include a limited assurance, in accordance with FAR's (the institute for the accounting profession 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 176–177, integrated with the auditors' report.

With reference to the GRI G3 Application Level Criteria, the SKF Annual Report 2012 – 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 170–175

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 at skf.com

Corporate Governance Report

SKF has chosen to prepare its Corporate Governance report separately from the Administration Report. »see pages 178–187

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



■ 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 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.

- **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.



- **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.



- 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 endorses and applies 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.

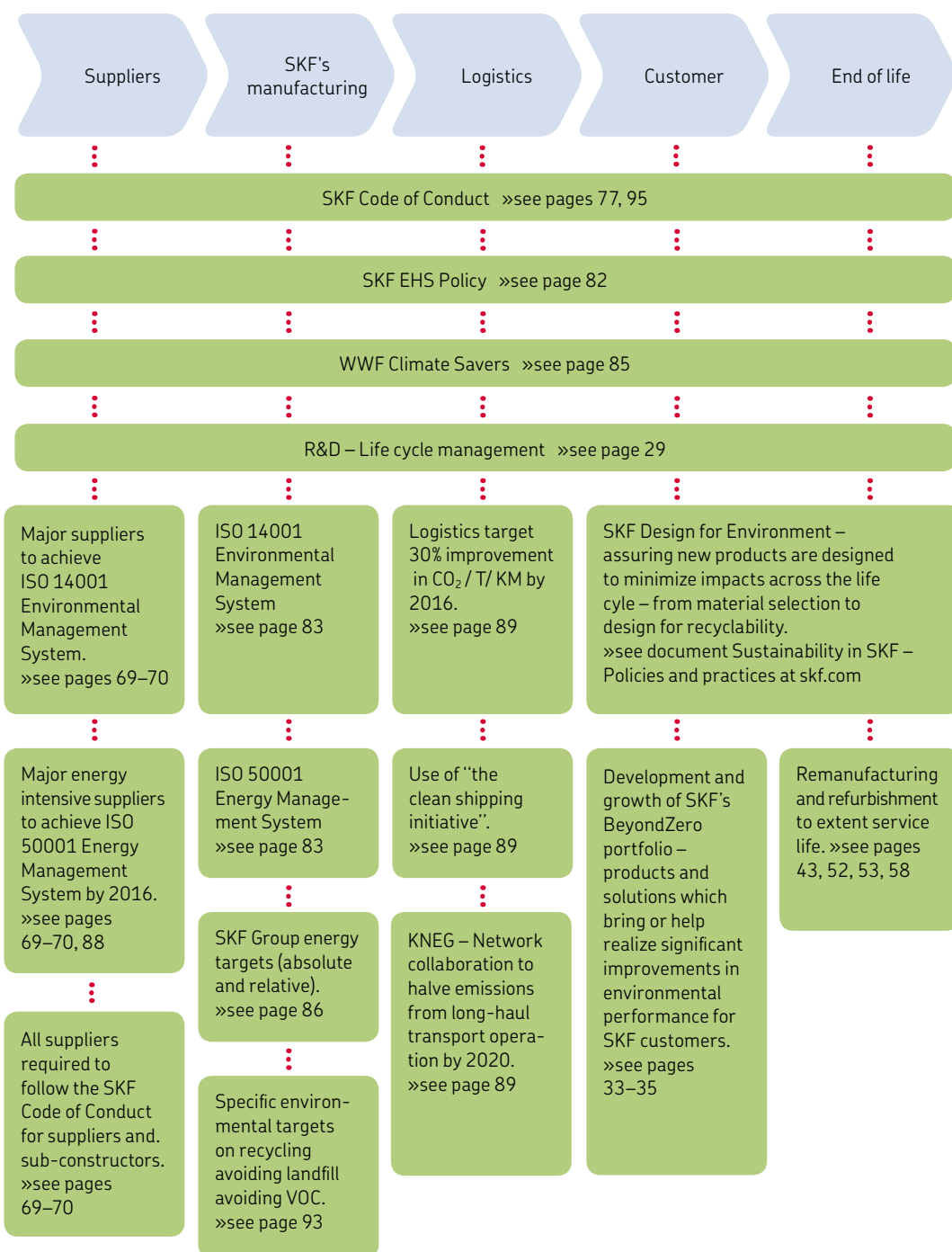
Addressing environmental issues along the full value chain

Impacts, Issues

Different types of environmental impact occur along SKF's value chain, including climate change, use of natural resources and various forms of pollution. The chart below provides an overview of some of the policies and initiatives which the Group has integrated into its business activities to effectively address and reduce these impacts.

Value Chain

SKF Approach



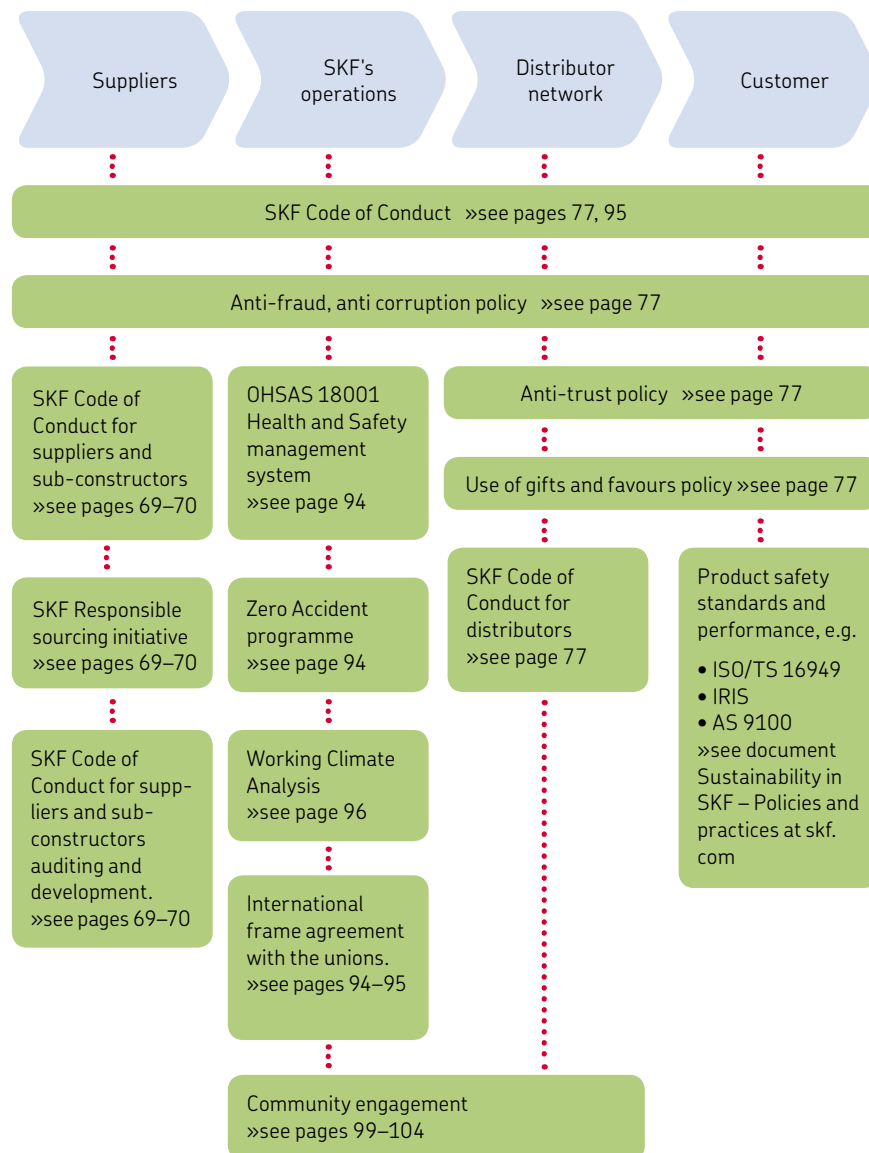
Addressing social issues along the full value chain

Impacts, Issues

SKF aims to safeguard correct working conditions and high ethical performance in the business operations it owns and manages and also in the operations of the Group's suppliers, customers and business partners. With SKF's Code of Conduct as a basis, the company works along the full value chain to address issues such as human rights, working conditions, responsible business conduct, equality, diversity and contributions to local communities. The chart below provides an illustration of how this is achieved.

Value Chain

SKF Approach



Stakeholder comments

In the following comments, some of SKF's various stakeholders share their reflections on SKF Care.



Christoph Schwärzler

Director Corporate Social Responsibility Strategy Bombardier Transportation GROUP

We put a strong focus on supplier CSR performance, and we review this performance and the approach of our suppliers systematically. We find that SKF is a company that understands the need to integrate sustainability issues into its core business activities. Some examples of how we note they are doing this can be seen in their related certifications, the transparency of their reporting and in the overall way they do business with us.

Our stakeholders expect and demand that we address CSR effectively in the way we run our business. Suppliers are a critical element in this and so SKF's integrated approach helps us to meet these demands and manage the risks.

At the same time, we see very clear and increasing demands related to sustainability from our customers, the railway operators around the world. We see this trend has a huge potential to drive a generation of new ideas, innovation and ultimately increased value for all our stakeholders. We see that SKF takes the same view, and as a result is developing and proposing new products, which, for example, help us to increase durability and reduce operating costs.



Samantha Smith

Leader of WWF's Climate and Energy Initiative

SKF has committed to tackle the climate and energy challenge with a very broad approach including the whole value chain. We applaud, fully endorse and also request this broad voluntary commitment approach from SKF as a member in the WWF Climate Savers programme. In particular I am inspired by the way SKF is approaching climate change mitigation as a new business model and the targeting to quadruple sales of SKF BeyondZero portfolio solutions over a short time period. Sales is core strategy for business and more business (and countries) must get provision of climate change solutions into the core strategy development dialogue.

The world needs to become much, much more efficient and invest heavily in renewable energy already this decade if we are to stay below 2 degrees global warming. SKF provides a range of knowledge engineering solutions for efficiency in industry, transport and renewable energy. These are important areas that must grow for emissions to shrink and for a global transition towards a sustainable 100% renewable energy future.



Kennet Carlsson

Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Council

Our Code of Conduct and signed framework agreement is unique and helps to ensure that all parties share the responsibility to live up to, and respect, the Code. This sends a very strong message to the individual as well.

Representing SKF's global work force, I think it's very important to try to achieve a common understanding and consensus between the employees and the SKF Group management – that we respect human rights and labour rights and live up to one SKF standard, regardless of where in the world we are located.



Ulrika Danielsson

*Fund coordinator of ownership issues. Head of Communications and HR
The Second Swedish National Pension Fund (AP2)*

The Second Swedish National Pension Fund believes long-term investment requires companies capable of long-term sustainability, enabling them to generate a solid return that can provide a secure buffer for future pensions. SKF has succeeded in describing and communicating what sustainability means for it through "SKF Care" and integrate it into various business processes. SKF is increasingly integrating sustainability issues in its overall strategy as one of the company's key drivers. SKF has also progressed in its research and development and developing sustainable products, especially with environmental awareness. SKF is communicating its sustainability impact in a clear and transparent way. We really appreciated the company's initiative to meet stakeholders during 2012 to discuss sustainable value creation at SKF.

The Second AP Fund is one of five buffer funds within the Swedish pension system, tasked with maximizing long-term returns – and at low risk to pension disbursements. The Fund adopts an active approach to ethical and environmental issues, with a view to promoting sustainable investment.



Rajni Kant Sharma

Associate Vice President (Supply Chain) Hero MotoCorp Ltd

The integrated approach of SKF for complete solutions ahead of time, helps Hero MotoCorp maintain its leading position in the two-wheeler market.

At Hero MotoCorp, our supply chain partners play a vital role in our journey of doing business sustainably. Our Green Vendor Development Program aims to contribute towards this goal. We know that SKF is not only working to improve the environmental performance of their products, but also its manufacturing and the performance further up the supply chain. In the end this brings us and our customers better and more sustainable products.



Anne-Marie Tillman

Professor, Environmental Systems Technology, Chalmers Head of SKF-Chalmers University Technology Centre for Sustainability

On top of the common issues such as environment, health and safety, SKF takes implications from life cycle management research into serious consideration. Over the years, I have seen SKF receive input, build knowledge and capacity internally, and then use this to generate business strategies. As a researcher, such a response is truly rewarding.

Highlights of 2012

First quarter

- SKF introduced a new operating structure for the industrial market to further improve focus and support this market and strengthen the full asset life cycle approach for each industry.
- 180 SKF distributors took part in the North American Distributor Convention held in Florida.
- Two new SKF University Technology Centres were inaugurated in Sweden:
 - Chalmers University of Technology for sustainability and the environment
 - Luleå University of Technology, for condition monitoring and asset management

Examples of new business

- SKF signed two new contracts worth around SEK 50 million, to supply Siemens Rail Systems with axle boxes and wheel set bearing units for its rolling stock projects in the UK and Poland.
- Scania and SKF signed a new three-year contract for the delivery of bearings for truck wheel end units and transmissions to Scania's production facilities in Brazil. The contract is worth around SEK 150 million.
- SKF announced an order from Vestas worth SEK 350 million, for the delivery of main shaft solutions to the Vestas V112-3.0 MW turbine.
- SKF received an order for SKF ConRo Compacts worth EUR 1.8 million from a major metal industry customer.

Second quarter

- SKF presented its new climate strategy targets. The targets are aimed at reducing greenhouse gas emissions not only for SKF but also for its suppliers, logistics operations and customers. As a result, SKF has become the first industrial engineering company to partner with the WWF in their Climate Savers Programme. »see page 85
- SKF launched the SKF BeyondZero portfolio of products and solutions which make it possible for SKF's customers to reduce their own environmental impact. The growth of the SKF BeyondZero portfolio forms an important part of the Group's overall climate strategy. »see page 35
- A new SKF Solution Factory was inaugurated in Perth, Australia.
- SKF opened a new railway test centre in Russia. The centre is located at the SKF Tver railway bearing factory and incorporates an accredited metallurgy laboratory.
- SKF held its seventh SKF Wind Farm Management Conference in Paris. The aim is to share knowledge and best practice experiences of managing wind farms and improving asset efficiency.
- "Solutions for Sustainable Results" was the motto for SKF's European Asset Management Conference held in Budapest, Hungary. More than 300 participants attended the conference.
- SKF's distribution businesses in Australia and New Zealand were sold to the North American company, Applied Industrial Technologies.
- A programme to harmonize certain key business processes across SKF was initiated. A new enterprise resource planning process will be implemented over a number of years supporting demand chain and finance processes.

Examples of new business

- One of the largest contracts SKF has received for its Integrated Maintenance Solutions was signed with Fibria, a Brazilian pulp and paper company.
- Volvo Car Corporation and SKF signed a seven-year contract for the delivery of rear wheel bearing units and front suspension bearing units for the Volvo V40 model.



SKF celebrated 100 years in China with several events, including the opening of a new factory in Jinan, Shandong Province.

Third quarter

- The acquisition of the New York-based General Bearing Corporation (GBC) was completed at the beginning of August. »see page 22
 - Scuderia Ferrari and SKF renewed its partnership, making it the longest uninterrupted partnership in the history of Formula One.
 - Two new SKF Solution Factory facilities were opened, one in Cleveland, USA and one in Bucharest, Romania. In addition, SKF inaugurated a Solution Factory in Moncalieri, Italy which is an expansion and upgrade of the previous SKF Solution Factory in Turin.
 - SKF celebrated 100 years in China and:
 - Established a new campus in Jiading, Shanghai, to support the growth in China and the rest of Asia.
 - Inaugurated a new factory in Jinan, Shandong Province in China.
 - Started up the construction of a new regional distribution centre in the WaiGaoQiao Free Trade Zone in the northeast part of Shanghai.
- »see page 22

Examples of new business

- SKF signed a supply agreement worth SEK 1 billion for the new generation SKF Nautilus bearing with a major wind turbine manufacturer. The new bearing will be used on multi-megawatt wind turbines intended for both onshore and offshore installations around the world.
- SKF will supply magnetic bearings to two new major gas projects in Australia. The magnetic bearings will equip the natural gas treatment turbo expanders for both the Ichthys Gas Field project and the Prelude first floating liquified natural gas barge. This technology completely avoids the need for gas flaring in turbo expanders.
- Baosteel Group Corporation and SKF signed a third strategic partnership agreement that will further strengthen co-operation on technology, procurement and supply, logistics, marketing and management.
- SKF will supply a listed industrial services company in South East Asia with a complete range of SKF Power Transmission products, on-site technical support and after-sales service to improve the reliability of the customer's client's mills, as well as a full training package. The contract is worth SEK 6 million.
- Mazda Motor Corporation and SKF signed a contract for the delivery of SKF's bonded piston seals for automatic transmissions, for the current Mazda CX-5 car model.


Fourth quarter

- SKF signed an agreement to acquire Blohm + Voss Industries (BVI) a Germany-based ship components provider. BVI is a leading manufacturer and service provider of equipment for critical marine applications.
- For the 13th successive year, the SKF Group has been chosen as a member of both the Dow Jones Sustainability World Index (DJSI) and the pan-European sustainability benchmark for the Industrial Engineering sector.
- For the 12th consecutive year, the FTSE Group confirmed that SKF has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements for becoming a member of the FTSE4Good Index Series.
- SKF launched a programme to improve efficiency, reduce costs and strengthen profitable growth. The programme aims at reducing the company's annual costs by SEK 3 billion by the end of 2015.
- SKF Aerospace partnered with Penn State Erie, The Behrend College, to develop applied research initiatives in composites, steel and heat treatments, testing and sensor technology.
- A new SKF Solution Factory was opened in Ridderkerk, the Netherlands specifically for the marine industry.
- In 2012, SKF provided SEK 4.1 billion in verified savings for customers. From 2003 until today, the figure is SEK 23.5 billion. »see page 25
- The SKF Distributor College awarded its 170,000th certificate to an employee of TOOLS Momentum, one of SKF's authorized distributors in Sweden.

Examples of new business

- LKAB and SKF signed a five-year contract for the delivery of maintenance services at LKAB's mines in northern Sweden. The contract is worth around SEK 60 million.
- SKF will supply Volvo Buses with a new bus door actuator system. The system requires 80–90% less energy than a pneumatic door system, which reduces fuel consumption for the vehicle by around 2%. The system was developed in cooperation with Volvo Buses.
- SKF was awarded a contract to supply advanced technological solutions for the main hub for Caesars Entertainment Corporation's Las Vegas High Roller observation wheel. »see page 32
- SKF signed contracts with Audi to deliver components for use in a wide range of their vehicles. The contracts, valued at around SEK 1 billion, include the delivery of four different versions of wheel bearing units for wheel ends and a range of bearings for the new double clutch transmission.
- Hyosung awarded SKF a contract for bearings to be used in the electric motor for Ray – the first electric vehicle developed in Korea by Kia Motors.
- Deliveries of tapered roller bearings to Scania started from SKF's local manufacturing facility in Cajamar, Brazil.
- A partnership agreement was signed between SKF and Protean Electric, where SKF will supply bearing, sealing and mechatronic solutions for Protean's products. Protean develops and manufactures inwheel electric motors for electric vehicles and hybrid cars.

Report on the business Business Care



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

SKF's evolvement into a more robust company

SKF has gradually evolved into a more robust company, showing an improved ability to generate profits and sales growth. The company's operating margin has shown a very positive development over a number of years due to a clear activity to reduce capital intensity and to improve the business mix. SKF has made important changes to its fixed costs over the years such as 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.

The company's operating margin has shown a very positive development over a number of years due to a clear activity to reduce capital intensity and to improve the business mix.

Significant steps have also been taken to improve sales growth through increasing focus on faster growing industries and regions and the addition of 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 nearly doubled as a part of the SKF Group sales in the last decade. 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 that bring real benefits and value to customers and being paid for this. »see pages 44–57 and 60–64

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

It is about creating and delivering products, solutions and services that bring real benefits and value to customers and being paid for this.

Performance 2012

Sales showed a very different performance between regions at the start of the year. There was strong growth in both North America and Latin America and this was quite broad-based across many of the industries SKF serves. In Europe the industrial sector developed well, while the automotive business was significantly down. Sales declined in Asia. Manufacturing was reduced to both reflect the demand level and to reduce inventories.

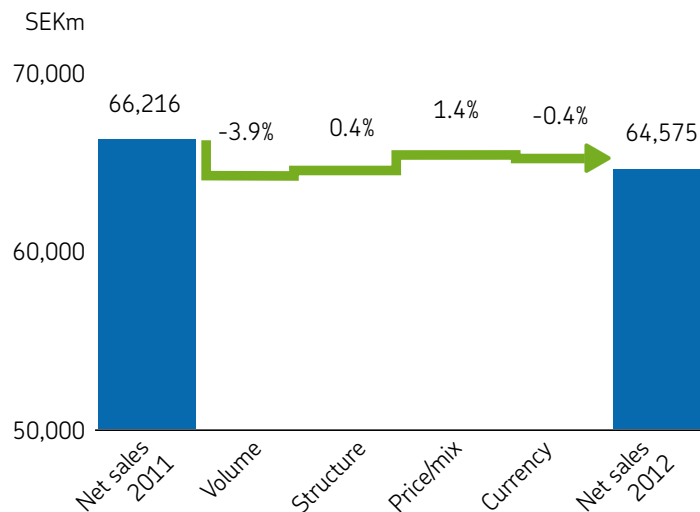
In the second quarter, the financial uncertainty and lack of confidence in the market increased and this affected SKF's sales, particularly in Europe and Asia, while demand continued to be good in both North and Latin America.

In the third quarter the uncertainty surrounding macroeconomic development continued and sales weakened during the quarter. This was mainly seen on many industrial markets as well as in the European and particularly in the Asian regions. SKF took additional steps to reduce manufacturing and reduce inventories.

In the fourth quarter sales continued to weaken, particularly in December due to the uncertain macro situation and inventory reductions in the market. SKF's manufacturing and inventories were reduced more than planned going into the quarter which enabled a good cash flow but impacted results.

Net sales 2011 bridge to 2012

SKF's net sales fell by 2.5% in 2012, to SEK 64,575 million from SEK 66,216 million.



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

Structure: the impact from acquiring or divesting a company or business.

Price/mix: refers to the change in average price which the Group receives from the sale of its products, where "price" refers to price changes on existing products to existing customers, and "mix" refers to volume shifts between various customer industries and products with different price levels.

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

Main factors influencing the financial results in 2012

Volumes: Weaker demand and lower manufacturing volumes impacted the results negatively.

Inventories: The Group lowered inventories by around SEK 1,200 million, excluding currency and structure.

Price/mix: The combination of price increases and mix together was up by 1.4%

Exchange rates: Exchange rates had a positive effect on SKF's operating profit of around SEK 200 million, including the effect of translation and transaction flows.

One-time items: One-time items negatively impacted the results by around SEK 440 million.

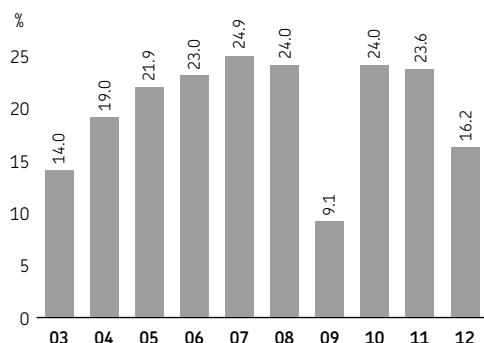
The Group's operating profit was SEK 7,333 million (9,612), profit before taxes SEK 6,511 million (8,932) and earnings per share SEK 10.37 (13.29). The figures include expenses for one-time costs of around SEK 440 million (100).

Net financial items were SEK -822 million (-680). Interest-bearing loans totalled SEK 15,268 million (12,851) at year-end. Provisions for post-employment benefits, net, amounted to SEK 9,829 million (8,599).

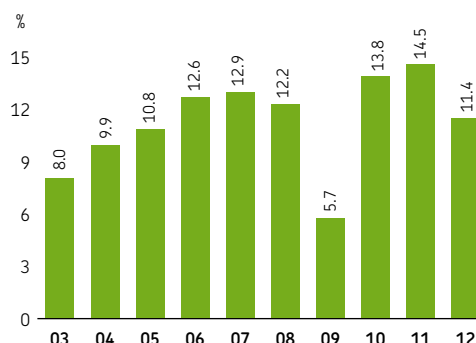
Return on capital employed for the 12-month period ending 31 December was 16.2% (23.6).

Capital expenditure on property, plant and equipment amounted to SEK 1,968 million (1,839). Depreciation was SEK 1,499 million (1,498), amortization was SEK 238 million (248) and impairments, net of intangible and tangible assets was SEK 94 million (44).

Return on capital employed



Operating margin



SKF's targets 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.

This objective shall be met by conducting all aspects of the Groups business in accordance with the principles defined by SKF Care, thereby taking financial, social and environmental considerations into account.

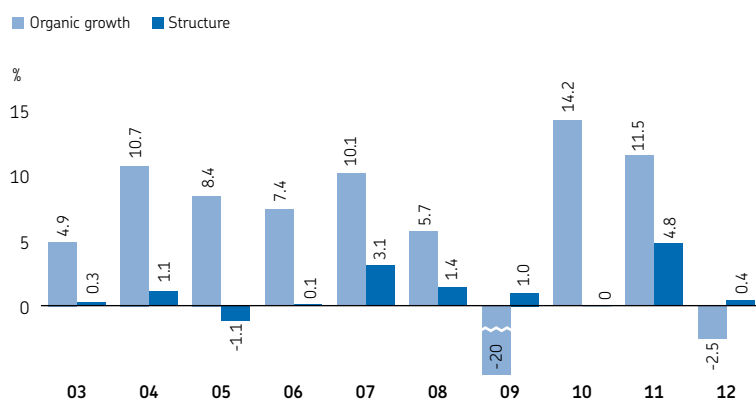
SKF's long-term targets are:

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

SKF's business strategy for achieving sustainable profitable growth and financial targets includes:

- keeping a clear and dedicated customer focus
- strengthening the product portfolio through increased investment in R&D and through acquisitions
- realizing a positive impact on the environment by:
 - reducing the negative environmental impact from SKF's operations
 - providing customers innovative technologies, products, and services that reduce customers environmental impact
- creating and capturing more value by applying the SKF platform and industry approach
- focusing on rapidly expanding industries and regions
- using Business Excellence to improve efficiency in the business and to reduce waste and capital
- attracting and retaining the right people
- developing and protecting the SKF brand

Growth in local currencies



Investments and efficiency-raising activities

SKF started production at two new factories in 2012. The first is located in Jinan, China and will primarily manufacture tapered roller bearings and truck hub bearing units for customers in Asia. The other factory is a seals factory in Mysore, India. It will produce sealing solutions for customers in India and Asia, with a full range of seals to serve a wide range of automotive and industrial applications.

SKF also announced the establishment of an SKF Campus in Jiading, Shanghai. The investment includes a new factory for wheel bearings for passenger cars, relocation and expansion of the Global Technical Centre China (GTCC), an SKF Solution Factory and an SKF College. The investment for the land, new factory, and relocation of activities is around SEK 700 million. The new factory will mainly manufacture hub bearing units for the automotive market primarily in China. The campus will also support SKF Group best practices within global technology and processes while enabling SKF to further strengthen local supply and engineering services to customers in China. The new campus will employ around 900 people in 2015, of which 400 will be part of GTCC. Activities in GTCC includes product development, engineering services, global metallurgy and chemistry labs, manufacturing process development, testing and product investigation. Located in the Jiading district in Shanghai, the SKF Campus is close to several of SKF's major customers, as well as technical universities and engineering institutes. The construction of the campus is expected to be completed at the end of 2013.

SKF broke ground for a new distribution centre in Shanghai. The centre will support the entire North East Asia Pacific region and is part of the network of SKF regional distribution centres already located in North America, Latin America, Europe and

Asia. The total investment is around SEK 100 million. This new centre will be the first SKF warehouse built according to the LEED Gold building certification.

SKF initiated the building of a new lubrication systems factory outside the city of Bengaluru, India. The factory will mainly serve the local market with lubrication systems for the renewable energy, mining, metals and material handling industries. The factory is expected to be in operation by the second half of 2014.

SKF continued to strengthen its contacts with universities and opened two new University Technical Centres (UTC) in Sweden Chalmers University of Technology in Gothenburg which will focus on sustainability, and the environment and Luleå University of Technology for condition monitoring and asset management. This brings the number of UTCs to five worldwide.

SKF Aerospace partnered with Penn State Erie, The Behrend College, to develop applied research initiatives in composites, steel and heat treatments, testing and sensor technology.

Five SKF Solution Factory locations were opened, in Australia, North America, Romania, Italy and the Netherlands. At the end of the year there were a total of 21 locations worldwide. »see page 42

Acquisition

SKF acquired General Bearing Corporation in August 2012. GBC has its headquarters in the USA, and about 1,380 employees, most of whom are located in China where the company has three factories. The company generated sales of around USD 155 million in 2011, with an operating margin in line with the SKF Group. »see page 26

Total cash outflow in 2012 for acquisition, net of cash, was SEK 848 million.



The new bearing factory in Jinan, China mainly manufactures tapered roller bearings and truck hub bearing units.



SKF started production at its new seals factory in Mysore, India during the year.

Acquisition after year-end 2012

In the beginning of 2013, SKF signed an agreement to acquire the Germany-based ship components provider Blohm + Voss Industries (BVI). BVI is a leading manufacturer and service provider of premium quality equipment for critical marine applications, including shaft components (seals and bearings), stabilizers, and oily water separators. The company has about 400 employees and annual sales of around EUR 100 million and an operating margin in line with the SKF Group. BVI operations and capabilities have a very strong fit with the SKF marine strategy and complement SKF's existing marine product and service range. »see page 52

Divestment

SKF divested its distribution businesses in Australia and New Zealand to US-based Applied Industrial Technologies. This divestiture is in line with SKF's global go-to-market approach to utilize independent channel partners, which are SKF authorized distributors.

Total cash inflow in 2012 for divestments, net of cash, was SEK 215 million.

New IT systems

During 2012, SKF initiated a programme to replace its Enterprise Resource Planning (ERP) systems. This programme primarily encompasses the sales/customer relationship, purchasing, finance and demand chain processes with SAP as the main software partner. The objective is to leverage new technology to implement common, best practice processes across the SKF Group globally, enabling business efficiency, speed and growth.

This was necessary to phase out ageing legacy systems and to create a new common IT infrastructure for all five technology platforms.

The implementation will be over a number of years, with an initial roll-out in 2014. A Group Business Transformation organization has been established to manage the programme.

Programme to improve efficiency, reduce cost and strengthen profitable growth.

In the beginning of 2013 SKF launched a programme to improve efficiency, reduce cost and strengthen profitable growth. The programme aims at reducing the company's annual cost by SEK 3 billion by the end of 2015.

The cornerstones of the programme:

- consolidation of production between sites.
- transfer of production from West Europe to East Europe, Asia, Latin America in order to serve these faster growing markets with more local production.
- optimization and productivity improvements in the manufacturing and demand chain processes.
- consolidation of and efficiency improvements in administration and support functions.
- reduction in purchasing cost mainly through standardization and rationalization of the supplier base.

The total cost for this programme is expected to be around SEK 1.5 billion for the years 2012 to 2015. The programme will affect about 2,500 people primarily through early retirement and other voluntary and agreed reductions.



Inauguration of the SKF Solution Factory in Cleveland, USA. Another four facilities were opened during 2012 and at the end of the year there were a total of 21 SKF Solution Factory worldwide.

Customers

SKF's customers can be found in various industries including material handling, mining and cement, pulp and paper, wind energy, food and beverage, medical and health care, aerospace, railway, construction, cars and trucks. Addressing so many different industries enables SKF to develop specific products and services for each industry, and also to take knowledge from one industry and apply it to others.

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-making equipment, 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.

SKF provides a unique service organization together with the largest network of authorized distributors in the bearing industry. With around 7,000 industrial distributors locations customers are close worldwide. SKF works actively with its distributors to help customers improve the uptime and efficiency of their production processes. One example is real-time vibration analysis of machine operations, where, following a diagnosis, the customer is recommended the right maintenance strategy, work process and optimal level of spare parts.

Through its SKF Solution Factory facilities SKF offers an infrastructure for delivering complete, integrated solutions incorporating all SKF's 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.

SKF Logistics' operations, in close collaboration with its authorized distributors, ensure that SKF's customers also get the right products at the right time, while minimizing the level of inventories.

Another OEM customer group is those who manufacture 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 industries are specifically designed for each customer and each application.

The vehicle aftermarket is served by SKF based mainly on a repair kit concept. SKF provides mechanics with appropriate repair kits which contain all the necessary components to help speed up and facilitate repair work. More than 20,000 different kits are currently available and some examples include wheel bearings, timing belts, water pumps and constant velocity joints.



Fibra

SKF announced a five-year contract with Fibria in 2012, a leading Brazilian pulp producer, which represents one of the largest contracts SKF has ever received for its Integrated Maintenance Solutions concept. This is an extension of the original agreement between Fibria and SKF dating, originally, from 2000 and now covers all three of their pulp plants. As part of the contract, SKF will supply bearings, condition monitoring, engineering and lubrication services, training and maintenance products. On the photo: Vinicio Alvarenga de Fonseca, Maintenance specialist at Fibria's unit in Jacarei.

Delivering value to customers

The value SKF delivers is determined by the customer and can come from various ways.

▷ Firstly, it can mean providing unique technical solutions.

An example is SKF's compact electromechanical cylinder that integrates SKF's technology platforms. Compared with pneumatic or hydraulic processes, the solution requires only a fraction of the energy needed for the materials joining process.

In some cases, energy savings of over 90% can be achieved compared with the same solution with a pneumatic system. »see page 46

▷ Secondly, it can come from SKF's special understanding of customer requirements to offer specific solutions to support these needs.

An example is compressor applications that need to handle corrosive process gases. SKF can improve the bearings' service life from months to years with its corrosion-resistant technology. »see page 48

A further example is SKF's proactive maintenance solutions that bring value to industries where equipment is difficult to access during routine maintenance and to industries where maintenance windows are short. SKF's solutions contribute to cost-effective and reliable customer operations. »see page 51

▷ Thirdly, it can come from reducing customers' total cost of ownership.

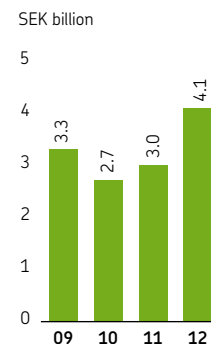
Since 2003 until 2012, SKF has provided SEK 23.5 billion in verified savings for customers. In 2012, the figure was around SEK 4.1 billion. The SKF Documented Solutions Programme enables SKF to measure and confirm the value delivered and contains 39,770 accepted or verified cases that show proven quantifiable value in over 25 industries.

The following is an example of how it works

A major aluminium foil maker for packaging, pharmaceuticals, liquids and the food industry, contracted SKF to help address gearbox vibration and oil leakage problems at its rolling mill. The factory produces more than 20,000 tonnes of aluminum foil annually and the customer wanted to increase its overall production capacity to meet rising demand. Following problems with vibration in the transmission line, SKF intervened with a root cause analysis and condition monitoring, that identified wear in the gearbox bearing seats and excessive play in the stand side couplings, causing misalignment and vibrations. Using the SKF Documented Solution Program, SKF could show that a new gear unit would be more cost efficient than refurbishing the old one. The customer decided to have the gearbox power increased by 20%, to allow it to be used in other

production lines on site. SKF carried out a gearbox upgrade through reengineering the gears, bearings, casing and lubrication system. SKF also installed a monitoring system, accelerometer and temperature probe sensors in the pinion stand and machine condition transmitter modules. This means that the customer can continually monitor bearing temperatures and with vibration analysis carry out predictive maintenance at regular intervals.

Verified savings for customers



The SKF brand



SKF is one of the strongest global industrial brands. Over the years the brand has extended from being primarily a bearing brand into also being a leader in technology areas such as seals, mechatronics, lubrication and services.

In order to approach markets not fully addressed by the SKF brand a second brand strategy has been developed. PEER Bearing Company (PEER) and General Bearing Corporation (GBC) operate as independent subsidiaries within the SKF Group, acting independently on the market under their existing brands.

SKF's second brands:



PEER Bearing Company

SKF acquired PEER in 2008, a company with sales operations in North America and facilities in Asia primarily manufacturing deep groove ball bearings, tapered roller bearings, agricultural bearings and mounted unit bearings. PEER helps the SKF Group strengthen its presence in industries such as agriculture, heating, ventilation, air conditioning and mechanical power transmission. The company's strength lies in application-specific know-how for certain industries. The main market for PEER is North America and during 2012 PEER continued to expand its global presence in Asia and Europe.

Sales to external customers grew by 12% in local currency, with a double digit growth in all regions. Sales under the PEER brand accounted for around 2% of the Groups net sales for 2012.

PEER invested in China to open a service centre and upgrade its new R&D facility. These investments will enable PEER to better meet customer needs in services and technological partnership and development.

PEER reduced its environmental impact and carbon footprint in its own operations. This was done, for example, by applying water-based cleaning fluid and working on recycling grinding fluid and compacted grinding waste. The production unit in Changshan, China has been successfully accredited with the OHSAS 18001 certificate. Similar commitment to sustainability has also led to the introduction of patented products with enhanced environmental performance that provide maintenance-free solutions, including the maintenance-free unit TILLXTREME for the agricultural industry that offers an eco-friendly solution with longer service life at greater output efficiency. It helps customers reduce total machine component costs by 10% and helps farmers increase productivity by more than 10%. These customer benefits are enabling approval from many customers in Europe and America.



General Bearing Corporation (GBC)

GBC was acquired in August 2012. The company mainly serves OEM and end-user customers in the truck, trailer, automotive and industrial transportation markets, with its General and Hyatt brands. GBC has its headquarters in the USA and its manufacturing in China where it has three factories. The company has around 1,380 employees, most of whom are located in China. The company manufactures ball bearings, tapered roller bearings and precision rollers.

Annual sales under the GBC brands account for just under 2% of SKF's sales.

The power of knowledge engineering

SKF has been a leading technology provider for more than 100 years and its 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 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 more than 100 years to develop and deliver products, solutions and services which enable customers to be more successful and profitable in their business. SKF knowledge can be defined as the combination of the following three dimensions:



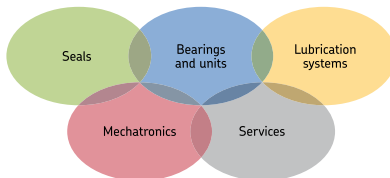
The geographic dimension

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 success from similar industries worldwide.



The customer dimension

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



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 industries and sales organization to develop and deliver new products and advanced integrated solutions to meet customers' needs.

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

Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. In 2012, SKF recorded 663 (620) invention disclosures and successfully applied for 421 (325) first filing of patent applications.

R&D expenditure was SEK 1,607 million (1,481), corresponding to 2.5% (2.2) of annual sales, excluding developing IT solutions. Capitalized development expenditure was SEK 16 million (27) in 2012. SKF's R&D spending rose by 10% in local currencies in 2012 compared with 2011.

The Group is increasing its activities in the R&D arena by focusing more on new products and services that have a positive impact on the environment. In addition there has been a greater concentration on strengthening core technologies, launching new products, increasing R&D activities in rapidly developing regions and further strengthening links with universities and technical colleges.

SKF has a strong global network of R&D centres and laboratories, as well as established collaboration agreements with major universities and research institutes.

Global Technical Centres in Asia

To further strengthen SKF's global network of R&D centres and laboratories, SKF has established two Global Technical Centres in Asia over the past few years – one in Bengaluru and one in Shanghai. The aim of the centres is to assume a global and regional development role, bringing innovation and technical knowledge closer to SKF's customers in Asia to better meet local customers' needs.

In May 2012, Maruti Suzuki India Ltd. selected SKF as the "Preferred supplier towards local R&D capability development". SKF's intention to bring innovation closer to its customers through the recent establishment of the Global Technical Centre India, was an important criterion for the award.

Relationship with the academic community

SKF collaborates with the academic community and with renowned universities to the establishment of SKF's technology centers. Today SKF has UTCs in steel and polymer materials, tribology and modelling, asset management, sustainability and environment.

Innovation: from technology to market

Encouraging an innovative culture is vital to SKF and every year a number of projects are selected and rewarded for their exceptional contribution to business, innovation and sustainability.

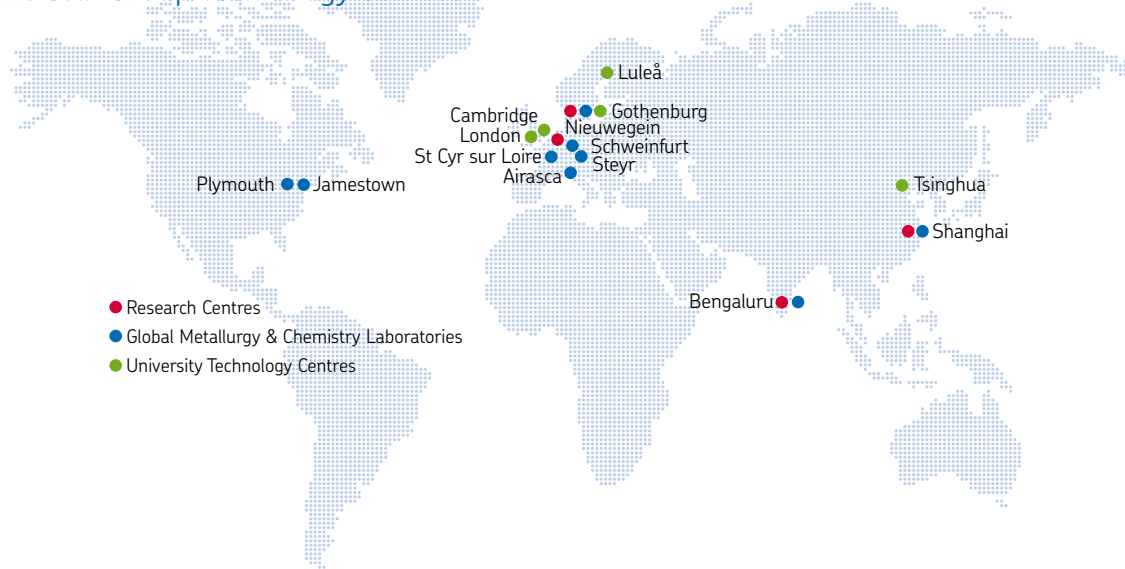
SKF's technology strategy focuses both on the development of its core technology areas and to bring new ideas to market.

Areas in focus are:

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 capability and energy efficiency. Through its unique heat treatment processes, SKF achieves exceptional steel properties by controlling microstructures and residual stresses. 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 the response of hardened steels under extreme load conditions.

The SKF Group Technology Centres



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

Integrated sensing solutions

By combining its knowledge of bearings and rotating equipment with expertise in condition monitoring, SKF has developed "smart" measurement and diagnostic components and the capability to integrate and package them into the bearing itself. The result is a smart self-powered bearing, capable of communicating its dynamic condition at any time, wirelessly.

Low energy and sustainable solutions

SKF continues to increase its activities in the R&D arena with a greater focus on new products and services that have a positive impact on the environment, and support the SKF BeyondZero strategy.

Wide-ranging knowledge in friction and tribology enables SKF's engineers to predict and control the working conditions of SKF's products, and to prolong the service life of customer equipment.

Simulation engineering

SKF has a comprehensive and powerful set of modelling and simulation packages, ranging from easy-to-use tools based on theory explained in the SKF Rolling Bearings catalogue, to the most sophisticated calculation and simulation systems. The company's strategy is to develop a wide range of software packages that satisfy a large number of customer requirements; from simple design checks to complex investigations involving the most advanced simulations for bearing and machine design. One example is the SKF Interactive Engineering Catalogue, an easy-to-use online tool for bearing selection and calculation, for open use at skf.com.

Smartphones and tablets are becoming a larger part of our everyday life. Providing calculation tools and engineering possibilities through the use of apps will enable an engineer anywhere to make better decisions much more quickly. Carrying out complex bearing calculations by using the SKF Bearing calculator or choosing the right seal through the seal select app, are examples of how these tools can support the engineering community and thereby increase efficiency.

At the end of 2012, SKF had more than 20 apps in Apple iOS and Google Android platforms, each dedicated to helping customers with calculations, training, data collection, product selection, information and learning about SKF. »see page 196

Life cycle management

An increasing amount of SKF's research projects primarily target improving the 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 foster the use of improved environmental performance technologies, SKF is increasingly researching into the area of life

cycle management, in collaboration with universities. Methods for environmental assessment are being developed to suit industrial needs better and improve knowledge of products' environmental performances and manufacturing processes.

Manufacturing R&D

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

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

- Improved product performance by optimizing the selection of steel and heat treatment combination. In recent years considerable investment and implementations have been carried out in heat treatment equipment at many of SKF's factories.
- Improved material utilization in all manufacturing processes resulting in less waste, manufacturing variations and allowances. Near Net Shape technologies aim at forming a component to almost its final shape, reducing the time for finishing operations.
- Intelligent manufacturing systems and integrating sensors and measuring equipment into machines, for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring, providing tighter control of manufacturing processes. Combining them with the use of non-destructive and Artificial Intelligence technologies makes it possible to detect material defects and improve process control, as well as defining and predicting a product's properties.
- New processes for improving sustainability, while reducing the use of process media.

Technology in motor racing

After 65 years, the technical collaboration with Scuderia Ferrari remains the longest in the history of Formula One. The collaboration includes supplying advanced bearing and sealing solutions and engineering services; an example of SKF's engineering services is fault detection using SKF's monitoring systems.

SKF is involved with Ferrari to solve the technical challenges of the new V6 turbocharged engine, to discover, through motor sport, the technologies and products of future cars.

All this would not be possible without using the latest premium steel materials and fine-tuned internal bearing geometries to meet highly demanding friction targets and the lightest solutions, to achieve higher performance levels.

The 2012 NASCAR season marked SKF's 15th year in this sport as a sponsor and technical partner. The first year of SKF's partnership with Penske Racing enabled SKF to test products under the harshest conditions within both NASCAR and IndyCar series. The culmination of a successful first year supporting Penske Racing was when Brad Keselowski, driver of the #2 Miller Lite Dodge won the NASCAR Sprint Cup Championship.

Business Excellence

Business Excellence is about bringing value to customers in the most effective and efficient way and at the same time enabling SKF to reduce costs by eliminating waste. With Business Excellence, SKF is creating a culture of continuous improvement with involvement from all employees.

It started with the SKF Quality system in the early 1970s and then evolved via processes such as Total Quality Management and Manufacturing Excellence. SKF achieved very good results in Manufacturing Excellence and decided to expand these methods and tools to all processes at SKF and under the name of SKF Business Excellence.

SKF made good progress in 2012 in deploying Business Excellence and this is now on its way to becoming the normal way of working. Good examples can be seen throughout the Group.

In 2012, SKF's focus was on developing Practice Grounds, a place where the organization starts deploying Business Excellence after having gone through Business Excellence training. This year SKF trained leaders on the level below SKF's 180 top leaders, who were trained in 2011. In total SKF trained more than 250 managers in 2012 and started at least 100 Practice Grounds. In April 24 new 'Business Excellence Champions' graduated from the four-week long Business Excellence Bootcamp. These 'Champions' are now working to support the business by deploying Business Excellence.

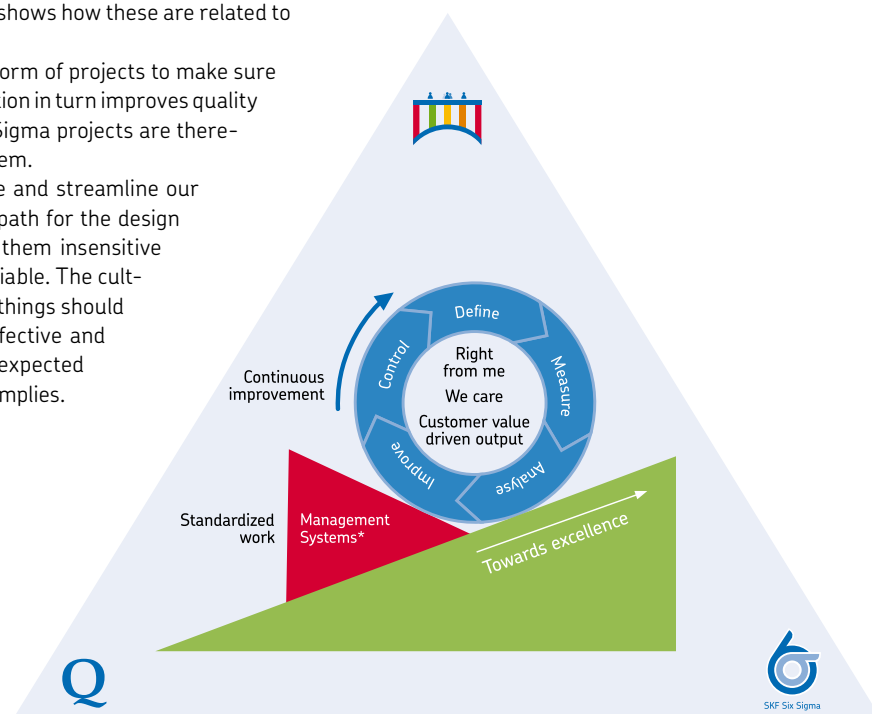
Business Excellence is built up of three equally strong areas, namely Culture, Six Sigma and Quality.

- ▶ **Culture** includes values, drivers, behaviours and principles for guidance along the value chain.
- ▶ **Six Sigma** is process methods and tools to improve quality.
- ▶ **Quality** on the other hand includes business processes to sustain quality.

Each of these areas has their own specific uniqueness and strengths and the Business Excellence-triangle shows how these are related to each other and how they interact.

Traditional Six Sigma is run in the form of projects to make sure variations are reduced. Reduced variation in turn improves quality and new successful outcomes of Six Sigma projects are therefore incorporated into the quality system.

Lean Six Sigma is used to optimize and streamline our processes. Design for Six Sigma is a path for the design of products and processes, to make them insensitive to variations, therefore robust and reliable. The culture on the other hand describes how things should be done in order to become more effective and more efficient, for example what is expected from leaders and what empowerment implies.



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



The Eurotrade Group in Gothenburg. We've created a "no blame culture" with the help of Business Excellence.



“ We realized that it is not often that people make mistakes – instead it is the processes that don't provide the right prerequisites for doing a good job. ”

Åsa Sandström, Head of Customer Service

Customer Service Eurotrade in Gothenburg has managed to create an entirely new mindset and a "no blame culture" since they started working with Business Excellence. By using the structured methods in Business Excellence, the team has achieved some impressive results. For example by visualizing KPIs, targets are now fulfilled more quickly. By using an easy approach important results have been achieved.

The team started off by analyzing their current ways of working using the Business Excellence Thinking model, then they standardized their methods and processes. But most importantly for them was the regular value meetings where they discussed how to work together. Business Excellence provided a common language and a common approach to problems. The team now has much better control over processes and can solve deviations much faster.

SKF Eurotrade handles sales in Eastern Europe and the Middle East, in total 43 countries. Sales cover all different types of SKF's products, services and solutions. Customers include OEMs, end-users and distributors.



SKF Six Sigma

SKF Six Sigma provides tools and methods and is an important part in achieving Business Excellence. SKF created an Academy for Six Sigma in 2012, which held courses in the different Six Sigma dimensions of Traditional

Six Sigma – (DMAIC road map), Lean and Design for Six Sigma (IDDOV road map) for both Black and Green Belts, and training modules for Six Sigma managers and management teams. The traditional Black Belt course was updated to include facilitation skills and Group Project Management (GPM2) project skills.

The courses offered by the SKF Six Sigma Academy were expanded during the year. Among the six new courses, two should be mentioned:

Reliability design: This is a course for understanding how to design for reliability and also accelerated product testing. The course combines statistical details with engineering common sense, to understand techniques, why they are used and their limitations.

White Belt for operations: This is a new category of Belt within SKF. With White Belts, simple cases can be solved more quickly and provide SKF's business with a more powerful problem-solving capability.

This last course was piloted in late 2012, and will be available for full deployment in the second half of 2013.

By year-end, SKF had 483 (485) Black Belts, of which 193 (182) are in the design area, and 2,037 (2,154) Green Belts, of which 169 (95) are in the design area. In 2012, SKF completed around 1,000 projects with savings of SEK 360 million.

Going forward, SKF will continue to focus on business benefits by implementing its DMAIC methodology, but also widening its focus more heavily on prevention and growth. This will be done by leveraging both on a deeper deployment of DfSS to other development and transactional areas and by deploying the White Belt concept also for SKF functions that are front line with the customer. At the same time, SKF will concentrate on providing on-site refresher training and webinar modules on DMAIC, Lean and DfSS, as well as upgrading its entire Belt workforce to the latest available curriculum.

SKF will also promote new courses such as the one-day Six Sigma for Management course to increase awareness of what SKF Six Sigma can do to support the company's cost reduction and growth activities.

The following are examples from successful Design for Six Sigma (DfSS) projects in 2012:

The world's biggest observation wheel: SKF was awarded a contract by the American Bridge Company to supply advanced technological solutions for the main hub for Caesars Entertainment Corporation's Las Vegas High Roller observation wheel.

To meet all the unique requirements, SKF used the Design for Six Sigma process and exceeded all expectations despite a shortened product development cycle. The 168 meter tall wheel will be equipped with two custom-designed SKF spherical roller bearings weighing around 8,8 tons each and with a 2,3 m outer diameter.

Redesign of an electronic board: A DfSS robustness procedure was applied for redesigning an electronic board that is part of a pilot-warning subsystem for one customer who designs and produces business jets. The redesign led to better, greater, stability of the output signal, resulting in a 131% increase in process capability and around a 32% cost reduction for producing the part. This is a good example of design to cut cost through DfSS methodology.

Solving bearing distress events:

SKF used advanced simulation by DfSS methodology for an Aerospace customer. SKF identified design attributes and addressed their contributions by creating a numerical model for robust design. This analysis was able to identify a new root cause of failure. SKF was acknowledged by the customer as the only company able to carry out these calculations.



SKF's factory in Gothenburg manufactured two custom-designed spherical roller bearings for the world's largest observation wheel – the Las Vegas High Roller.

SKF BeyondZero strategy

SKF presented its new climate strategy and targets in May 2012. This enhanced approach is built around the SKF BeyondZero strategy and broadens the scope of SKF's targets to include not only SKF's operations but also its suppliers, logistics and customers.

In recognition of the comprehensive scope and ambitious nature of these targets, SKF was included by the WWF as the first industrial engineering company in their Climate Savers Programme. »see page 85

SKF BeyondZero portfolio

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

The purpose of the SKF BeyondZero portfolio

Numerous environmental studies, carried out by SKF in recent years have shown that SKF's products and services generate the most significant environmental impact during their use, as opposed to their manufacture, transportation etc. This means that the greatest potential for reducing environmental impact lies typically in the customer use phase.

It is also well understood that SKF's customers in all industries are increasingly driven to improve the energy efficiency as well as to reduce the environmental impact from their products, services and processes.

By addressing both the business and environmental dimensions, the SKF BeyondZero portfolio creates significant new value for customers, investors and the environment.

Criteria for inclusion in the SKF BeyondZero portfolio

Solutions within the SKF BeyondZero portfolio must provide significant environmental benefits. They need to address one or more defined environmental challenges, such as, climate change, natural resource use and the avoidance of various types of environmental contamination.

SKF's complete business within the renewable energy sector as well as SKF's emerging business in the electric vehicle sector is included in the SKF BeyondZero portfolio under the "applied for environment" category. These industries are included because it is widely acknowledged that they are technologically critical to reducing fossil fuel use and therefore addressing climate change. »see pages 171–172

Governance, calculation and verification of the SKF BeyondZero portfolio

SKF has developed a clearly defined process, governance structure and organization, as well as robust methods and criteria to evaluate the environmental performance of products and solutions.

Potential portfolio solutions are assessed using the categorization described on the next page, along with more specific information such as quantified environmental impact reductions and the assessment of potential environmental draw backs in the full life cycle of the solution. Using these assessments, each solution is then evaluated by a decision body which includes senior representatives from each of the Business Areas, Corporate Sustainability, Group Technology Development, Group Finance and Group Communications. In order for a solution to be included in the portfolio, the decision body must confirm that it meets the defined criteria.

By addressing both the business and environmental dimensions, the SKF BeyondZero portfolio creates significant new value for customers, investors and the environment.

The portfolio consists of solutions that help customers to reduce environmental impact in one of two fundamental ways – Designed for Environment or Applied for Environment

Designed for Environment

The SKF product or service in itself has specific features which realise a reduced environmental impact for the customer, such as SKF's energy-efficient bearings.

SKF Energy Efficient deep groove ball bearing

Environmental benefits

- Reduced energy use
- Reduced CO₂ emissions
- Reduced waste associated with maintenance / replacement

Environmental benefits are compared to SKF standard bearings, in specific light-to-medium load applications.



Due to their improved design features, SKF Energy Efficient deep groove ball bearings significantly reduce friction – by 30% or more – compared to standard SKF bearings. Reduced bearing friction improves motor efficiency and, depending on the final application, this reduces energy use.

If all the new 1-50 HP motors with shielded, greased for life bearings, were to be equipped with SKF Energy Efficient deep groove ball bearing instead of the standard design, up to 290,000 tonnes of CO₂ emissions would be avoided annually.

SKF's product is given the inherent feature of reducing energy through reduced friction – it is designed to bring environmental benefit.

Applied for Environment

The application of the SKF product or service helps to enable a larger system which, in turn, can provide a reduced environmental impact, such as SKF solutions provided to the wind power industry, or the example below from SKF Automotive.

SKF Rotor Positioning Bearing

Environmental benefits

- Reduced CO₂ emission
- Increased fuel economy
- Reduced system noise



In partnership with Valeo, SKF has developed a new mechatronic solution for the E-powertrain market that enables drive and control of electric motors in an accurate and robust manner. The SKF Rotor Positioning Bearing consists of a high performance magnetic ring clamped to a high-speed, high-temperature bearing. Together they produce a powerful, accurate, repeatable and durable magnetic field.

The strong magnetic impulses produced by the SKF Rotor Positioning Bearing provide the starter-alternator control system with the rotor's exact angular position, and enable the system to stop and start the engine quickly and quietly.

SKF's solution enables improved fuel economy – it is applied for environmental benefit.

SKF BeyondZero portfolio – 2012 results

A total of 34 specific SKF solutions were included in the portfolio in 2012, in addition to SKF's complete business in the renewable energy and electric vehicle industries.

The total revenue of the portfolio in 2012 was SEK 2,972 million with a large part of this volume coming from SKF's renewable energy business.

The calculated avoided greenhouse gas (GHG) emissions enabled by specific SKF solutions sold in 2012 was 52,000 metric tonnes per year. In addition, the avoided GHG enabled by SKF's business in the renewable energy and electric vehicle industries in 2012 was around 1,620,000 metric tonnes per year. »see pages 171–172

SKF BeyondZero portfolio – 2016 ambition

The business growth of the SKF BeyondZero portfolio is strategically important to SKF and forms the central element of SKF's revised climate strategy. The Group aims to increase the revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016. Progress against this target, along with the avoided greenhouse gas emissions that are enabled by SKF's business in this area, will be publicly reported through the annual report and other media.

Presented below are examples of products and solutions included in the SKF BeyondZero portfolio. For more examples, please refer to New market offers on pages 66–67 or at www.BeyondZero.com



SKF ConRo for continuous casting

- Reduced CO₂ emissions
- Reduced hazardous waste (associated with disposal of lubricants)
- Reduced energy use (associated with re-lubrication)
- Grease consumption nearly eliminated in roll line units
- SKF ConRo extends roll line unit service life by 25% or more and reduces total operating cost of up to 50% per roll line unit.



SKF Energy Monitoring Services for pump systems

- Reduced energy use
- Reduced CO₂ emissions
- Reduced hazardous waste (associated with pump maintenance)
- In a recent survey, the potential for up to 70% improvement was identified for 8 out of 300 pumps installed in a pulp and paper factory.



SKF Low Friction Engine Seal

- Reduced CO₂ emission
- Reduced power loss
- Using the SKF Vehicle Environmental Performance Simulator (VEPS), it has been calculated that four SKF Low Friction Engine Seals produce CO₂ savings of over 1 g/km using the New European Driving Cycle (NEDC). Based on an annual mileage of 14,500 km, this equates to a reduction of 14.5 kg/CO₂ per year.

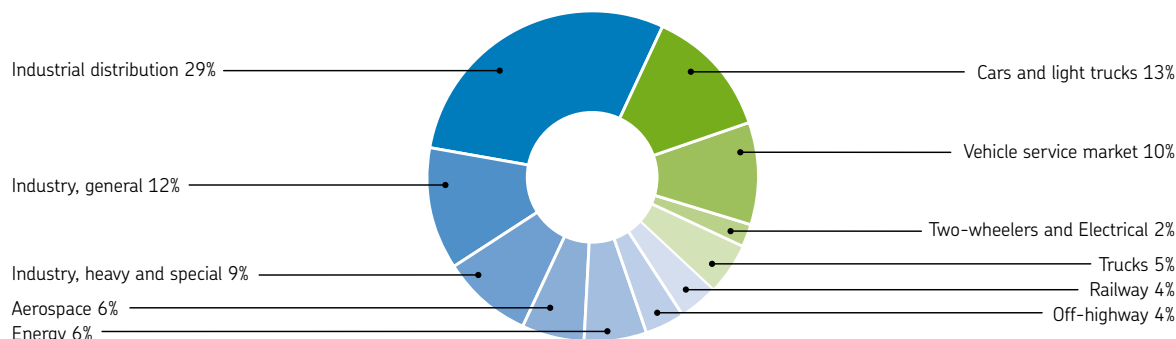


SKF Dry Lubrication System for conveyor lines

- Reduces soluble lubricant
- Reduces water use
- The SKF Dry Lubrication system eliminates the need to spray thousands of litres of water and soluble lubricant. Instead, this flexible and completely automated system applies a small amount of SKF Dry Film Lubricant (NSF H1 certified) on the conveyor chains and guides. As a result, the floors are dry, the lubricant consumption is minimal, and there is no more waste water, no moisture on packages and no corrosion. 90 m³ of water can be saved every month in a typical conveyor line in a bottling plant.

SKF's business

Net sales by customer industry



Customer industries 2012

Industrial distribution

Sales through industrial distributors.

Industry, general

Automation, machine tool, industrial drives (fluid machinery, industrial electrical motors and generators, material handling and industrial transmission and driveline services), medical and health care.

Industry, heavy and special

Heavy industrial machinery: metals, mining and cement, pulp and paper. Special machinery: marine, food and beverage.

Aerospace

Aircraft and helicopter builders (system integrators), aero-engine, gearbox, and other aircraft systems manufacturers.

Energy

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

Railway

Passenger (high-speed vehicles, metro cars and light rails), locomotives (diesel and electric) and freight cars.

Off-highway

Construction, agriculture and forestry and fork lift trucks.

Cars and light trucks

Cars and light truck manufacturers (OEMs) and their sub-suppliers (Tiers). Solutions for driveline, engine, E-powertrain, steering, suspension and wheel-end.

Vehicle service market (VSM)

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

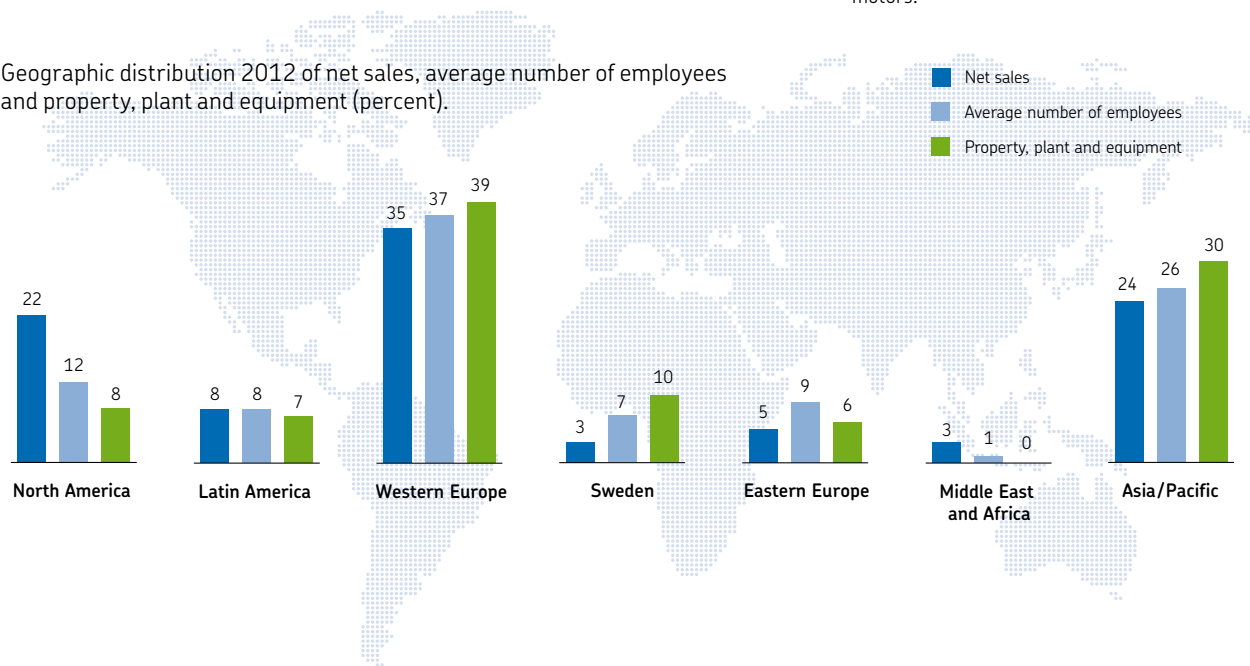
Trucks

Truck, trailer and bus manufacturers (OEMs) and their sub-suppliers (Tiers). Solutions for driveline, engine, E-powertrain, steering, suspension and wheel-end.

Two-wheelers and Electrical

Motorcycles, scooters and skates. Home appliances, portable power tools and electric motors.

Geographic distribution 2012 of net sales, average number of employees and property, plant and equipment (percent).

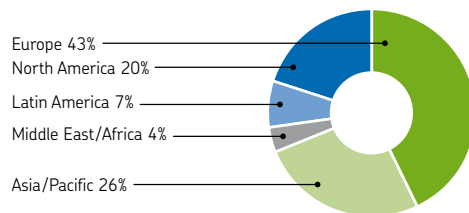


Since January 2012, SKF primarily operates with three business areas. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to OEM's and end-users.

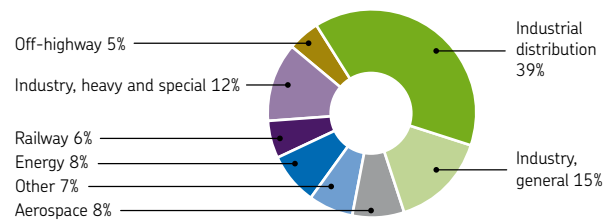
Two of the business areas cover together the whole industrial market:

- ▷ SKF Industrial Market, Strategic Industries »see pages 38–39
- ▷ SKF Industrial Market, Regional Sales and Service »see pages 40–41

Net sales by geographic area



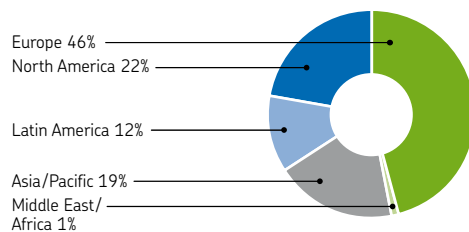
Net sales by customer industry



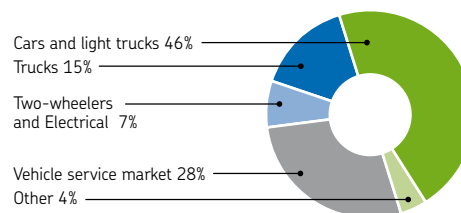
The third business area covers mainly the automotive market:

- ▷ SKF Automotive »see pages 58–59

Net sales by geographic area



Net sales by customer industry



Outside the business areas SKF has three other operations:

- ▷ PEER Bearing Company »see page 26
- ▷ General Bearing Corporation »see page 26
- ▷ SKF Logistics Services »see page 68

SKF Industrial Market, Strategic Industries

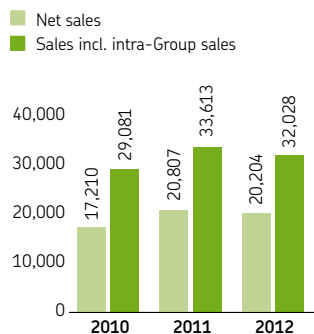


SKF Industrial Market, Strategic Industries consists of seven business units that offer and deliver a full range of products, solutions and services to both OEMs and end-users. The business units are: Aerospace, Renewable energy, Traditional energy, Industrial drives, Precision, Railway and Off-highway and Lubrication.

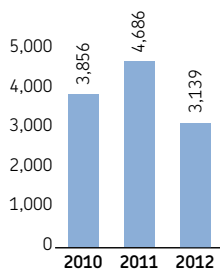
The business area's offer is based on the know-how and manufacturing of a wide range of bearings – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and super-precision bearings – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

Net sales in 2012 amounted to SEK 20,204 million (20,807), a decline of 2.9%. Sales including intra-Group sales totalled SEK 32,028 million (33,613). The operating profit was SEK 3,139 million (4,686), with an operating margin of 9.8% (13.9). The operating profit was affected by one-time costs of around SEK 300 million (60). The decline in net sales was attributable to organic growth of -3.0%, structure 0.0% and currency effects of 0.1%. (3 graphs)

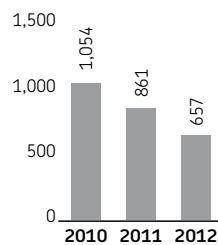
Sales, SEKm*



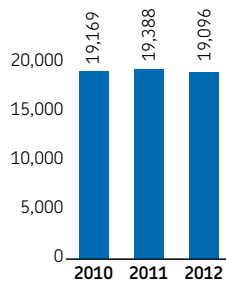
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2012.

Interview with Henrik Lange – President, SKF Industrial Market, Strategic Industries

“It was very rewarding to receive one of our largest orders in the wind energy industry from Siemens for the new Nautilus range extension.”

In what way has and will your new organization change your way of doing business?

The organizational change is a logical evolution for us in trying to meet the asset life cycle requirements from the various industries we serve. The transition from being OEM-focused previously to the new structure of more industry and customer-focused, allow us to mobilize our resources in engineering and development, manufacturing and sales to serve our customers in a better and more efficiently way.

In what way has and will SKF's new climate targets including the SKF BeyondZero portfolio impact your area's work?

The SKF BeyondZero portfolio framework provides a good structure for us to systematically step up our efforts in increasing our offers of environmentally-sound solutions to the industries. It has been incorporated into our five-year strategic plan. One concrete example is we ensure that our new market offers encompass energy efficiency requirements as we work hard to manage and reduce friction in all our offerings.

To meet the challenging targets we have set for our own operations we work with all major factories in the business area to reduce the energy use per production output. Integration of ISO 50001 standards into all major factories will provide necessary cost savings and environmental benefits to meet our own targets.

What was your major success during the year?

We were proud to receive several awards from our customers as a receipt of the value we create every day for them. Please see page 65 for all various awards received. We have also hosted several very well-received customer days with our strategic customers. For the seventh consecutive year, we organized SKF's Annual Wind Farm Management Conference for key players in the wind farm operation and maintenance industry. Attended by around 150 to 200 participants from more than 20 countries, I feel it is a well appreciated annual event for discussions, sharing experiences and networking amongst participants. During the year we also presented several new solutions such as monitoring system, seals and sensors, at the prominent railway exhibition, Innotrans.

The start of the new organization with a comprehensive strategy developed and being implemented for the respective seven strategic industries: Aerospace, Railway, Off-highway, Renewable energy, Traditional energy, Precision and Industrial drives was also a success.

It was very rewarding to receive one of our largest orders in the wind energy industry from Siemens for the new Nautilus range extension. SKF, is not only at the forefront when it comes to innovations, product and technology development, together with OEMs, but we also have many successful customer cases in maintenance, refurbishment services as well as helping end-users to obtain proactive maintenance and drive asset efficiency. Many of these customer collaborations are described in SKF's customer industries 2012, pages 46–49 and 53–57.

Last, but not least, we also successfully continued the integration of Lincoln into SKF and we now have a very strong and comprehensive offer globally in the field of Lubrication Systems.

What is your major challenge going forward?

We need to continue to work closely with our customers developing new and more energy-efficient products and solutions for all the industries we serve.

While working on growth opportunities we also need to work diligently with cost down activities to become leaner in a more turbulent macro environment. This balance of both cost down/lean and profitable growth will be our major challenge going forward.



SKF Industrial Market, Regional Sales and Service



SKF Industrial Market, Regional Sales and Service is divided into seven geographical areas: North America, Latin America, North Europe, West Europe, Central and Eastern Europe, Middle East and Africa, North Asia and Asia Pacific.

Regional Sales and Service offers and delivers a full range of products, solutions and services to both OEMs and end-users within different industries. Its focused industries are: Metals, Pulp and Paper, Mining and Cement, Food and Beverage and Marine. In addition, the area serves all other industrial customers that are not covered by Strategic Industries.

The business area is responsible for managing and working with SKF's industrial distributors. It serves the industrial after-market through a distribution network present in around 7,000 locations worldwide. Regional Sales and Service sets up and develops SKF Solution Factory facilities, which give customers access to engineering expertise covering SKF's five technology

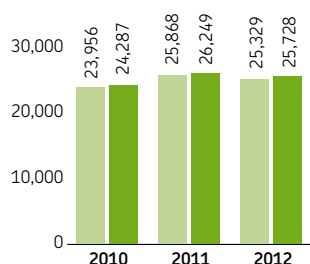
platforms. Each SKF Solution Factory delivers a wide range of services, from mechanical maintenance to asset management consulting.

Regional Sales and Service runs seven Condition Monitoring Centres, which design and produce world-leading hardware and software. It also manufactures a broad range of customized machined seals.

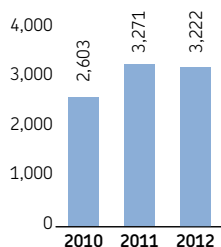
Net sales in 2012 amounted to SEK 25,329 million (25,868), a decline of 2.1%. Sales including intra-Group sales totalled SEK 25,728 million (26,249). The operating profit was SEK 3,222 million (3,271), with an operating margin of 12.5% (12.5). The operating profit was affected by one-time costs of around SEK 60 million. The decline in net sales was attributable to organic growth of -1.8%, structure -0.2% and currency effects of -0.1%.

Sales, SEKm*

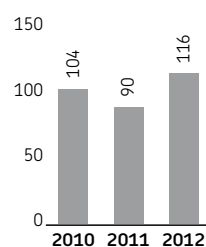
■ Net sales
■ Sales incl. intra-Group sales



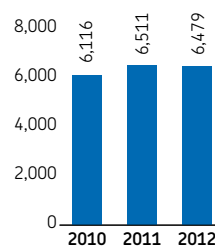
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2012.

Interview with Vartan Vartanian – President, SKF Industrial Market, Regional Sales and Service

“The new organization has created a lot of new possibilities. All in all, it’s easier for customers to realise the benefits of working with us.”

How does your new organization change the way you do business?

We now work with our customers at every stage in the asset life cycle, providing solutions from design right through to maintenance, and back to design upgrade.

The new organization has created a lot of new possibilities for us. Today we can take our learning from working with end-users to improve their applications, and use that to help OEM customers design and sell their machines, increasing their revenues and bringing new solutions to their customer base. The technical knowledge we gain from doing this brings us closer to the end-users and OEMs, uncovering new growth opportunities for SKF. All in all, it’s easier for customers to realise the benefits of working with us.

What does the SKF BeyondZero portfolio mean to your customers?

Part of the appeal is in reducing their negative impact on the environment, and I’m delighted we can help them to achieve that. But the main attraction for many customers is that the SKF BeyondZero approach – using less energy – can also help them to reduce total costs and be more efficient.

It’s relatively easy to get our customers excited about SKF BeyondZero. Sustainability is a huge priority for most of them, and more and more companies are partnering with us to reduce carbon footprints and enhance environmental and business performance. We have had some major orders during the year for SKF ConRo, for instance, which significantly reduces CO₂ emissions, grease consumption and hazardous waste – orders from one of our customers totalled EUR 1.8 million.

How does the SKF Solution Factory impact your sales?

We established the SKF Solution Factory concept to bring all our platform, industry and application knowledge together in one place. At each of the 21 SKF Solution Factory units that we have opened since 2008 we can show the full scope of what we can do, and help customers solve their problems, and be part of implementing the solutions through our workshops and project engineering resources.

This has generated good growth across our technology platforms. Our workshops, global infrastructure, project management skills and technical knowledge also make us a hard-to-copy, highly credible player in the service business.

It has been a tough year for sales overall, but our service business is growing. A lot of our successes result from the bundling capability that SKF Solution Factory creates.

An SKF Solution Factory typically focuses on end-users, but we work more and more with OEMs as well. Some want to reach

a global customer base but don’t have a global presence; others export globally but can’t offer global service. They see partnership with SKF as a huge opportunity, and are very interested in the capability we offer.

We plan to expand the SKF Solution Factory network to 50 locations by 2016 to ensure we are close to our customers anywhere in the world.

What were your major successes during the year?

According to our Documented Solutions Programme the measurable value we delivered to our customers in 2012 was around EUR 400 million.

We succeeded in improving the performance of our supply chain, ensuring that we are more effective in satisfying our customers’ and distributors’ delivery requirements. We also managed to reduce inventories in the supply chain.

The innovative business models that we are using are also proving successful. For example, we have a strategic partnership agreement with Baosteel and a joint venture for managing the continuous caster roll maintenance at the industrial service centre adjacent to its facility. We also have a strong partnership with Honeywell, combining our condition monitoring capability with its process monitoring offering to jointly provide solutions to customers. We have grown closer to our distributor community and held a number of events to address our shared challenges head-on.

And what is your major challenge going forward?

We need to maintain our strong momentum, continuing to cooperate closely with customers in a demanding business climate.

But I see more opportunities than threats. The fact that we are a truly global company means that we are close to prospective customers around the world, in a very strong position to sell more in emerging markets. We should aim to make the most of our non-bearing platforms – particularly our service and sealing solutions businesses.



SKF Solution Factory

SKF has set up a global network of knowledge centres, known individually as an SKF Solution Factory. The centres are equipped with engineering expertise covering SKF's five technology platforms. SKF opened five new SKF Solution Factory facilities during 2012. At the end of the year there were a total of 21 locations worldwide.

One of SKF's key competitive advantages is its network of local sales units and distributors reaching over one million customers with services and solutions for a wide range of industries. To strengthen this network further and provide solutions for optimized asset efficiency, SKF has set up an infrastructure of knowledge centres around the world called SKF Solution Factory. The centres are equipped with engineering expertise covering SKF's five technology platforms. The network also incorporates a number of Remote Diagnostic Centres, which collect and analyze information about the condition of customers' assets to keep machine downtime to a minimum.

At each SKF Solution Factory most of SKF's different types of knowledge are present making it easier for the customer to receive the right solution for their needs. One of the competences is Asset Optimization services. SKF offers optimization of

machine performance, to enable a plant to increase production, while at the same time maintain or even reduce costs. This is called asset efficiency optimization. SKF sees this area as an important extension of its ability to deliver value to customers and offers a range of products and services, including condition monitoring technology, asset diagnostic services, maintenance engineering, and remanufacturing services.

The following is an example of how it works:

A major steelworks in Germany had a breakdown caused by a bearing failure due to lack of lubrication in one of their processing machines. As new bearings were not available on the market, the customer had to find a quick solution to bring the mill back to full operation and at the same time find a reliable solution to avoid similar failures in the future. The company turned to SKF. The bearings, the largest being a double row tapered roller

SKF Solution Factory facilities



In 2012 SKF opened five new SKF Solution Factory, in North America, Australia, Romania, Italy and the Netherlands. At the end of the year there were a total of 21 SKF Solution Factory facilities worldwide.



SKF held an Asset Management conference in Budapest, Hungary attended by more than 300 participants from various industries.

bearing with a outside diameter of around 1.3 m and a weight of more than 2,000 kg, were sent to SKF for analysis and repair and then reinstalled in the machine. In total the refurbishment and replacement of the reworked bearings saved the customer one month of downtime and consequently avoided a huge production loss. To prevent such a sudden breakdown in the future, engineers at the SKF Solution Factory in Schweinfurt received the assignment to customize and install an SKF condition monitoring online system, collecting and storing data so that both the customer and SKF's diagnostic experts could observe and analyze the data and be warned before failures occur.

Market demand for these services continues to remain good, also during economic uncertainty. As manufacturers scale back investment in new facilities, it will be more important than ever to maximize productivity of existing assets through new technology and services. The ageing workforce in many countries drives the growth of outsourced maintenance and reliability activities that are non-core to manufacturers' business. SKF anticipates growth in areas such as asset diagnostics which

allows customers to take advantage of SKF's decades of experience monitoring thousands of assets globally. SKF expects growth especially of engineering projects through its network of SKF Solution Factory facilities, as customers can leverage the investment that SKF has made in bringing knowledge from all five platforms closer to the customer to deliver innovative solutions. SKF also anticipate a growth in wireless systems and asset diagnostics as customers demand access to information anytime, anywhere. As consumer technologies make their way into the plant management world, customers will be looking for real-time access to information about assets to make better decisions.

SKF held an Asset Management conference in Budapest, Hungary in 2012 and the motto was "Solutions for Sustainable Results". More than 300 participants met and experts from such varied industries as food and beverage, the energy sector, and pulp and paper were showing and explaining how their companies are achieving asset efficiency optimization in their organizations and operations.

Industrial customer industries 2012

Industrial Distribution



29%
of net sales

SKF's distributors represent the largest distributor network in the bearing industry. The network has expanded over the years with the addition of specialized distributors in different product categories, for example lubrication systems and mechatronics and in different industries, for example agriculture and marine.

SKF does not own its distributor network but works closely with independent distributors who add value by their proximity to customers in all industries, markets and industry knowledge, complementary product offering and are able to fully support customers in various ways especially regarding service levels. Over one million customers are reached through around 7,000 distributor outlets. Customers are mainly end-users, but also OEMs, usually small to mid-sized.

Authorized distributors may also be certified to provide added value to customers by offering machine inspections, entry-level maintenance and reliability services. For doing this they receive the acknowledgement as Certified Maintenance Partners.

SKF is developing a network of certified Motor Rebuilders with specialized training and knowledge in motor repairs with an emphasis on conformance with exact SKF specifications and

standards, root cause failure analysis, bearing installation, lubrication and condition monitoring.

SKF supports distributors with inventory management in order to optimize their inventory level. In 2012, SKF initiated a way of streamlining the information flow between distributors and SKF to reduce transactional costs and reduce inventories. SKF's distributors support its customers by taking care of spare part rationalization and making logistics more efficient.

SKF connected over 700 distributors worldwide to a new e-platform, Web Customer Link (WCL) during 2012. This will provide greater opportunities for distributors to access information about SKF's products, integrate IT systems and reduce administrative costs by allowing order placement, receiving electronic invoices and other commercial documents. WCL is available through both web and as a mobile app for Apple iOS and Google Android smart phones.

Part of SKF's distributor initiative is a new stock management programme in Central and Eastern Europe. This supports distributors by improving the availability of SKF's products for end-user customers and rationalizing the level of capital investment

Increased reliability and significant cost savings



A major cement manufacturer in Chile had frequent reliability problems in its vertical grinding mill. The mill's fans had high temperatures and high vibration levels.

SKF engineers worked together with Rodacenter Ltda. – an SKF Distributor and Certified Maintenance Partner – and the customers' mechanical maintenance department to perform extensive application analysis to identify the failure causes. The recommendation was to install an integrated solution for the fan including SKF Explorer spherical roller bearings, SNL housings, adapter sleeves, SKF TSN seals and a SKF SYSTEM 24 single point automatic lubricator. This solution has increased the time between failures from one month to eight months resulting in a significant increase in mill fan reliability and maintenance cost saving of over USD 300,000.

by reviewing the range kept on inventories. Participating distributors improved their availability of high-runner items by 15% and managed to reduce capital employed by 5%. This programme will be launched globally during 2013 and 2014.

Distributors, in addition to being logistics partners, must have a wide-ranging knowledge of SKF's products and applications to help their customers make the right choice for their equipment. SKF continuously supports its authorized network through activities such as online training, application engineering support, product seminars and demonstrations during events and technical workshops.

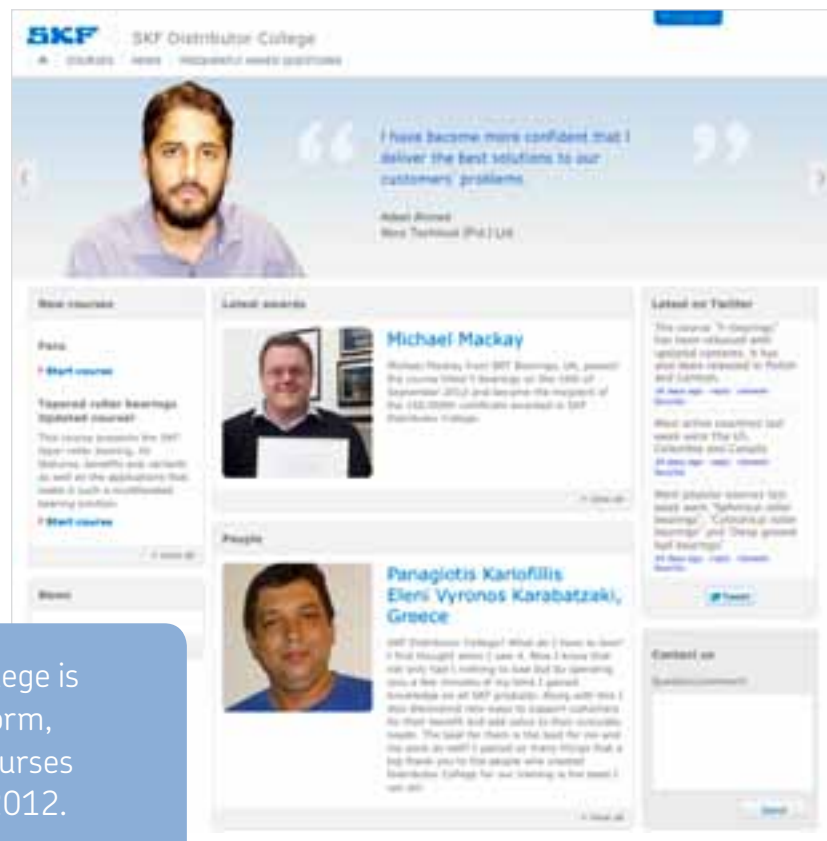
The SKF Distributor College is an e-learning platform, which offered 40 courses in 17 languages in 2012. In this college users can attend various training schemes online. In the beginning of 2013, the 170,000th certificate was awarded to an employee of an authorized SKF distributor. The first certificate was awarded in 2002. A new programme, the SKF Guild programme, was introduced in the USA in 2012, which recognizes those distributor employees with a higher level of knowledge about SKF's products and who have a commitment to invest in education.

SKF held conventions for distributors in China, Germany, South Africa, North America and Latin America during the year. Distributors were invited to each of these events to learn more

about SKF's products and solutions. These conferences are systematic tools for conveying knowledge to end-users and distributors.

To ensure the right level of support for distributors, SKF applies a programme called "More with SKF", which gives a structured activity planning, focusing on jointly approaching end customers with the right offer. This is a proactive process specifically designed for the need of each respective distributor and its local customers. "More with SKF" was developed to strengthen all stages in the supply and value chain, from SKF and its distributors all the way to the customer. It contains a set of tools and support for distributors in several categories like partnership, branding, sales and marketing, supply chain, product range management, people development, e-business, quality and value generation.

SKF also helps its distributors to identify and measure the value they deliver to their customers. This is done with the help of the SKF Distributor Value Programme, based on the same methodology as the SKF Documented Solutions Programme (DSP) mainly used for SKF's direct customers. »see page 25 The most frequently recorded customer benefits are a reduction in downtime due to availability of proper spare parts, inventory level optimization and savings on administration costs.



SKF Distributor College is an e-learning platform, which offered 40 courses in 17 languages in 2012.

Industry, general

Including: Automation, Machine tool, Industrial drives, Medical and Health care



12%
of net sales

Automation

In the automation market there is a gradual shift from pneumatic or hydraulic drives, to electromechanical drives. The market is driven by a need for greater flexibility to manufacture different products on the same production line, with improved reliability, higher precision and further energy savings.

SKF supports the automation industry at the very early design phase of industrial robots and stations, commonly used in material joining and forming processes in assembly lines. The process of joining various types of materials using different joining technologies is heavily used in the automotive and aerospace industries. The shift from pneumatic or hydraulic drives, to electromechanical drives, represents a potential growth for electromechanical robotic joining tools of 20–30% annually, depending on the application.

SKF supplies customers with the complete electromechanical actuator solution, used in different parts of automation, as well as with the core product: the planetary roller screw. The evolution of the planetary roller screw is the inverted roller screw. It has several important features such as acceleration and speed far beyond the limits of ball screws, a high level of shock resistance, and superior motor downsizing.

SKF's compact electromechanical cylinder, a complete electromechanical actuator, integrates SKF's technology platforms. Compared with pneumatic or hydraulic processes, the solution requires only a fraction of the energy needed for the materials joining process. In some cases, energy savings of over 90% have been achieved by manufacturers using SKF's solution.



SKF's compact electromechanical cylinder is equipped with SKF's inverted roller screw (Mechatronics), automatic lubrication system, sealing solutions, different types of sensors and the SKF Energy-Efficient Bearings.



VW uses SKF linear actuators in its sheet metal bending application

The customer requirement was to find a reliable, high quality and high performing solution fulfilling their current and future demands on flexibility within an energy efficient manufacturing process.

The SKF linear actuator with its high controllability meets these expectations by providing an improved precision and stiffness of the machine.

Machine tool

Market development in the machine tool industry is normally driven by global industrial production and the machine tool market has almost doubled over the last 20 years. The market continued to grow in 2012 and is expected to do so in the coming years. Asia is the largest and fastest growing market, where demand in China has doubled since 2009, both in terms of production and usage of machine tools.

Machine tools can be found in most production processes. Most of the manufacturers are demanding more customized technology solutions to reach greater speed and precision, as well as easy to operate machines. End-users want to achieve higher productivity and reduce the total cost of ownership. Sustainable production is also a key driver in machine tool development. Solutions that provide reduced energy use, improved working conditions and reduce the impact on the environment are therefore highly attractive in the market.

To meet these demands, SKF works with machine tool OEMs and end-users to optimize machine tools to run faster, for



Spindles play a major role in machine tool performance as they drive the tools for cutting process and is critical for its precision. SKF provides complete solutions for optimal spindle operation and machine tool motion.

longer and in a cleaner way during their entire operating life. SKF does this by offering solutions such as engineering consultancy, simulation and design validation, advanced condition monitoring technologies, predictive and proactive maintenance programmes and hands-on maintenance training and a range of products tailored around spindle operation and machine tool motion. These products include super-precision bearings, lubrication systems and coolant pumps, customized sealing solutions, linear drive and guiding systems. In addition, SKF has 19 Spindle Service Centres around the world that provide engineering analyses for spindle upgrading, reconditioning, and replacements for all spindle brands and designs. Spindle Services are part of SKF Solution Factory facilities services.

SKF started to produce super-precision bearings in Charleston, USA in 2012. The range also includes hybrid bearings with ceramic rolling elements.

Industrial drives

Including: Fluid machinery, Industrial electrical motors and generators, Material handling, Industrial transmission and driveline services

Fluid machinery (industrial fans, pumps and compressors)

The fluid machinery market is driven by many different industries including oil and gas, HPI (hydrocarbon processing industry) and water industries, as well as various facilities such as airports, hospitals and shopping malls. The industry focuses on the important need for constant equipment efficiency improvement. The development of the fluid machinery industry is also influenced by environmental standards and legislation, the need to lower energy use and maintenance costs. The market has shown strong organic growth for a number of years and this is expected to continue.

Faster, more precise manufacturing

Tongtai Machine & Tool Co., Ltd. an international machine tool company based in Taiwan has successfully made use of the SKF Spindle Simulator, SKF's super-precision bearings and engineering consultancy support to develop a powerful horizontal machining centre with an operational speed range from 5,000 r/min up to 150,000 r/min.

Longer spindle life, lower operational cost

SKF worked with the Jiangxi Changhe Suzuki engine building facility in China to achieve longer spindle service life and shorter machine tool downtime for more than 150 machines. This led to maintenance cost savings of 30% annually, compared to costs with the previous spindle service supplier.

Additionally, the customer benefited from SKF's ability to repair almost any type of spindles used at their operation. SKF also provided training enabling operators to reliably identify when spindle repairs are needed.

SKF supports fluid machinery manufacturers and end-users with engineering services in the design process, industry-specific solutions for monitoring systems and magnetic bearings in addition to providing a wide range of solutions. SKF also offers bearing solutions for harsh operating conditions. For example, compressor applications that need to handle corrosive process gases require highly resistant solutions such as SKF's bearings for sour gas compressors. This solution provides high reliability and can improve the bearings' service life from months to years with its corrosion-resistant technology.

Other examples of the use of advanced bearings are for sub sea pumps and cryogenic pumps. Reliability and availability are critical requirements for refineries and Liquefied Natural Gas (LNG) plants. SKF's cryogenic pump bearings (for very low temperatures, down to minus 250 Celsius) meet these needs by enabling exceptional performance in tough conditions, as well as protection against corrosion, wear and fatigue in extreme temperatures. With SKF's solutions companies can more than triple the bearing's service life and significantly extend mean time between repairs. These solutions also drastically improve the total cost of ownership and energy efficiency.

Industrial electrical motors and generators

Electric motor-driven systems account for more than 40% of the world's electricity use. Electric motor designers, manufacturers and rebuilders are increasingly focusing on motor efficiency in order to improve performance and comply with local regulations.

SKF is in a strong position to support the industry in meeting higher efficiency level requirements, especially with the recently launched SKF BeyondZero portfolio. One example is the SKF Energy Efficient deep groove ball bearing which features an optimized balance between internal geometry, grease and cage. As a result, friction is significantly reduced. In tests comparing SKF Energy Efficient deep groove ball bearings with standard SKF bearings, the energy-efficient bearings showed a friction reduction of more than 30%. For OEMs, the potential is valued in meeting stringent government requirements for producing

more efficient electric motors, whereas for end-users less friction means reduced energy use and lower energy costs. According to SKF's calculations, if all the new 1-50 HP motors with shielded, greased-for-life bearings, were to be equipped with SKF Energy Efficient deep groove ball instead of the standard design, up to 290,000 tonnes of CO₂ emissions would be avoided annually.

Material handling (conveyors, cranes, elevators and escalators)

The material handling industry is influenced by the growth in globalization, which is changing the patterns of travelling, consumption, and goods supply. This in turn increases shipment of bulk and cargo volumes between Asia, Europe and North America. The industry is also driven by growing urbanization and the need to expand infrastructure to be able to handle a larger population.

These trends are driving development in the material handling industry towards improved reliability and greater efficiency in equipment as diverse as conveyors, port cranes, elevators and escalators. For example, with space at a premium in the real estate industry, elevators are now designed with the machine room in the elevator shaft and are shifting to gearless direct drive designs. This trend challenges maintenance access and SKF has developed sealed bearing solutions with a lifespan of up to 20 years, which is equivalent to an elevator motor replacement.

Other trends in material handling are automation of equipment and reduced manual maintenance, where employees no longer have to be exposed to dangerous environments. As energy demand is increasing, so is the need for reducing material handling equipment's energy use and noise generation. SKF is a supplier of solutions for rotating equipment in demanding environments, and its material handling solutions include a range of spherical roller bearings, housings and seal arrangements for conveyor pulleys designed to increase Mean Time Between Failure of the bearings.



Saving man hours, increasing availability and safety

One of Europe's largest ports experienced a double digit growth in container traffic. The high volume was making it difficult to keep the port cranes properly lubricated since manual lubrication could only be carried out when the cranes were not in operation.

By replacing manual lubrication of the crane wheel base, trolley and winch with SKF's automated lubrication system, SKF ProFlex, for over 60 lubrication points on each crane, the terminal operating company saved about 2000 man hours. They also increased the crane availability and eliminated the safety risks workers are exposed to if they would need to perform the manual lubrication work on the cranes.

SKF also supplies a number of deep groove ball bearing variants for idle rollers that extend equipment operations and lowers operational costs by reducing energy consumption. SKF provides a number of service solutions such as condition monitoring, alignment services and central lubrication systems to support proactive maintenance and cut manual maintenance requirements. Proactive maintenance solutions bring value to the crane industry where equipment is difficult to access during routine maintenance and in industries where maintenance windows are short.

Industrial transmission and driveline services

The designers of industrial gear units for heavy industries often face problems with variable speed and torque, high torque at constant speed, heavy external and/or shock loads, and highly contaminated or poor lubrication conditions. SKF's goal is to meet these demands by optimizing operational reliability and performance, while enhancing cost-effectiveness.

SKF works with OEMs of electric motors and gearboxes on the development phase for more efficient and reliable machinery and equipment. An example of the new technology for the industry is the upgraded SKF Explorer self-aligning roller bearings which comprises important features such as greater load carrying capacity, enhanced wear and contamination resistance, and lower friction compared to competing solutions. Taking a 3.0 MW grinding mill pinion drive as an example, the bearings can potentially double its rating life despite poor lubrication and contaminated conditions in the gear unit. For an 8.5 MW single stage gear unit, the benefit of using the upgraded SKF Explorer self-aligning bearing would reduce friction corresponding to a total of bearing power loss reduction of about 30% (3.7 kW).

When the electric motor, coupling and gearbox are installed in a driveline, there is still considerable potential to be attained in efficiency gain. SKF helps customers select the most suitable maintenance strategy for their installed driveline, provides driveline health status assessments during production, and offers the most suitable spare parts when the assets need

repairing. As drivelines degrade over time, especially when pushed beyond their design parameter, or specifications of the existing drive system do not satisfy customer's production requirements, SKF offers engineering and design support, including Root Cause Analysis capabilities, and in certain cases driveline re-engineering.

SKF's solutions are designed for each phase of a driveline life cycle to help customers such as rolling mills, cement mills, mining companies, paper mills, chemical processing plants and food producers achieve operational reliability, minimal service requirements, optimized maintenance procedures and reduced energy use.

Medical and Health care

The medical industry evolves around an increase in an ageing population, obesity, more health care being carried out at home, a growing population in emerging countries and the need for more flexible and automated equipment. The medical industry is highly regulated with strict safety standards and medical norms. Taken altogether this puts demands on the market to cut medical costs and improve technology, productivity and service performance.

The medical and health care industry has enjoyed steady growth over the last decade and the global market is expected to continue growing.

SKF is a development partner to many medical equipment manufacturers and supports customers in optimizing medical equipment design. SKF's products are used to provide linear and rotational motion for applications ranging from imaging, surgery, laboratory automation, life support, dental, ophthalmic and hospital equipment. These solutions include electromechanical actuators and pillars for lifting; bearings and profile rails for driving, turning and guiding; engineered machined seals for separating media, and associated control components. SKF also provides testing support during design, pre-production and production to comply with industry norms and standards.



Stiff and precise linear guides in nanoScan®

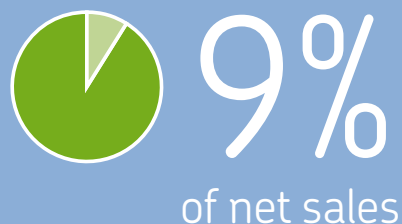
Mediso Medical Imaging Systems is one of the world's largest suppliers of medical diagnostic and research purpose imaging devices. SKF works with Mediso in R&D activities, providing specialized engineering support and compact, high-efficiency linear motion and actuation systems solutions.

SKF's solution can be found in Mediso's new generation of medical equipment, the nanoScan®, which uses tomography technology for medical imaging, providing an ultimate performance in a unified multimodality imaging solution.

In 2012, the precision rail guides were incorporated into the Mediso imaging solutions.

Industry, heavy and special

Including: Metals, Mining and Cement, Pulp and Paper and Special machinery



SKF's sales to OEM and end-users in the heavy and special machinery industries account for 9% of SKF sales. In addition sales consist of a significant share of business with SKF's authorized industrial distributors. SKF also supplies reliability and maintenance services to a growing number of end-users in these industries.

With a growing population, increasing urbanization and expanding middle classes in many growth economies, the underlying reasons for growth are present for heavy industries and we can also see a steady shift in importance from traditional markets such as Europe and North America to China, India and Latin America.

The heavy industries are all highly capital-intensive, therefore it is very important that these assets are both productive and reliable. For many years, SKF has been a major supplier of bearings and units to these industries and has developed its seals and lubrication system business with them. Furthermore, SKF has continued to expand its service business to help its customers achieve their productivity and reliability goals.

SKF has a broad reach through its extensive sales and distribution networks plus its relationships with leading OEMs and end-users worldwide. The SKF Life Cycle Management philosophy and approach means that SKF is involved in machinery performance from cradle to grave.

Metals

SKF is a technical development partner with the main OEMs and a service partner to end-users. The company supplies a wide range of solutions including bearings, remanufacturing services and lubrication systems, which help customers increase their reliability and productivity.

SKF signed a third strategic partnership agreement with the Baosteel Group Corporation. This will further strengthen cooperation on technology, procurement and supply, logistics, marketing and management with this leading Chinese steel producer. The two parties also inaugurated the third extension of the Industrial Service Centre joint venture for remanufacturing services.

SKF ConRo for continuous caster



In 2012, SKF continued to develop its SKF ConRo units business. As well as an order worth EUR 1.8 million for refurbishing units previously supplied to a customer in Europe, additional test orders were received and SKF ConRo units were installed on a continuous caster in China for the first time.

SKF ConRo units are robust, self-contained, modular roll line units for continuous slab casters used in steel production and are included in the SKF BeyondZero portfolio as they bring environmental benefits such as reduced grease use and lower overall emissions and help increase uptime and reduce costs.

SKF ConRo units include bearings, seals, housings, grease and roll bodies.

Mining and Cement

SKF provides the mining, mineral processing and cement industries with a wide range of products and services that contribute to improved productivity, reliability and worker safety. The company has close relationships with OEMs and end-users worldwide and is now increasing its presence with engineering, procurement and construction consultants, (EPCs) to get more SKF solutions specified and installed in new mine developments.

End-users in this industry remain focused on cost cutting and control, which creates opportunities for SKF's many solutions that increase reliability, productivity and profitability.

In 2012, Imperial (i.e. inch size) SKF ConCentra roller bearing units for conveyors were launched to support the important North American mining market. These "shaft-ready" units are pre-greased and sealed to minimize the risk of contamination during installation and operation, plus they are quick to mount and dismount. These features help to minimize downtime and increase service life.

SKF received an order from a leading coal mining company in Australia for online systems and cloud-based asset monitoring for mobile mining machinery. The SKF solution provides the customer with safe, realtime monitoring during uninterrupted production. The benefit is unplanned downtime reduced by over 300 hours and maintenance costs reduced by around AUD 600,000 over the year.

SKF also won a major condition monitoring order from a leading global EPC consultant for an expansion project at a major copper producer in Chile. The order, which included delivery and implementing online monitoring systems, will help the mine increase reliability at its new concentrator plant and thereby achieve its output growth targets.

SKF also announced a five-year contract, worth around SEK 60 million, with LKAB for maintenance services at LKAB's iron ore mines in northern Sweden. The contract covers advanced condition monitoring, vibration measurement, asset monitoring services, and machine diagnostics for mills, conveyors, pumps and fans, both above and below ground.

Pulp and Paper

SKF has a long history of involvement and product development for the pulp and paper industry. Traditionally, a leading supplier of bearings and associated products to both OEMs and pulp and paper mills, SKF has developed into the leading lubrication systems supplier to the industry. In addition, SKF continues to expand its service concept and business which now account for a sizeable proportion of the business.

SKF service offerings, including Integrated Maintenance Solutions and Asset Management consultancy, help pulp and paper customers around the world to maximise their productivity and reliability and reduce costs.

SKF announced a five-year contract with Fibria in 2012, a leading Brazilian pulp producer, which represents one of the largest contracts SKF has ever received for its Integrated Maintenance Solutions concept.

Special machinery

Including: Marine and Food and Beverage

Marine

SKF provides products and services from design phase through shipbuilding to the operation and maintenance for all ship types. SKF's main focus is on offshore supply vessels, workboats, tankers, passenger and cruise ships.



Severstal

SKF extended its partnership in 2012 with Severstal Steel Division – Cherepovets Steel Works, Russia, to include all of its five continuous casting machines under the SKF Integrated Maintenance Solutions (IMS) agreement. Severstal is one of the world's leading vertically integrated steel and steel-related mining companies. SKF has provided IMS services for one of its machines since 2007 and services for another two machines since 2011. In line with this agreement, SKF provides spare parts, bearing remanufacturing, maintenance supervision, engineering upgrades and training. SKF's approach means that Severstal can reduce its maintenance and logistics costs, increase machine availability and achieve a higher end-product quality, in line with Severstals overall approach to the working methodology TCO (total cost of ownership).

The marine industry continuously strives to improve the design and reliability of vessels. Most manufacturers of propulsion systems, such as thrusters and pods, are currently working on new design, testing or re-designing of their range. Condition monitoring and condition-based maintenance are areas of strong focus to help enable maximised availability and reduced operational costs. Vessels supporting offshore platforms continue to show strong development, driven by the global energy demand.

SKF's expertise and knowledge in the marine industry focus on the industry's needs to reduce operating and maintenance costs, improve health and safety issues and increase the availability of the vessel to help maximize fleet availability and critical equipment reliability in service.

SKF's marine offers include integrated product and service solutions for propulsion systems, including key components in large two-stroke engines, thrusters, electric pods and gear-boxes, as well as couplings and shaft line transmission products. SKF also offers a broad range of specialized condition-based maintenance services for different types of vessels. Other services provided are alignment services, 3D measurements, on-site machining and machinery mounting solutions.

In the beginning of 2013, SKF signed an agreement to acquire the German-based ship components provider Blohm + Voss Industries (BVI). BVI operations and capabilities have a very strong fit with the SKF marine strategy and complement SKF's existing marine product and service range. This will further establish SKF as a leading supplier of marine sealing arrangements, and hydrodynamic bearings, which is a significant bearing type in the marine industry. It will also strengthen SKF's service capabilities with a complementary market presence, through subsidiaries in Shanghai, Hong Kong, Singapore, Busan, Andover and Kobe and sales agents and service stations worldwide.
»see page 23

Food and 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.

SKF focuses on industry drivers such as efficiency, productivity, hygiene, operator and food safety, reduced waste of water, energy, and lubricants. One of the offers launched in 2012 was the SKF ChainLube oil projection system for food processing. This is a reliable, easy-to-use solution for accurate, automatic chain lubrication and supports the HACCP* process for safe food production. Stainless steel components and an IP 65 rated compact central unit, make this lubrication system suitable for food industry requirements.

A mushroom producer found that weekly manual lubrication consumed high amounts of lubricant, but was still not sufficient to keep the chains properly lubricated. In addition, oil leakage during manual lubrication was resulting in hygiene problems, risk of food contamination, slippery floors and additional clean-up costs. SKF ChainLube, an airless oil projection system, helped reduce lubricant use considerably – from 20 litres to 3 litres per week – and provided reliable chain lubrication. The optimized process produced savings of almost 900 litres of lubricant per year, reduced labour costs by one third, as well as reducing other issues related to incorrect lubrication.

Reinforcing the vision to equip the world with SKF knowledge, SKF is collaborating with Nestlé in the "Nestlé-SKF Knowledge Partnership".

Its main purpose is to empower Nestlé maintenance technicians and technical operators with up-to-date maintenance capabilities and with SKF's technical solutions for rotating machinery.

So far, more than 3,000 employees at Nestlé operations have been trained on various maintenance subjects. Nestlé and SKF teams are working together closely in implementing maintenance best practices and SKF's technical solutions in more than 50 countries.

*HACCP (Hazard Analysis and Critical Control Points)



SKF Marine service engineer performing shaft jack up test.

SKF solves vibration and alignment problems

STX Rauma Shipyard in Finland experienced intermediate bearing heat-up and vibration problems during sea trials of one of their newbuild ferries. SKF received the task to solve the problem and set up a measurement plan, including static and dynamic alignment services, vibration measurement and analysis support to identify the problems. Most of the measurements were executed during sea trials. Carrying out all of these measurements enabled SKF to see the complete picture. As a result of the analysis, vibration and alignment problems were identified and solved by the shipyard, enabling delivery of the ferry.

SKF also supplied shaft alignment and vibration calculation software and trained STX staff to use the software. STX can now also carry out the required ice impact calculations for ice strengthened and polar class ships. The good cooperation on this project has led to SKF becoming a partner also for other new shipbuilding projects.

Aerospace



6%
of net sales

The aerospace market has almost doubled every decade over the last 40 years. The industry saw a positive development in 2012 and is expected to continue to expand as the industry is driven by growing global travel, especially related to Asia, and the need to renew ageing fleets due to tougher environmental legislation and fuel price pressure. The industry is also on the look out for the “next generation” aircraft and engines with enhanced capabilities.

Flight performance and safety are critical issues in the aerospace market. Products need to operate reliably in highly demanding conditions and call for very specific engineering knowledge. SKF serves the main players in the industry and supports them in the development of their new flight programmes.

SKF provides the industry with highly engineered customized solutions to aircraft, helicopter, engine and system manufacturers, including main-shaft and transmission bearings, seals, and precision elastomeric devices. About 65% of SKF’s aerospace

business refers to airplane applications and the remaining to helicopter applications.

To attain the highest levels of cleanliness and structure homogeneity in aerospace bearings for example, bearing rings and rolling elements are produced using vacuum degassed or vacuum re-melted steels, resulting in greater reliability and service life.

SKF provides airlines and maintenance repair and overhaul (MRO) customers with maintenance and repair services, carried out under international certification standards and quality approval, supporting the customer throughout the product life cycle.

SKF signed a long-term agreement with Pratt & Whitney, a unit of United Technologies Corp., for providing main shaft bearings for their PurePower® PW1100G-JM engine. This agreement, approximately SEK 170 million, builds upon SKF’s successful support of other Pratt & Whitney engine programs.



SKF signed a long-term agreement with Pratt & Whitney, a unit of United Technologies Corp., for providing main shaft bearings for their PurePower® PW1100G-JM engine.

Energy

Including: Renewable energy and Traditional energy



6%
of net sales

With the world's population continually increasing, access to energy is one of the greatest challenges to be solved. The energy industry is often subject to government regulations and incentives which aim to address cost, security of supply as well as environmental issues, most significantly climate change. Energy industries are the second fastest growing industries as reported in the Fortune 500 Fast Growing Industries (2012).

Renewable energy

Including: Wind energy, Ocean energy and Solar energy

The renewable energy market has developed very quickly over recent years and globalization has been rapid, especially in the wind and solar energy markets.

The wind energy market has grown six-fold over the last decade. Wind energy onshore is the most developed renewable energy source. The increasing global concern about fossil fuel use and carbon emissions, coupled with the need to secure energy supplies, are positive long-term driving forces. The wind industry has been experiencing a downturn, but for the longer term SKF expects positive growth. The slowdown has mainly been caused by lower demand in the two leading markets China and North America, while Europe as a whole remained stable in 2012.

SKF is a development partner to leading manufacturers of wind energy solutions, as well as a supplier of solutions to the emerging wind aftermarket. SKF primarily supplies solutions and services for wind turbines, related to main shaft, generator and gearbox applications.

The wind sector wants larger turbines, reduction in turbine weight and friction, longer service life and turbines that can withstand harsher operating environments. SKF's involvement and support in these areas provides improved wind turbine performance. This helps the industry in tackling challenges of reaching grid parity with traditional sources of energy.

The extended range of SKF Nautilus bearings launched in 2012, provides turbine designers with the freedom to develop a wide range of light and compact turbines. New features such as bolted inner rings, sealed and pre-greased units and corrosion protection, are specifically developed to enhance performance. The bolted inner rings enable bearing pre-load variation reduction, thus achieving higher reliability and safety, easier mounting, replacement and maintainability. As the bearings are delivered sealed and pre-greased, this reduces the risk of bearing contamination during assembly; and with corrosion protection, they provide high reliability and performance even in harsh offshore environments. »see page 67



SKF started to supply its new SKF Nautilus bearing to Siemens

SKF signed an agreement in 2011 with Siemens, lasting three years, to supply the new generation SKF Nautilus bearings to Siemens' new, compact, direct drive wind turbines. This platform is one of Siemens latest technologies for low-to-medium wind speed, and with its direct drive generator, the turbine requires 50% less parts compared with a conventional turbine. The compact and lighter weight generator reduces customers' costs and resources for maintenance needs and installation as well as transportation. By equipping the turbine with SKF's latest innovation, the SKF Nautilus range extension, the customer will achieve higher performance reliability while minimizing energy loss when in operation.

Ocean energy is still at an early developmental phase. SKF's product and service knowledge can be found in prototype tidal stream turbines and wave energy converters around the world. SKF also continues to develop its position as a supplier of solar tracking systems and to support this launched the SKF Solar Hub, in 2012. » see page 67

Traditional energy

Including: Oil and gas and Traditional electric power generation

Oil and gas

Global demand for traditional energy such as oil and gas remains strong and will continue to grow, particularly in the Asia Pacific regions. There is a need to meet this demand and boost efficiency and safety in onshore and offshore oil and gas operations.

There are three basic sub-industries in the oil and gas industry: exploration and production (upstream); transportation and storage (midstream); and refining and marketing (downstream). SKF has been a strategic partner to OEMs and active in the after-market for more than 80 years. SKF offers products and services for demanding applications and helps customers identify and eliminate equipment failure, increase reliability and enhance operational performance. To extend the product service life and reduce its total cost of ownership, SKF supplies end-users with asset management services, condition monitoring hardware and software, remote diagnostics, spare parts optimization and tools for precision maintenance and repair. The traditional energy



Magnetic bearing

industry is challenged by the exploration of ultra-deep waters and more remote land locations as well as increased environmental and safety regulations. To meet the industry's needs to protect both workers and the environment, one solution is oil-free, frictionless magnetic bearings. Magnetic bearings operate without metal-to-metal contact, generating

virtually no bearing friction or bearing wear. The design also eliminates the need for seals, and for lubrication systems. These features reduce maintenance demands and noise while eliminating emissions and reducing the risk of gas leaks.

Traditional electric power generation

Increasing demand for energy worldwide is a driver for new power plant construction and the renewing of ageing plants and equipment. The majority of the world's power plants today are coal-fired, followed by combined cycle plants and nuclear power plants. There are some 4,000 existing coal-fired plants and hundreds are under construction, particularly in China and India. More than 2,000 combined cycle plants are currently operating and many more are being constructed in the OECD countries. Nuclear power trails with some 400 plants and more than 20 new plants planned in North America, China and India.

As the industry is faced with the challenges of replacing ageing plants and losing part of its skilled workforce due to retirement, new plants have to depend on information management systems and outsourcing to compensate for reduced manpower and less experienced workers.

SKF is a strategic partner to OEMs and end-users alike, offering a single source for integrated solutions designed to increase production and maximize profits. SKF's expertise in bearings, seals, lubrication, mechatronics and services, is instrumental when specifying and designing power plant applications with OEMs, such as pumps, compressors, steam and gas turbines, conveyors, crushers. Once installed, SKF offers a range of condition monitoring tools and software, training, maintenance and repair services to help power plant owners and operators extend plant service life and reduce the total cost of operations. One example is a proactive maintenance programme for a utility plant's key plant systems based on SKF's reliability centered maintenance programme. The customer successfully reduced equipment failures fleet-wide, cut forced outages by 30% and increased peak-period reliability by 7%. Corrective work also fell by 30–40% during the first two years of implementation.



Power plant equates saving time to saving money

When preparing to undertake a major steam turbine overhaul, the customer wanted to reduce outage time while undertaking the service of a 650 MW power generating unit and avoid delays and lost production previously encountered with a stuck bolt. SKF carried out a turnkey service on the turbine unit that included a precision alignment of the turbine train, precision line boring of all coupling holes, and installing an alignment bolt along with all SKF's Supergrip bolts. This helped reduce the project's outage schedule by 20 hours (critical path time), saving the plant EUR 600,000, while reducing mounting and dismounting time and improving worker safety.

Railway



4%
of net sales

The industry is being driven by growing urbanization, increased global concern for emissions, continued liberalization of the railway market coupled with the need to replace old rolling stock.

SKF has enjoyed steady growth above the industry average in the railway industry over the past five years. Continued growth is also expected in the coming years. Although global demand in 2012 was relatively unchanged, stronger demand was seen in North America and in Asia over the second half of 2012, compensating for the weaker demand in Europe.

SKF is a global supplier to the railway industry, with a focus on servicing the freight (goods transportation) and mass transit (urban transport and inter-city transport) markets in Europe and Asia. SKF supplies OEMs and end-users with a wide range of solutions across the SKF platforms, covering, wheelset bearings, drive system bearings and bearing units, lubrication systems, sealing solutions, condition monitoring and after-market services.

There is a significant need to extend the maintenance intervals in the industry, along with greater efforts to avoid unnecessary downtime without compromising safety. To support the industry, SKF offers condition monitoring systems that can provide an early warning of change in the operating conditions of bearings and other mechanical parts. SKF also offers remanufacturing services, on-site engineering services, product training and upgrades. These services provide an opportunity for customers to minimize downtime, optimize their assets and reduce their overall environmental impact.

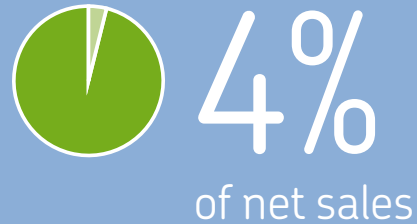
Testing is key to achieving long-term reliability and performance of railway rolling stock. SKF supports this through its testing centres across Europe and Asia. SKF opened a new test facility in Tver, Russia in 2012 and is now the first bearing company to have a certified and accredited test centre under the Russian Safety norms.

Siemens Rail Systems

SKF delivers axle boxes and wheel-set bearing units for two major rolling stock projects in the UK and Poland. The two projects, which total around SEK 50 million, were started with Siemens Rail Systems in 2012.



Off-highway



Increasing urbanization continues to drive the demand for earthmoving, tunnelling, road building and other construction equipment. The need for greater food supply drives demand for agricultural machinery. Another important impact on the off-highway industry is from tougher environmental legislation and fuel price pressure. The consequence is greater demand for electric, hybrid and higher efficiency traditional drivetrains and products, with less weight and improved efficiency.

For optimizing efficiency in drivetrains, SKF's application engineering experience and internally developed simulation tools, allow quick and accurate assessment of real-life fuel efficiency and CO₂ emission reduction. SKF's solutions also use the appropriate bearings and seals that support friction reduction and downsizing.

To meet the demand for electric and hybrid drivetrains, SKF develops solutions for electric motors and generators. One example is SKF's hybrid and Insocoat product portfolio, protecting equipment from electric erosion. SKF has also developed a portfolio dedicated to off-highway applications with solutions including the SKF Agri Hub, which gives a longer service life with a relubrication-free performance for up to 10 seeding seasons; the SKF Trackstar seal that withstands the challenging working conditions of construction machine under-carriages and the SKF Hydraulic Driven Lubricator with its high reliability for breakers, which produces operating cost savings and a longer service life.



SKF wins AGCO supplier award for innovation

AGCO Fendt, one of the world's technology leaders in agricultural tractors, presented SKF with a supplier innovation award for a long-term partnership and joint innovations involving several SKF technology platforms (Bearings, Seals, Mechatronics and Services) as well as SKF's R&D capabilities. SKF supplies AGCO Fendt with bearings, sensors and sealing solutions for power and performance improvements in gearboxes, as well as engineering.



SKF Automotive consists of five business units that offers and delivers a full range of products, solutions and services to both OEMs and aftermarket. The business units are: Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

SKF Automotive 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, SKF Automotive provides energy-saving solutions for home appliances, portable power tools and electric motors.

SKF Automotive develops and manufactures bearings, seals and related products and services. Products include hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, products for electric motor, engine, steering, suspension, wheel-end and driveline applications. For the vehicle service market, SKF Automotive provides spare parts to cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – service components bundled together to carry out a complete repair.

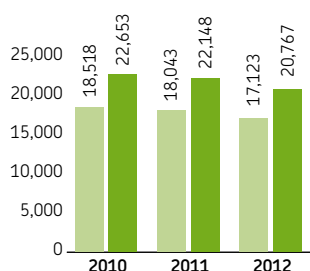
SKF's global manufacturing footprint was expanded with the new factory in Jinan, China, which was inaugurated in September 2012. SKF started production and deliveries of the SKF Split Truck Hub Unit for use in front and rear truck axles to CNHTC (China National Heavy Duty Truck Group Co. Ltd.).

Production started at the new factory in Mysore, India in 2012 and it will deliver various types of seals to both automotive and industrial applications. It was also decided to build the second factory for automotive hub bearing units in Shanghai, China, near the existing facility in the Jiading district. SKF invested in greater transmission manufacturing capacity in China in 2012 for producing deep groove ball bearings for new business from transmission manufacturers, such as the new gearbox business with Shanghai Auto Gear Works.

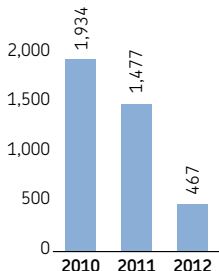
Net sales in 2012 amounted to SEK 17,123 million (18,043), a decline of 5.1%. Sales including intra-Group sales totalled SEK 20,767 million (22,148). The operating profit was SEK 467 million (1,477), with an operating margin of 2.2% (6.7). The operating profit was affected by one-time costs of around SEK 50 million (0). The decline in net sales was attributable to organic growth of -3.4%, structure 0.0% and currency effects of -1.7%.

Sales, SEKm*

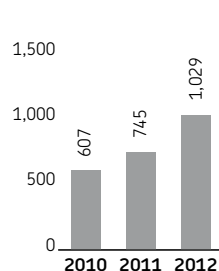
■ Net sales
■ Sales incl. intra-Group sales



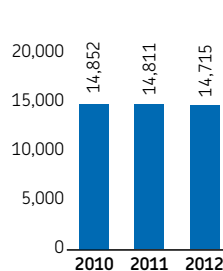
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2012.

Interview with Tryggve Sthen – President, SKF Automotive

“We will continue to adapt and expand our global operational footprint.”

What were the most important events for you in 2012?

The year was fantastic, lots of new business came our way. Never before have we had such a good result in receiving new future business in all of our main regions around the world. One such new business is the large contract from Audi, valued at around SEK 1 billion, for both wheel ends and transmission applications. We were also successful in Asia in winning new contracts from local OEMs. I am particularly happy with delivering tapered roller bearings to the Japanese customers Isuzu and Hino for their truck rear axles. In North America demand grew significantly and we have invested in additional manufacturing capacity in Puebla, Mexico, to handle the increased business in that region.

In terms of delivery and sales the year was extremely turbulent. The year started very well but already after the first quarter we saw signs of slowdown among our West European customers. Many of our European customers reduced their production volumes and demand started to fall significantly during the second quarter of 2012. During the second half of the year, a lot of focus was on adapting to the new reduced demand.

How did you adapt to the market development in Europe during 2012?

A good part of SKF Automotive's sales derive from Western Europe, so we closely followed the development in the region. Many manufacturers announced volume and capacity reductions, even factory closures to a degree never seen before in Europe. We needed to adapt our manufacturing output to the lower demand at a very early stage in order to manage our inventories. I am very pleased that this early hard work resulted in significantly reduced inventories in relation to sales.

In our output reduction we have utilized all flexibility tools available in the countries. This includes the usage of short-term work that is now utilized at most of our West European factories. In addition, during the year we initiated many of the already announced restructuring activities.

In what way has and will SKF's new climate targets including the SKF BeyondZero portfolio impact your area's work?

Global warming is an increasingly important issue and action is still very much needed from all of us to cope with that challenge.

Customers continued to ask for more energy-efficient solutions in 2012. In automotive, developing new solutions to further reduce or eliminate fuel consumption and carbon emissions has been an important trend for many years. Three new market offers were launched during the year and added to the SKF BeyondZero portfolio, such as the SKF Sealed Energy Efficient

deep groove ball bearing. In total, eight products from the automotive business area are now part of the SKF BeyondZero portfolio and we are continuing to expand this portfolio.

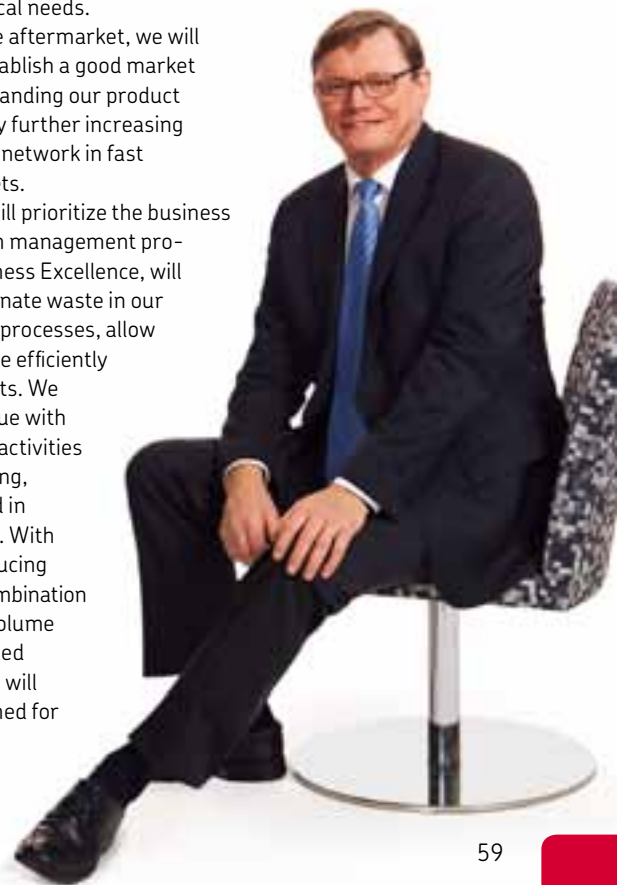
What are your priorities over the next few years?

Our goal to further expand our product portfolio with new energy-efficient solutions remains firm. In partnership with our customers, we have many new products in the funnel waiting to be developed and launched. We will also partner with complementary technology suppliers. As an example, in 2012 we entered a partnership agreement with the US-based Protean Electric. We will provide critical components to their in-wheel electric drive system used in hybrid and electric vehicles. Together with Protean, we will also investigate additional areas of cooperation in order to exploit new market opportunities.

We will continue to adapt and expand our global operational footprint. During 2012 we strengthened our manufacturing footprint with two new factories in China and India. Now we have almost half of our production capacity in fast growing markets. Our Global Technical Centres will also be expanded in the fast growing markets. This will strengthen our technical support to our customers and support the development of products for local needs.

In the vehicle aftermarket, we will continue to establish a good market position by expanding our product portfolio and by further increasing our distributor network in fast growing markets.

Finally, we will prioritize the business result. Our lean management programme, Business Excellence, will help us to eliminate waste in our administrative processes, allow us to work more efficiently and reduce costs. We will also continue with cost reduction activities in manufacturing, purchasing and in product design. With these cost-reducing activities, in combination with the high volume of newly awarded businesses, we will be well positioned for the next years.



Automotive customer industries 2012

Cars and light trucks



In 2012, the worldwide passenger car market increased by 5% and around 81 million vehicles were manufactured globally. The increase is partly related to that production in 2011 was at a relatively low level due to serious flooding in Thailand and the tsunami that caused a nuclear accident in Japan, affecting manufacturing output especially by Japanese OEMs.

Market demand in Western Europe, SKF's main market, declined significantly during 2012, by 9% year-on-year. Restructuring activities, including closing factories, were introduced by many OEMs. In Northern Europe, demand was initially stable, but it also started to decline during the latter part of the year. In Southern Europe, demand was negatively affected by the financial crisis during the whole year.

In North America, demand increased significantly in 2012. South America and Asia reported growth with Brazil and China leading the way, however with a reduced growth rate.

As will be the case for a long time, ICE (Internal Combustion Engine) technology continued to propel the majority of cars and light trucks in 2012. OEMs are allocating a significant amount

of resources into ICE improvement projects. Engine downsizing and boosting was an important trend during the year. Development projects for direct injection systems and turbo charging applications took place in many development centres worldwide. Hybrid drivelines and alternative solutions, such as stop-start systems, are no longer additional options, but in many cases included as standard equipment in many car models.

SKF launched many new products in 2012, of which several are included in the SKF BeyondZero portfolio. The SKF Low Friction Hub Bearing Unit reduces friction by 20% compared to previous generation hub bearing units and lowers CO₂ emissions by 0.3 g/km. The SKF Sealed Energy Efficient deep groove ball bearing reduces friction by more than 30% compared to the sealed SKF Explorer bearing and saves energy in both industrial and automotive applications. One example is electric motors for electric vehicles. The new robust steering rack bearing by SKF enables smoother and more comfortable steering on any type of road.

A partnership agreement was signed between SKF and Protean Electric, where SKF will supply a wheel bearing system with integrated sealing and sensors developed specifically for Protean's products. Protean develops and manufactures in-wheel electric motors for electric vehicles and hybrid cars.



SKF was the first company globally to develop and bring into production a fluoroelastomer seal material with a temperature range of -30 to $+200$ °C, but still resistant to highly aggressive lubricants. This new material meets customer demands on wide temperature range capabilities and also oil compatibility in driveline applications.

The second release of SKF Seal Designer, proprietary simulation software, in 2012, provides several new functionalities to improve speed in SKF's product engineering services and enables even more complex customer projects.

SKF continued to supply car OEMs with value added products in 2012. In Europe, SKF signed contracts with Audi to deliver components for use in a wide range of their vehicles. The contracts, valued at around SEK 1 billion, include the delivery of four different versions of hub bearing units for wheel ends and a range of bearings for the new double clutch transmission. Volvo Car Corporation chose SKF to supply both wheel and suspension bearing units for their new V40 and V40 Cross Country models.

General Motors selected SKF Sealing Solutions Korea Co. Ltd. as a "2011 Supplier of the Year" in 2012, the second consecutive year that SKF has received this prestigious award. General Motors also awarded SKF new contracts in 2012 for hub bearing units and transmission bearings for future global vehicle and powertrain platforms.

New products are developed and thoroughly evaluated before being used in racing cars. This knowledge is adapted many times for high volume manufacturing and offered as new solutions also for standard cars. SKF is currently developing solutions for the next generation of Formula One (F1) powertrain, which is due to be launched in 2014. Special areas of interest concern high-speed systems such as electric turbo and energy recovery systems. Innovations using bearings manufactured from powder metal are being launched for several new applications in F1. This technology was initially adopted for wheel bearings and is now also being used also in engine auxiliaries and gearboxes.

In 2012, SKF delivered special central nut bearing units to Ferrari for their new generation of GT Challenge cars. SKF also supplied a specific condition monitoring system for faults detection on new F1 engine test rigs. SKF's cooperation with the Scuderia Ferrari Formula One team spans some 65 years – the longest partnership in the history of Formula One. The partnership comprises supply of advanced bearing and sealing solutions, and engineering services.

In Korea, Hyosung awarded SKF a contract for bearings to be used in the electric motor for Ray – the first electric vehicle developed locally by Kia Motors.



Vehicle Service Market



10%
of net sales

SKF provides spare parts to cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – service components bundled together to carry out a complete repair.

SKF has experienced a strong development for many years though growth has been slower the last couple of years as the main markets, Europe and North America has seen a weakening development and in addition an increased competition.

The product portfolio grew by 1,300 new kits during the year, meaning that over 20,000 kits are available around the world. SKF received the “Best Bearing” award at the Autocomponent of the year awards ceremony at the Automechanika trade fair in Moscow, Russia.

SKF increased its presence in the automotive aftermarket's e-commerce portals in Europe, supporting customers with smart stock management programmes tailored for their specific needs. In North America, new agreements were signed with new fleet operators who will benefit from SKF's product reliability and good service structure.

In Latin America, new contracts were signed, including one with the Brazilian distributor Pemaza, a large distributor in the northern part of Brazil, with 36 branches. SKF also expanded its distributor network in Asia. In total, 33 new distributors and 275 new retailers were added to the Chinese network. In India, 60 new distributors and 2,000 new retailers joined SKF and a new kit centre was established in Pune in September to improve support for the Indian market.

Around 60 Wheel bearing kits were launched in 2012, all for different car models and applications. One of these is the VKBA 6687, which contains the rear axle wheel bearing for the Volvo XC60.



Trucks



5%
of net sales

The worldwide medium and heavy truck market (over 6 tons) declined more than 10% during 2012. The decline took place mainly during the second half of the year and in all major markets. In total, 2.6 million vehicles were manufactured globally.

Regulations for reducing hazardous emissions, such as the Euro 6 in Europe, continued to shape demand with some orders already being placed in 2011. These regulations have created an increase of natural gas and hybrid powered trucks in some regions. Total cost of ownership continued to drive the need of virtually maintenance-free and energy-efficient solutions in the truck industry.

SKF Energy Efficient tapered roller bearings are used to reduce fuel consumption and hazardous emissions through friction reduction of up to 30% or more, in gearboxes and final drives. For truck engine solutions, SKF supplied the high-pressure valve stem seal to many customers in order to help them fulfil Euro 6 requirements and enable engine optimization.

OEMs increased their efforts in local manufacturing in order to expand their footprint and serve local markets. Utilization of platforms for multiple global models means large cost savings for OEMs, and greater demands on suppliers to serve customers on a global basis. In Brazil, deliveries of tapered roller bearings to Scania started from the SKF's local manufacturing facility in Cajamar. In the USA, Horton ordered engine seals and the SKF Engine Fan Support Module.

SKF has invested significantly in the Japanese truck market since 2006 and in 2012 a new sales unit was established in order to serve this market better. During the year, several new orders were placed with SKF by Hino Motors and Isuzu Motors for the supply of tapered roller bearings for their truck rear axles.

The Japanese truck manufacturer Hino Motors became an SKF customer in 2012.



Two-wheelers and Electrical



2%
of net sales

Two-wheelers

The global two-wheeler market increased by 6% during 2012, and around 62 million units (excluding bicycles) were manufactured. The need for robust products and fuel efficiency remained the key drivers during the year.

SKF launched the new SKF Sealed Energy Efficient deep groove ball bearing in 2012. This new product manages friction, grease retention and dust exclusion which is important in two-wheeler wheel-ends. The SKF Sealed Energy Efficient deep groove ball bearing is included in the SKF BeyondZero portfolio.

SKF has a strong market position in the motorcycle industry. The cooperation between Honda and SKF continued during the year with the development of new energy-efficient gearbox solutions and new engine applications.

The scooter industry continued to grow in volume and provides new future growth opportunities for SKF. SKF was asked to supply an innovative crankshaft solution for high-performing motorbikes by Ducati Multistrada. SKF supported the technical development of the Ducati Racing Team in the Superbikes series and the Betamotor factory team in the Enduro and Trial world championships with engineering services and technical sponsorships.

Two new sealing solution products were launched for the OEMs and the aftermarket in 2012. The integrated monotube seal for shock absorbers incorporates five components into

one easy-to-install unit, which provides reliable sealing over a wide temperature range. The aftermarket kit for wheel hub sealing to protect against the intense contamination of off-road motorcycle riding, while reducing friction and improving reliability, was also launched during the year.

A new app for the two-wheeler industry, the "Bike Seals App", was launched in 2012, making it easy to find replacement parts for motorcycle forks using a smartphone or tablet.

Electrical

Customers in this segment include manufacturers of home appliances, electric motors for use in consumer goods, portable power tools and skates. Energy saving solutions continued to be an important driver for this segment in 2012.

The electrical segment was affected by a slowdown of the market in Europe during 2012, both for washing machines and electric motors. Many customers announced plans to restructure their business and reduce capacity.

During the year, SKF delivered innovative solutions mainly to the East European and Turkish markets. These included the SKF Drum Support Unit, which reduces energy use with energy-efficient bearings and low friction seals and enables exact alignment of the shaft. Another benefit is the mechanical integration of the washing tank and housing which reduces the number of parts in the washing machine.



SKF supported the technical development of the Ducati Racing Team in the Superbikes series.

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 2012:

2011 Key Supplier Excellence Award,
National Oilwell Varco, USA

2011 Supplier Award,
Honda Motorcycle & Scooter India Pvt. Ltd., India

2012 Applied Supplier Excellence Award,
Applied Mexico, Mexico

2012 Best 100 HRM Companies,
organized by the company 51job, China

2012 China Supply Chain Award, CHAINA, China

**2012 Innvation Award, Professional Tool
and Equipment News (PTEN) magazine, USA**

2012 Outstanding Supplier,
Wuxi Buhler Machinery Manufacturing Co., Ltd., China

Assiteca Award 2012, Assiteca, Italy

Best Bearing award,
Autocomponent of the year award ceremony, Russia

The Best Bearing Brand, O Mechanico Magazine, Brazil

**Best supplier in the "Best Quality & Services" and
"Improvement Orientation" categories, Tata Steel, India**

Bajaj Auto Award 2011, Bajaj, India

Best supplier, Tongtai Group, Taiwan

Best supplier, Tata Steel, India

CEO Contractor Award, PTTEP, Thailand

Certified Supplier Award 2012, Chrysler, China

Diploma and Gold medal,
Technical Fair in St Petersburg, Russia

EMAE supplier award for Innovation, AGCO Fendt, Germany

Environmental award, Nobelux,
Swedish Chambre of Commerce, Belgium

Excellent Supplier 2011, Hanbell, China

**GOLD certificate-Economic Times and Frost & Sullivan
manufacturing excellence awards 2012,**
Frost & Sullivan, India

HPR, Highly Protected Risk, FM Global, Italy

Preferred supplier towards local R&D capability,
Maruti Suzuki India Ltd., India

**The President's Ward for Marketing and Growth
Achievement for 2011,**
Tools & Equipment Distributors Associations (TEDA), USA

Supplier Excellence Award, SNCF, France

Supplier of the month Award, Astra Honda, Indonesia

Supplier of the Year, General Motors, Republic of Korea

Supplier Performance, Bühler AG, Switzerland

Supplier Performance Award 2011,
SNECMA (Safran Group), France

Supplier Recognition Award, Gorman Rupp (GR), USA

Sustainable Supplier Award,
Bombardier Transportation, Germany

Value Partner award, TOOLS Momentum, Sweden

Vendor of the Year, Uni-Select, USA



New market offers

In 2012, SKF launched several new products and solutions to help customers increase equipment reliability and reduce maintenance costs and environmental impact. See some examples below.

For the automotive market



The **SKF Compact Wire Steering Bearing** for cars is designed to replace existing thin section ball bearings with units that are compact, lightweight and easy to install. The bearing offers excellent performance and a more comfortable driving feeling.



The **integrated monotube seal** for motor-cycles is integrated in a seal head unit, which is a module with all components in one unit, to simplify installation and logistics. The seal has a wide temperature capability with optimum friction and wear leads to improved reliability.



The **SKF Speed Sensor Unit** is an advanced speed sensing solution for two wheelers. An all-in-one-unit reducing weight, friction and simplifies the assembly.



A **robust steering rack bearing** for cars, offering increased durability, high shock load resistance and reduced friction torque, to enable smoother and more precise steering. This bearing reduces friction in the steering rack by up to 30%, increases load resistance up to 17% and durability by 20%.



The **SKF Sealed Energy Efficient deep groove ball bearing** reduces frictional losses in a bearing by 30% or more, when compared to the SKF Explorer bearing. The bearing also enables longer bearing service life and is designed to improve application efficiency by reducing bearing power losses. *This product is included in SKF BeyondZero.*



The **SKF Low Friction Hub Bearing Unit** is a new wheel-end solution capable of reducing friction by 20% or more, when compared to standard hub bearing units. The unit also offers longer rolling bearing life and a higher strength to withstand false brinelling. *This product is included in SKF BeyondZero.*

The **SKF Bus Door Actuator** is a new energy-efficient solution that significantly reduces fuel consumption of the bus. The actuator also improves reliability and safety, and provides more cost-efficient operation. *This product is included in SKF BeyondZero.*



For the industrial market



A new range of freight bearings, tapered roller bearing units, for railways is designed with dimensions following the standards of the Association of American Railroads (AAR). A series of component design and product material benefits enhance the lifespan and performance of the new bearing units. The bearings are equipped with polymer cages and labyrinth-lip (LL) seals. The SKF LL-seal design offers a 50% reduced friction torque, resulting in less energy consumption and lower operating temperatures, compared to existing solutions in the market.



An extension of the SKF Nautilus bearing for the wind industry is now available with special design enhancements and a range of new features. The SKF Nautilus bearings provide designers the freedom to develop a wide variety of turbines and a possibility to customize their solution. This new extension enhances customization, increases reliability, service intervals can be prolonged, and it contributes to reducing energy costs. *This product is included in SKF BeyondZero.*



The **electric cylinder** is an energy-efficient electromechanical solution designed to replace conventional pneumatic cylinder systems. The electric cylinder enables up to 90% energy savings compared to pneumatic cylinders and can be used in a variety of different industries. *This product is included in SKF BeyondZero.*



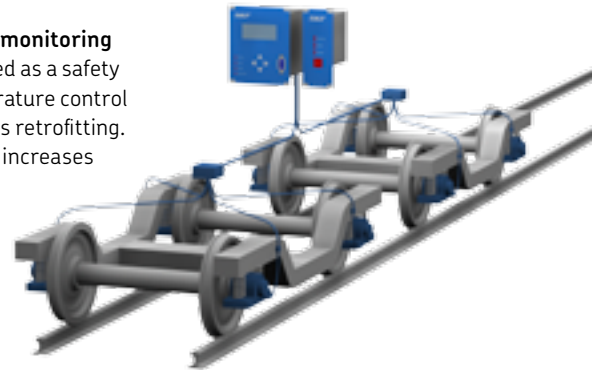
SKF Thruster Monitoring provides integrated and flexible condition monitoring solutions for thrusters in the marine and offshore industries.

The **SKF Axletronic temperature monitoring system** is an on-board solution used as a safety support system for bearing temperature control for new train installations as well as retrofitting. It is a cost competitive system that increases reliability and is easy to install.



SKF ChainLube, airless oil projection system is a reliable, easy-to-use solution for accurate, automatic chain lubrication that is particularly well-suited to the specific requirements of the food and beverage industry. The system supports the HACCP* process for safe food production.

* HACCP – Hazard Analysis and Critical Control Points



The **SKF Solar Hub** is a rotary drive that provides a virtually maintenance-free, highly reliable and cost-effective way of tracking the sun from sunrise to sundown, so maximizing solar power generation. *This product is included in SKF BeyondZero.*



SE bearing housings are the next generation of SKF housings. They are designed for maximum reliability and minimal maintenance, with higher machining accuracy and a range of features that improve serviceability.



Four new product lines were added to the fully integrated **SKF hydraulic seals range**, as well as upgrades of several existing designs. A new high-performance grade of ECOPUR polyurethane material, that can withstand high system pressure and temperature in heavy-duty applications, was also launched.

SKF Logistics Services

Logistics is one of SKF's strengths and is the management of the flow of components and goods in the most effective and efficient ways, from suppliers to SKF and from SKF to its customers. It involves integrating information, transportation, material handling, inventory management, warehousing, packaging and security.

SKF reaches over 50,000 customer sites, with short lead-times through its global transportation network and local and regional warehouses. SKF can deliver the next day in many regions.

SKF is continually striving for lower energy use, reduced waste and lower emissions, both at warehouses and within transportation. This is done, for example, by introducing solar panels at warehouses and using biogas trucks for transportation wherever possible. SKF's climate strategy, launched in 2012, included the target to reduce CO₂ emissions/per tonne kilometre by 30% below 2011's level by 2016, from all transportations by SKF Logistics Services. »see page 89

To ensure product availability, SKF has regional distribution centres located in Belgium, USA, Uruguay, Singapore and Shanghai. The regional warehouse in Shanghai and the local warehouses in Brazil and Mexico will move to new facilities in 2013, to increase inventory capacity and improve productivity and safety.

Third party logistics

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.

Certification

The authorized economic operator (AEO) certification, with Customs Safety & Security certifications, helps SKF to be efficient with short lead-times. This certification recognizes that SKF Logistics Services is a safe and secure business partner in international transportation and logistics.

SKF started to conform to the 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 in 2011. SKF submitted applications for Germany, Switzerland and Italy in 2012, which will be audited in 2013. In the Customs Safety & Security programme for SKF, the company will also have a Partners in Protection (PIP) certification for Canada in 2013.

Virtual Warehouse

To shorten lead-times, reduce transport costs and carbon emissions, SKF has implemented a virtual warehouse system for its operations in Germany, France, Italy and Sweden. The system detects where short-cuts can be taken to reduce physical transportation. This way of working makes it possible to avoid unnecessary transportation of goods to a central distribution centre. Instead the goods remain at the manufacturing unit warehouse near to the end-customer. Half way into the project annual savings of 160 tonnes of CO₂ and SEK 9 million have been achieved.



Purchasing – around SEK 35 billion per year

Sourcing and supply chain management is a key enabler at SKF for generating both shareholder and customer value.

Goods and services purchased annually for SKF amount to around SEK 35 billion, which is around half of SKF's net sales. This means that the impact from purchasing and supply chain management is crucial.

To develop a competitive global supplier base to support SKF's manufacturing footprint and to manage the different sourced materials, are becoming increasingly important. SKF's factories need to be close to their customers to provide optimal service and need local and regional suppliers that can fulfil SKF's requirements on quality, cost, delivery, innovation and management.

SKF sources both materials and services from suppliers around the world. The purchased material consists of steel raw materials in terms of bars, wires, tubes and strips, steel-based components in terms of rings, balls, rollers and sheet metal parts, and other direct material such as mechanical components, electrical components, polymers, plastic components, subcontracting and traded products. Besides direct materials SKF source shop supplies, capital equipment, energy and different types of services like facility management and different types of management services.

Purchasing plays a key role in the ongoing SKF programme to improve efficiency, reduce costs and strengthen profitable growth. Consolidating the supplier base, component standardization across all technology platforms and continuous supplier improvement programmes, will reduce the total costs.

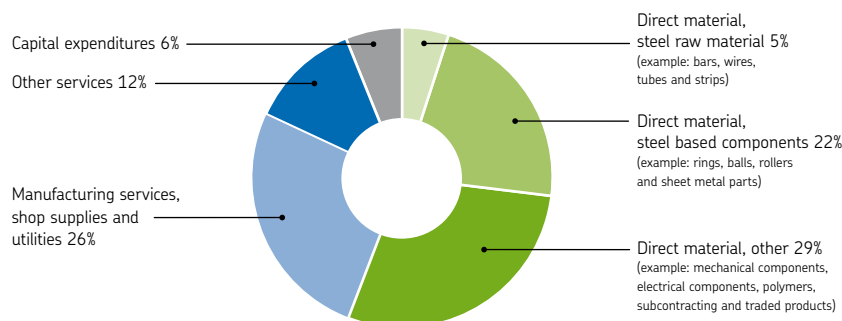
SKF has established a central purchasing organization that will manage all of SKF's sourcing and the entire supplier network. To support the SKF global manufacturing footprint and

close supplier collaboration, SKF has sourcing offices located in different parts of the world. By developing a local and regional supplier base, SKF can increase its supply chain flexibility and agility. Today more than 80% of all suppliers are local in both China and India.

Continually developing demand-driven supply chains with suppliers and constantly evolving with them is vital for reducing total costs, reducing capital employed and cutting lead-times in the supply chain. 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 operations and purchasing. A key focus area is the SKF Responsible Sourcing Programme and in 2012 SKF continued its effort to conduct more intensive Code of Conduct auditing, both in numbers and extent.

The 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 the SKF Code of Conduct, Environment, Health and Safety and Zero Defects concepts. Major suppliers are also expected to develop management systems according to international standard ISO 14001 (Environment) and OHSAS 18001 (Occupational Health and Safety). By 2016 the major energy intensive suppliers are also expected to be compliant with the energy management system ISO 50001. Since 2006, major suppliers have also been required to issue their own code of conduct in line with SKF's.

Purchasing – around SEK 35 billion 2012



SKF has a number of tools and procedures to support the progress of SKF's responsible sourcing, some of 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 and new suppliers, along with other critical aspects.
- A specific, detailed supplier Code of Conduct auditing procedure, for which SKF have special, highly qualified SKF Code of Conduct auditors in different regions. The procedure includes a detailed checklist for every supplier audit that has 45 specific questions focusing on the environment, safety and social aspects. One such audit takes a full day at a minimum at the supplier. More than 150 specific supplier code of conduct audits have been completed over the past two years.
- Specific requirements related to energy management and carbon emissions defined for energy intensive suppliers – described above. »see also page 88
- A risk assessment process which allows targeted auditing of higher risk suppliers from SKF's complete supplier base. The process ranks the risk of environmental or human rights issues based on variables such as volume, organization, size and manufacturing/supply processes.

3,150 supplier risk assessments have been carried out since 2009. Based on these assessments more than 100 audits were completed in 2012 compared to 60 in 2011.

The extent and approach of Code of Conduct auditing have led to more detailed knowledge and understanding, helping the Group to define effective and pragmatic ways to drive improvements.

Findings

26 suppliers with a total of 90 significant deviations were found in 2012. The most critical deviations are prioritised and ten of those were closed by the end of the year. Two suppliers have had their contracts terminated, while actions are ongoing to close the remainder. SKF prefers to work closely with suppliers to create effective action plans, remediation programmes and long-term sustainable management systems for these issues.

SKF also carried out 19 unannounced supplier Code of Conduct audits 2012, with a specific focus on exceptionally critical issues such as, but not limited to, child labour. These audits were conducted by well-known independent third party companies: KPMG and ITS (Intertek). No critical deviations were found during these audits.

Through SKF's Responsible sourcing committee, the Group has implemented a strong governance structure and process to coordinate the development of responsible purchasing. This decision body is headed by Senior Vice President, Group Purchasing and includes other relevant functions and supply chain managers. The purpose of this committee is to ensure that the responsible sourcing strategy and approach is effectively developed and deployed, and that appropriate measures are taken when suppliers' code of conduct deviations occur. The committee also takes responsibility for related issues such as the US Dodd-Frank act related to conflict minerals in the supply chain.

By the end of 2012, 120 of 140 (126 of 158) major suppliers had issued their own code of conduct in line with the SKF Code of Conduct and 117 (122) were ISO14001 certified. The reason for not achieving 100% is mainly due to a rotation of suppliers and new suppliers among the ones being nominated as major.

SKF Responsible Sourcing Programme was top ranked for the 6th consecutive year by the Dow Jones Sustainability Index regarding "Supply Chain Management / Standard for Suppliers".



Balls



Hot rolled rings



Steel bars



Steel wire

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

“Purchasing plays a key role in the ongoing SKF programme to improve efficiency, reduce cost and strengthen profitable growth.”

How did prices evolve during 2012?

Commodity pricing was characterized by volatility in 2012, driven by market participants' strong sentiments, speculation and anxiety. During Q1 2012 we saw commodity pricing increasing, which hit a peak in Q2 followed in the second half of the year by some softening. The upside and downside price risks are very much driven by growth development in China, underpinned by economic developments in both the EU and USA.

Are there any structural changes ongoing in the world regarding commodity prices?

Yes, there are four areas that may have a structural impact on commodity pricing going forward. The first two that are likely to put pressure on commodity prices are the geopolitical risk in the Middle East, which currently produces 40% of the world's oil and China's 12th Five Year Plan, which includes many infrastructure investments. There are then two other structural changes that might release pressure on commodity prices. First, the new fracking technology that might radically rewrite the global energy map by enabling exploration of shale oil and gas in the USA. Secondly, the development of green vehicles and energy-efficient engines may lower the long-term demand for oil going forward.

How do you motivate suppliers to steadily achieve better results with greater respect to sustainability?

We put a lot of effort into developing competitive suppliers. We also need suppliers who are profitable so they can invest in growth, new products and manufacturing capacity. By creating partnerships with our suppliers we help them improve their capacity utilization, reduce their operating costs and energy usage.

The SKF Responsible Sourcing Programme generates value for our suppliers by reducing risks and cutting total costs and waste.

Last year you launched the Zero defect scheme with suppliers. How did it work out?

The programme has started very well. It is a joint effort between suppliers and SKF to prevent technical defects. In 2012 the plan was to train key stakeholders, which has mainly been completed. Of our major suppliers, around 50% showed zero defects in 2012, an increase of 6% over the previous year. We have run a special programme with suppliers in China, India, Europe and Americas with good results.

The Zero Defect programme is used for both established and new suppliers. Our objective for 2013 is to increase the number of major suppliers with zero defects by 10% compared with the figure in 2012.

What are your biggest challenges going forward

There could be continued commodity price volatility, based on geopolitical risk, natural disasters and consequential supply chain disruptions.

Another challenge will be to continuously reduce total costs and the search for new supplier innovations.

How will you handle these challenges?

We will continue to develop a competitive and aligned supplier base globally, that can help SKF make its supply chains more competitive by reducing total costs, increasing flexibility and reducing supply chain risks. We will also continue to consolidate our supplier base, further develop our Responsible Sourcing Programme, develop strategic partnerships with our key suppliers and work with them on continual improvements and new innovations.



Shares and shareholders

SKF's shares as of 31 December 2012

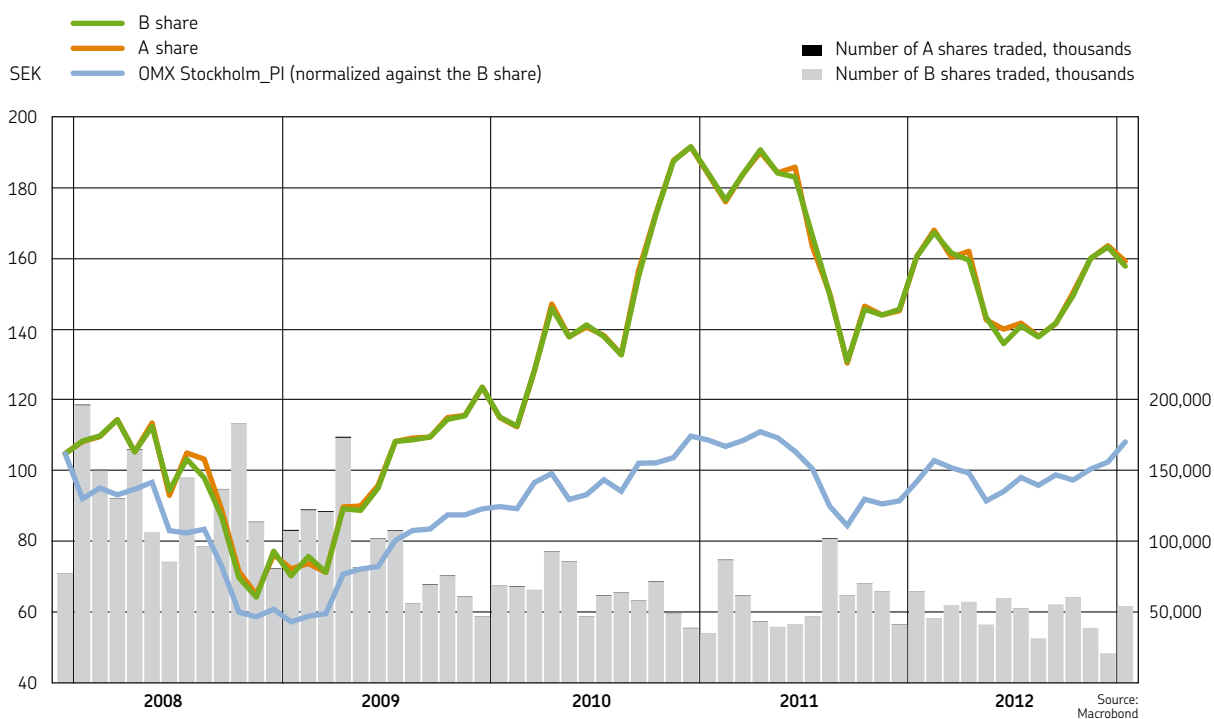
SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914. The total number of shares traded in 2012 was 624,564,540. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	42,649,282
B shares, unrestricted	412,701,786
Total	455,351,068

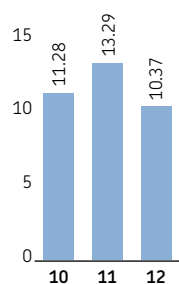
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 300,200 A-shares were converted to B shares in 2012.

A-shares are constituting 9.37% of total number of shares, to be compared to 9.43% in December 2011 and 43.3% in December 2001.

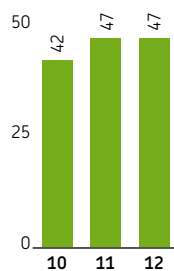
Price trend of SKF's shares



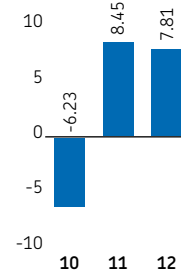
Basic earnings, SEK



Shareholders' equity per share, SEK



Cash flow after investments, before financial items per share, SEK



Per-share data

Swedish kronor/share unless otherwise stated	2013	2012	2011	2010	2009	2008	2007	2006
Earnings per share		10.37	13.29	11.28	3.61	10.14	10.09	9.48
Dividend per A and B share		5.50 ¹⁾	5.50	5.00	3.50	3.50	5.00	4.50
Total dividends, SEKm	2,504 ¹⁾	2,504	2,277	1,594	1,594	2,277	2,049	1,821
Redemption per share		–	–	–	–	–	5.00	10.00
Total redemption, SEKm		–	–	–	–	2,277	4,554	–
Purchase price of B shares at year-end on NASDAQ OMX Stockholm		163.2	145.60	191.60	123.60	77.25	104.79	113.22
Equity per share		47	47	42	38	41	40	42
Yield in percent (B)		3.4 ¹⁾	3.8	2.6	2.8	4.5	4.8	4.0
Yield in percent (B), incl. share redemption		–	–	–	–	–	9.5	12.8
P/E ratio, B (share price/earnings per share)		15.7	11.0	17.0	34.2	7.6	10.4	11.9
Cash flow from operations, per share		13.6	12.3	12.2	17.6	8.1	10.8	11.2
Cash flow, after investments and before financing, per share		7.81	8.45	-6.23	12.63	0.14	4.67	4.74

¹⁾ According to the Board's proposal for the year 2012.

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 Mangement	21,000,000	37,850,000	58,850,000	24,785,000	29.53	12.92
Swedbank Robur Funds	2,043,947	19,474,215	21,518,162	3,991,368	4.76	4.73
Alecta	2,192,404	13,857,148	16,049,552	3,578,118	4.26	3.52
AMF	0	12,805,590	12,805,590	1,280,559	1.53	2.81
Handelsbanken Funds	71,748	5,474,905	5,546,653	619,238	0.74	1.22
Skandia	3,097,436	2,226,289	5,323,725	3,320,064	3.96	1.17
SEB Investment Management	187,842	5,067,935	5,255,777	697,635	0.83	1.15
AFA Insurance	1,384,900	3,173,387	4,558,287	1,702,238	2.03	1.00
Fourth Swedish National Pension Fund	0	4,469,839	4,469,839	446,983	0.53	0.98
Second Swedish National Pension Fund	0	4,211,959	4,211,959	421,195	0.5	0.92
	29,978,277	108,611,267	138,589,544	40,842,398	48.67	30.42

Source: Euroclear Sweden AB's public share register as of 31 December 2012.

Foundation Asset Management Sweden AB (FAM), wholly owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing at least 10% of the voting rights in SKF.

As of 31 December 2012, about 41% of the share capital was owned by foreign investors, about 50% 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, which means that the actual shareholders are not officially registered.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1 000	56,569	82.2	18,357,736	4.0
1 001 – 10 000	11,031	16.0	30,613,519	6.7
10 001 – 100 000	937	1.4	26,367,935	5.8
100 001 –	300	0.4	380,011,878	83.5
	68,837	100	455,351,068	100

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2012.

Changes in share capital 1982–2012

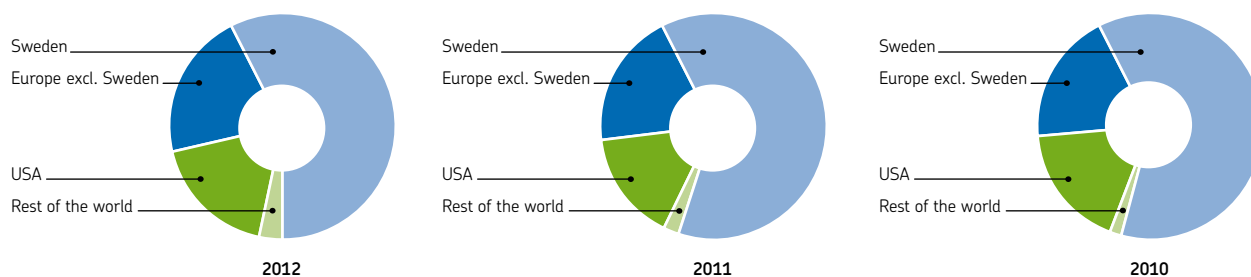
	Amount paid SEKm	Share capital SEKm	Number of shares in millions	Quoted value per share, SEK
1982 Bonus issue 1:4	–	1,350	27.0	50.00
1989 Split 4:1	–	1,350	108.0	12.50
1990 Conversion of debentures	62	1,412	113.0	12.50
1997 Conversion of bonds	11	1,423	113.8	12.50
2005 Split 5:1 and redemption	–	1,138	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 2012, the SKF Allemansfond had 2,991 members. 30% of the fund was invested in SKF's shares. Assets amounted to SEK 135 million.

Geographic ownership

Source: SIS Ownership Data Corp.



There are currently around 30 analysts who analyze and follow SKF and give recommendations on the shares. Names and companies can be found at skf.com. Go to "Investors", then "SKF's 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 2011, deferrals could be invested in an AB SKF Stock Fund. Effective 1 January 2012, deferrals and transfers into this fund are no longer permitted, although employees could maintain balances existing at 1 January 2012. The employees have no direct voting rights based on the shares held in the fund. The fund held 653,018 SKF B shares at the end of 2012.

Financial position and dividend policy

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.

Capital structure

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 2012, the gearing was 52.8% (48.9), the equity/assets ratio 37.0% (37.8) and the net debt/equity ratio 72.5% (72.3).

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.

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 a dividend of SEK 5.50 (5.50) per share. This proposal is subject to a resolution by the Annual General Meeting in April 2013. »see page 169, 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 2013. The Annual General Meeting in April 2012 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2012, no repurchases were made and the company owns no SKF shares.

Credit rating

On 31 December 2012, 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 2012, the average maturity of SKF's loans was 4 years. SKF has three notes issued on the European bond market, one with an outstanding amount of EUR 265 million and a due date of 2013, and two others with outstanding amounts of EUR 500 million each, due 2018 and 2019. 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 three loans, one with due date in 2014 of EUR 100 million, one with due date in 2016 of EUR 100 million and one with due date in 2017 of 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 one to six 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 2017.

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 could 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 20 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 200 million. Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices decrease/increase SKF's operating profit by around SEK 110 million, which is already included in the figure for raw materials and components that impacts the operating profit. »see also page 69
- An increase of 1% to wages and salaries (including social security charges) reduces the operating profit by around SEK 170 million.

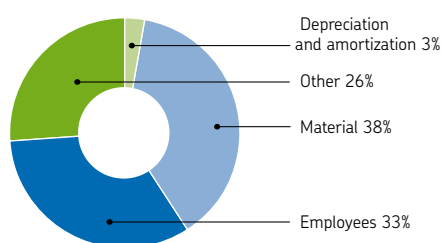
- A decrease/increase of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 50 million, based on the current position. The Group had net interest bearing liabilities of SEK 15,658 million on 31 December 2012.

Exchange rates

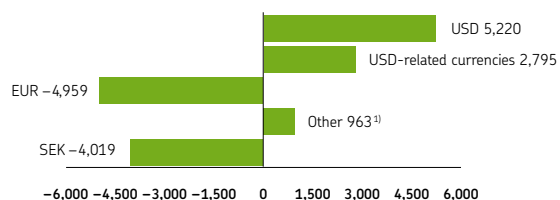
Translation effects: A weakening/strengthening of 5% of the SEK versus all major currencies has a positive/negative effect of the translation of profits in SEK of around SEK 400 million. Most of the profit is made outside Sweden, meaning the Group is exposed to translational risks, from all major currencies.

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 2012, operating expenses SEK 57,189 m



Net currency flows 2012 (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". »see page 187

Risks and uncertainties in the business

The SKF Group operates in many different industrial, automotive and geographical segments that are at different stages of the economic cycle. A general economic downturn at global level, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets and natural disasters, could have a negative effect on the demand for the Group's products and services. There are also political and regulatory risks associated with the wide geographical presence. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group's operations.

The SKF Group is subject to both transaction and translation of currency exposure. For commercial flows the SKF Group is primarily exposed to the USD and to US dollar-related currencies.

As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies.

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

SKF and other companies in the bearing industry are part of investigations by the European Commission, the U.S. Department of Justice and the Korea Fair Trade Commission regarding a possible violation of antitrust rules. SKF is fully cooperating with the authorities and is also performing its own internal review. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers. It is likely that the European Commission will impose a fine on SKF.

Given the nature of the investigation, the amount of such fine is likely to materially affect the Group's results and cash flow. It is, however, still too early to assess when and to what extent such effect may occur and hence can be accounted for.

SKF's business ethics, policies and 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. SKF Code of Conduct constitutes the ethical foundation for all activities in SKF.

SKF's anti-corruption programme includes a Group Policy for Anti-Corruption and Anti-Fraud which applies to all companies within the SKF Group. This Policy has been made public and can be found on SKF.com. SKF has a strict policy on how gifts and favours may be used to promote business contacts and relationships. This policy applies globally since SKF is committed to fighting corruption and promoting ethical business behavior in all countries where SKF is active.

The anti-corruption programme has been further strengthened during 2012 through:

- the launch of a Chinese language version of the web-based interactive anticorruption e-learning course which was launched in an English language version during 2011. This e-learning is compulsory for all SKF employees with a company email address.
- the establishment of a new policy on the appointment and use of agents and other intermediaries. This policy emphasizes SKF's commitment to extending its high standards of integrity and ethics to agents and other intermediaries representing SKF. The policy requires, inter alia, that a due diligence is performed before an agent or another intermediary is appointed or used. It also requires all agents and other intermediaries to contractually agree to comply with SKF Code of Conduct and the Group Policy for Anti-Corruption and Anti-Fraud. Similar rules apply to SKF distributors and suppliers.
- the establishment a Group Instruction related to charitable activities. SKF encourages its units to find ways in which to contribute to a positive development of local communities and society in general. The purpose of the Instruction is to ensure that all charitable activities are carried out in a planned and structured way and that they are conducted with integrity and in full alignment with the Code of Conduct.
- the establishment of guidelines on how to conduct risk assessments related to corruption, fraud and antitrust. All SKF units are required to perform such risk assessments.

- the launch of a new global web-based interactive e-learning course about fraud awareness including corruption. 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 covers the same scope as the previous training but is more comprehensive. The training is mandatory for all managers.

The SKF legal community has a special focus on providing antitrust training to the organization based on the SKF Group Antitrust Policy. Further, a new global web-based interactive antitrust e-learning course was launched. The course is mandatory for certain categories of employees, including all managers and employees working within sales and marketing. The classroom trainings provided by the legal community will continue in parallel with the e-learning.

Internal auditing of compliance with the Code of Conduct has been ongoing since 2004. The audit was integrated into the ISO 14001/OHSAS 18001 audit process, and units were inspected at biannual 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. »see page 96 for a summary of the Code of Conduct compliance audits completed in 2012.

Fraud and corruption risk assessments are carried out annually. These assessments are based on the Corruption Perceptions Index issued by Transparency International, as well as on internally determined risk parameters. The risk assessments are used for determining in which areas and units extra focus on preventive activities are needed. Risk assessments are also determining which units should be audited by internal audit. The Group whistle blowing policy secures the possibility for employees to raise concerns about potential deviations from the code of conduct without running a risk of retaliation.

The Group takes all findings, allegations and complaints seriously. Assessments and investigations are carried out immediately. For more significant cases, external auditors are assigned to the investigation. During 2012, nineteen investigations relating to fraud and corruption were initiated globally. Fifteen investigations were finalized and closed during the year. Nine of these investigations did not give any conclusive evidence that anything improper had taken place. Six of the investigations either led to that the persons under investigation left the company or that they received warning letters.

Going forward

SKF antitrust and anti-corruption programmes will be further strengthened with more extensive and improved training activities, works shops, risk assessments and audits. Specific audits related to business ethics in certain high risk areas will be introduced in 2013, a number of activities to reinforce the visibility of the top level commitment to business ethics issues will also take place in 2013. The completion rate of all mandatory e-learning courses related to business ethics will be reported to Group management on an annual basis, starting 2013.

Brand protection

SKF supported authorities in more than 330 legal actions in 2012 against suspected counterfeit bearing dealers and manufacturers around the world. Counterfeit products were involved in all of the cases. Counterfeit products of all types pose a risk to people and the global economy. SKF focuses on protecting customers, to prevent unexpected downtime, 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. In addition to supporting law enforcement, SKF also works intensively

to increase awareness about counterfeiting in the market and the need to use safe sources/authorized retailers. SKF's anti-counterfeit work over the last years has started to show results in the reduced amount of counterfeit products in 2012, especially in Europe and North America. However, less serious actors, who often operate without a stock of their own, manage to cheat customers with counterfeit products of unpredictable quality. SKF significantly focused on the South East Asian markets in 2012 and one example of a result from this work is that the largest fine ever was issued by the Vietnamese authorities to a company that traded in counterfeit bearings.

Administration report for the Parent Company, AB SKF

AB SKF, corporate identity number 556007-3495, which is the parent company of the SKF Group, is a registered Swedish limited liability company domiciled in Gothenburg. The headquarters' address is AB SKF, SE-415 50 Gothenburg, Sweden.

The business model for AB SKF has changed in 2012. From being a service provider, to being the Entrepreneur within the Group, entitled to the residual profit and taking costs for R&D and management services.

Dividend income from consolidated subsidiaries amounted to SEK 3,103 million (2,389).

Additions to investments in subsidiaries amounted to SEK 431 million (535) of which SEK 3 million (1) is related to acquisitions from companies within the SKF Group and SEK 428 million (534) to capital contributions to existing units.

Risks and uncertainties in the business for the Group are described in the Administration Report for the Group. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit and 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.

Unrestricted equity in the parent company amounted to SEK 10,307 million.

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 2013. 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 – 2012). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2013. The terms and conditions of the proposed SKF's Performance Share Programme 2013 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 – 2012.

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 2013, and the TVA development for the financial year 2015 compared to the financial year 2013. Under the programme, no more than 1,000,000 B shares may be allotted.

Based on the TVA for the financial year 2013, 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 2015 a comparison is made between TVA for the financial year 2013 and TVA for the financial year 2015. 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 2013 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.

Pensions

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 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 in line with these principles. In relation hereto the following should be noted:

- The Annual General Meetings 2008 – 2012 resolved on SKF's Performance Share Programmes 2008 – 2012, with in essence the same terms and conditions as of the proposed SKF's Performance Share Programme 2013.
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-fulfillment of the TVA target for the financial year 2009. Allotment of shares under SKF's Performance Share Programme 2010 was made in the beginning of 2013. Any allotment of shares under SKF's Performance Share Programmes 2011 will be made during 2014. No allotment of shares will be made under SKF's Performance Share Programme 2012 due to non-fulfillment of the TVA target for the financial year 2012.
- The pension conditions of the President are described on page 151 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- In 2012 the retirement age was increased to 65 years. Certain members of Group Management 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 2012 and remuneration of Group Management 2012, 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. SKF BeyondZero combines this with the strategy to improve customers' environmental performance through products, and solutions that improve energy efficiency and reduce environmental impact. These are defined, measured and verified for inclusion in the SKF BeyondZero portfolio.

A company like SKF can have an important impact on the environment, via everything from the raw materials selected, how these are 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 ability for the business to do more with less and thereby creates sustained competitive advantage.

The SKF BeyondZero strategy reflects this. It requires action to reduce the impact resulting from SKF's operations and those of suppliers (reducing the negatives) while at the same time providing customers with SKF BeyondZero portfolio solutions that deliver reductions in the impact of their products (increasing the positives). More details about SKF's portfolio can be found in the Business Care section on page 33–35 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. This approach has been further exemplified by the announcement of SKF's new climate strategy and targets in 2012. Built on SKF BeyondZero, the new approach tackles all the significant greenhouse gas impacts in the full life cycle and the full value chain of SKF's products and solutions.

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

In 2012, SKF invested SEK 129 million (65) on internal and external environmental improvements.

SKF EHS Policy, legal and regulatory compliance

In order to reflect relevant recent developments both internally and externally, SKF's EHS Policy was updated in 2012. It is available at skf.com and 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 2012, SKF held permits covering 8.5% 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.

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 2012. Six minor spills have been reported during the year. These have been acted upon and in line with local regulation been communicated with environmental authorities.

Environmental Management Systems, ISO 14001 and ISO 50001

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 104 sites in 30 countries at the end of 2012. New sites that were added to the Group's ISO 14001 certificate in 2012 were: Monterrey, Mexico; Houston, TX, USA; and Dalian (Medium Size Bearings), China.

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

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.

SKF has also started to implement the recently launched ISO 50001 energy management system across the Group. The basic principle is that all manufacturing sites with an energy use of 9 GWh/year or more shall be ISO 50001 certified. These represent about 90% of the Group's total energy use. This management system is an initiative to further drive improvements in energy performance and thus reduce environmental impacts and costs and is scheduled to be complete in 2014. The schedule for SKF sites to be included is available at skf.com.

LEED and Sustainable Factory Rating

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

Therefore, SKF defined in 2010, that all major constructions undertaken by, or on behalf of, the Group must be designed and constructed in accordance with the US Green Building Council's (USGB) "Leadership in Energy and Environmental Design" (LEED) standard.

LEED covers the design and construction of the building itself; the lighting, heating and ventilating systems, working environment etc. Using LEED has led to significant improvements in building design and performance for SKF, however as it is a generic standard, designed to be applied to all building types and uses, it does not address the environmental and human impact of the specific manufacturing processes to be run in the building.

These impacts are often potentially very significant and therefore, SKF has internally developed the "Sustainable Factory Rating" (SFR) as a specific "add-on" to the LEED requirements. Since 2012, all major constructions to be undertaken by or for the Group are required to apply SFR in conjunction with LEED.

As with the LEED system, the SFR lists a number of criteria which should be addressed by the project team during the design and construction of the facility and the specification of the manufacturing equipment, to assure the principles of SKF Care are fully applied, and full alignment with the SKF EHS policy is achieved, when new facilities within SKF are designed, built and taken into operation. The criteria are grouped in 11 categories:

- Health and Safety
- Process Media and Process Pump Systems
- Compressed Air Systems
- Process Cooling / Heating
- Metering, Monitoring and Targeting Capability
- Pollution Control
- Process Waste Management
- Manufacturing Equipment
- Water
- Heat Treatment
- Commissioning Phase

Climate change

SKF has been acting with a clear focus on climate change mitigation for many years and previous annual reports have detailed the significant progress the Group has made in reducing greenhouse gas emissions.

The motivation for SKF's continued commitment to addressing climate change 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. SKF's ability to run its activities in a highly 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.

Climate Strategy

In May 2012, SKF announced further steps aimed at strengthening and broadening the Group's overall strategy towards climate change. Built on SKF BeyondZero, the new approach tackles the significant greenhouse gas impact in the full life cycle and the full value chain of SKF's products and solutions. Aggressive targets have been established which aim at reducing GHG emissions for SKF's:

- own operations (scope 1 and 2),
- suppliers (raw material and components),
- logistics operations (transport and distribution), and,
- customers (products and solutions).

In recognition of the world leading scope and ambition levels set out by these targets, SKF has been welcomed into the Climate Savers by the WWF. Climate Savers is a programme

which recognizes only the sector leading companies in the area of climate change mitigation, see next page.

SKF monitors and reports carbon dioxide (CO₂) emissions according to the Greenhouse Gas Protocol (GHG Protocol). CO₂ is concluded to be the most significant greenhouse gas produced as a result of its business activities. The GHG protocol categorizes an organization's GHG inventory into three scopes: scope 1, including direct emissions from onsite combustion processes, scope 2, including the indirect emissions associated with the supply of electricity and heat to SKF facilities and scope 3, including all other indirect emissions, such as those related to raw material and components, logistics or business travel.

SKF is playing a leading role in developing credible and transparent methodologies for calculating GHG emissions savings which result from the use of energy and carbon saving solutions at customers (sometimes referred to as scope 4).

Climate Targets

SKF's climate strategy is focusing on four areas where SKF has the possibility to drive significant improvements defined by the following targets:



▶ Raw material and components

100% of SKF's energy-intensive major suppliers certified according to ISO 50001 Energy management Standard by 2016.



▶ SKF's own operations (Scope 1 and 2)

Reduce the total annual energy use of the SKF Group by 5% below 2006's level by 2016. Reduce the energy use per production output by 5% year-on-year.



▶ Products and solutions

Increase the revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016.



▶ Transport and distribution

Reduce CO₂ emissions per tonne-kilometre for all transport managed by SKF Logistics Services by 30% below 2011's level, by the end of 2016.

WWF Partnership



SKF's climate strategy was recognized by the WWF as being best in class in its industry when the world leading environmental pressure group included SKF in their Climate Savers programme in May this year.

The WWF Climate Savers is a global leadership platform transforming business and industry by finding companies who are prepared to take the lead on climate

and energy solutions. The member companies set, in agreement with WWF, sector-leading targets for greenhouse gas reduction in their own operations and work with other companies and partners to implement innovative solutions for a clean, low carbon economy. Achievements are annually monitored and verified by SKF's auditors, ensuring the highest credibility. » Read more at wwf.panda.org

SKF's own operations (Scope 1 and 2)



SKF's direct ownership and management of the facilities belonging to the Group gives the company the power and responsibility to minimize the carbon emissions associated with its own operations. SKF is doing this in two ways; by reducing the energy intensity of the operations through proper energy management, and by reducing the carbon intensity of the energy used through sourcing of low carbon energy or on-site generation of renewable energy where possible.

Between 2006 and 2011, SKF's target of a 5% annual absolute reduction in CO₂ emissions has acted as a strong catalyst for change. As the results show, having such a tough and uncompromising target has led to a greater focus on energy reduction and CO₂ emissions, which in turn has driven investments, priorities and the development of relevant skills in the company.

Between 2006 and 2011, in a period when SKF's business grew by 25%, the CO₂ emissions related to SKF's own operations

were reduced by 25% and at the same time the energy use was reduced by 10%. However, the absolute CO₂ reduction target cannot be sustained in the long-term, mainly because of increasing production activities in markets where sourced energy is more carbon intense. Going forward, an absolute CO₂ target might risk an over emphasis on carbon offsetting, and reduced focus on improving energy performance – which is the most effective and direct way to lower the greenhouse gas emissions related to SKF's own operations.

Therefore the Group has decided to focus directly on energy use within its operations and has set extremely aggressive targets, which address both total energy use and energy use per production output. As presented above, these targets were launched in May 2012, and form part of SKF's climate strategy and WWF Climate Savers commitment.

Targeting both total energy use and energy relative to production output will assure an even higher pressure and focus on improving energy performance irrespective of the external economic climate and location of the site. During periods of higher growth the absolute target will be tougher, whereas during periods of lower or zero growth the indexed target will drive improvements.

Many of the actions needed to reach the aggressive targets are under way and presented in this report. Such actions include the use of LEED and Sustainable Factory Rating and the introduction of ISO 50001 energy management system. Read more about these initiatives in page 83 and the highlights on these pages.

Thermal solar power generation in Mysore, India



The SKF factory in Mysore, India, has been constructed according to SKF's Sustainable Factory Rating and LEED requirements, with the aim to obtain LEED Gold.

Renewable energy

One of the features of the plant is a roof-top solar installation used for heating water for the phosphating process in the factory. The solar panels are able to preheat the water in the system to 120 °C. This system alone reduced cost from energy sourced by SEK 60,000 per year.

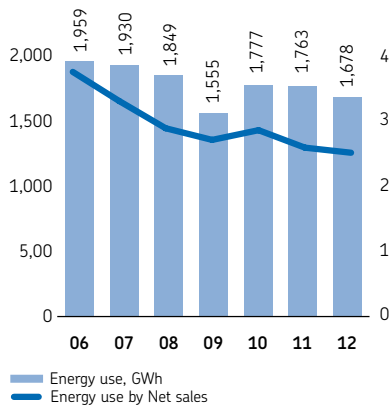


Energy use

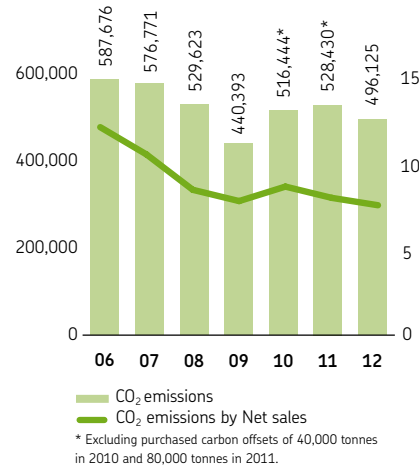
There are several technical features to reduce energy demand in the plant. Space cooling of the production hall makes up for a significant part of the total energy use. Applying *indirect evaporative cooling* helps to reduce energy use together with many other features.

In total, the energy simulation for the Mysore factory building (hot water, ventilation and space cooling, lighting, pumps and auxiliary equipment and other miscellaneous equipment) shows over 50% reduced energy cost compared to a defined baseline by a third party.

Result of Energy use at SKF's operations



Result of Carbon emissions from SKF's operations (scope 1 and 2)



ISO 50001 implementation

In November SKF held a start-up seminar in Schweinfurt for the implementation of ISO 50001.

The certification standard is meant to facilitate a stable, structured process and organization that will deliver reduced energy consumption and cost over the long term. It also creates an opportunity to take advantage of incentive schemes (e.g. in the EU) and avoid potential future penalties. As the standard has a broad applicability across sectors, it could influence up to 60% of the world's energy use.

SKF aims for Group certification by 2014.

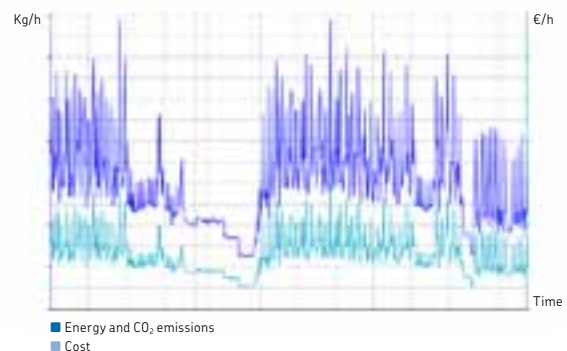


Energy coordinators taking part at the ISO 50001 seminar in Schweinfurt in November 2012.

Schweinfurt is one of SKF's largest plants and is one where many best practices can be found. One such example is continuous monitoring of energy use.

The main energy carriers in a typical channel are compressed air, direct electricity, honing oil and grinding fluid. By following the individual energy carriers (which are compiled in the diagram to the right) it is possible to visualize improvement potentials and to drive and measure energy and cost savings.

In this example, the cost of energy, both in financial terms and in CO₂ is visualized.



Raw material and components



In 2012 SKF took a further step to promote effective energy management in the supply chain by setting a target to have 100% of its major energy-intensive suppliers, including steel suppliers, forging and casting companies, certified according to ISO 50001 Energy Management Standard by 2016. This target was launched in May 2012 and forms part of SKF's climate strategy and WWF Climate Savers commitment.

Since 2007, SKF has requested qualitative and quantitative information from its major suppliers on their energy use and CO₂ emissions related to the products sourced by SKF.

SKF puts focus on the major suppliers that are energy-intensive in order to ensure highly effective commitment and focus on these critical suppliers. This will not only drive energy efficiency improvements and CO₂ reductions related to the material purchased by SKF, but will also reduce costs. »see pages 69–70

During 2012, SKF contacted the suppliers in scope and evaluated their readiness level. Two of the targeted suppliers have already implemented the new ISO 50001 standards and nine have started working towards implementation. Read about one of them and the benefits they have enjoyed from applying ISO 50001 in the outlook below.

Benefits of ISO 50001 at SKF supplier DEW

Standardized energy management brings many benefits to SKF over the long term as explained above. The same is true for SKF's business partners. DEW (Deutsche Edelstahlwerke), is one supplier of steel components already certified according to the standard.

"The energy management standard brings many benefits, but the most important and direct benefits are exemption from duties and taxes and that we can easily identify inefficient machinery," says DEW's Environmental and energy officer.

Products and solutions



Numerous environmental studies carried out by the Group in recent years have shown that typically the most significant energy use and related greenhouse gas emissions occur when the product or solution is being used by the customer. This means that the greatest potential for energy and CO₂ reduction typically lies in this customer use phase. Growing the SKF BeyondZero portfolio business is the most important way in which the Group can help to address climate change. Therefore, SKF has set a target to increase its revenues from the SKF BeyondZero portfolio by four times from 2011 until 2016. »see pages 33–35

Customer example of verified environmental benefit

SKF Bus Door Actuator provides energy savings for city buses

Increasing fuel prices, more rigid emission legislations and higher safety demands, are the main business drivers in the bus market. To meet these demands, SKF has developed an electromechanical bus door opener that reduces weight, maintenance and fuel consumption, with greater reliability.

It is estimated that using SKF Bus Door Actuators instead of pneumatic actuators results in a 2.6% improvement in city bus fuel economy. The potential savings have been reviewed by external auditors and the solution has been included in SKF's BeyondZero portfolio. »see pages 33–35



Transport and distribution



SKF Logistics Services

SKF Logistic Services is managing a large part of SKF's transports, mainly distribution to customers, but also some of the inbound transports between SKF's suppliers and factories. The emissions generated from logistics related to SKF are significant and are therefore included in the targets defined in the revised climate strategy.

The target is to reduce CO₂ emissions per tonne-kilometre by 30% by 2016 compared to 2011. This indicator improved by 3% in 2012 compared to 2011, from 24,9 gram CO₂ per tonne-kilometre to 24,2 tonne-kilometre. CO₂ emission per tonne-kilometre is an accepted measure of the carbon efficiency of logistics.

SKF Logistics Services' scope

SKF Logistics Services measures the emissions of the Air, Ocean and Express shipments on a global level. For road transportation, the Group is mainly reporting emissions from its network within Europe. During 2012 SKF increased the scope of reporting to include additional countries outside Europe, e.g. Uruguay, where SKF has set up a large logistics hub. For a lot of road transportation outside the scope explained above, there are difficulties in obtaining reliable data from logistics providers.

The monitoring includes emissions of carbon dioxide (CO₂), carbon monoxide (CO), nitrogen dioxide (NO₂), sulphur dioxide (SO₂), particles (PM) and hydrocarbons (HC). The total CO₂ emissions from SKF logistics services development are presented below:

	2012	2011
Tonne-kilometre (millions)	2,149	2,074
CO ₂ Emissions (Tons)	51,993	51,638
CO ₂ gram per tonne-kilometre	24.2	24.9

The total CO₂ emissions have increased by less than 1% and the transport works increased by 4%, resulting in lower CO₂ emissions per tonne-kilometre.

SKF Group and SKF Logistics Services are focusing on a number of key areas to reach the targets set and to reduce total emissions from transportation, such as:

- Reduce total numbers of transports, (eliminate waste)
- Shifting towards more efficient transport modes
- Improve efficiency in the transports chosen

To minimize total numbers of transport, SKF Logistics Services is working with incentive schemes to increase fill rate, which was over 80% for 2012; improved planning and routing of trucks; increased consolidation of air/sea transports, providing logistics services to external companies, etc. See also SKF's Virtual Warehouse page 68 and how this is contributing to eliminate transports.

Focusing on more efficient transport modes is another contributing factor to achieve SKF's targets for logistics. The most obvious is to replace air shipments to less polluting transport modes.

To reach the transport-related targets in SKF's climate strategy, an increased focus on transport efficiency is needed, including and increased fill rate and route optimization, but also a close collaboration throughout the supply chain with suppliers as well as customers. To take an active role in improving the environmental performance of the transport sector, SKF Logistics Services also participates in a number of external network collaborations such as KNEG, NTM and the Clean shipping index. »see skf.com

Shifting modes on eastbound transports

In 2012, SKF Logistics Services successfully eliminated one air shipment per week between the distribution centre in Tongeren, Belgium and the warehouse in Moscow, by switching to road transportation. As a result, the CO₂ emissions for this flow have been reduced by 18%, while the transport volume has increased by 19%.

In May 2012, a pilot project to ship from Europe to Asia via railway was initiated. The actual environmental benefits from this are currently under evaluation. A shift from air to ocean shipments will continue to be in focus during 2013 to further reduce emissions.



To increase efficiency, SKF Logistics Services is focusing on environmental demands on suppliers by including some parameters in the commercial contracts. Stating the agreed fuel consumption in the contracts, which in turn regulates the fuel cost, gives suppliers incentives to apply eco-driving and invest in modern equipment to minimize fuel consumption. Reduced fuel consumption of one litre per 100 kilometres translates into 1.6% reduction of CO₂ emissions. These contracts are reviewed annually for continuous improvements.

For more information about SKF's transport and distribution and how SKF Logistics Services is collaborating with other companies. »see skf.com

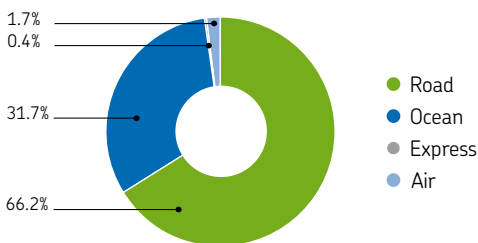
Business travel

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's business means that air travel accounts for by far the largest CO₂ emissions in business travel.

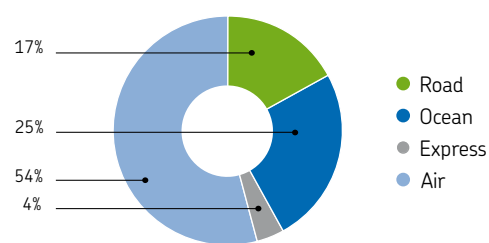
In 2008, SKF started to monitor CO₂ emissions from its European and US air travel. Data from other regions have not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult. SKF is a global company and meeting in person is often 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.

The total reported CO₂ emissions from air travel in 2012 amounted to 18,302 (19,870) tonnes, an 8% reduction compared to 2011.

Percentage of shipped weight per transport mode Q4 2011 to Q3 2012



Percentage of carbon emission per transport mode Q4 2011 to Q3 2012



Other important environmental aspects

Besides 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 year-on-year data and explanations to possible restatements, please refer to the Notes – environmental performance on pages 170–173 and for a more detailed explanation of SKF's approach to each issue, please refer to "Sustainability in SKF – Policies and Practices" found at skf.com.

Material consumption

SKF uses various materials such as metal, rubber, solvents, hydraulic oil and grease. The use of metal as raw material in 2012 was 368,000 tonnes, which is 11% lower compared to 2011 (414,000).

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.

Even though substantial progress has been made (about 700 tonnes reduction from 2007) the use of VOC's in 2012 was 966 tonnes, meaning only a 40% reduction was materialized. Actions on how to proceed are ongoing and new targets will be disclosed in 2013.

SKF has been working towards eliminating the use of equipment containing polychlorinated biphenyl's (PCB) at all manufacturing sites. By 2011, PCB was eliminated at all sites except for Lutsk, Ukraine. A systematic replacement programme of transformers containing PCB in Lutsk started in 2011 and was completed in 2012.

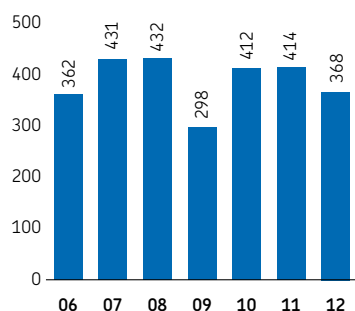
Ozone-depleting substances

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 usage has been totally eliminated due to process changes in manufacturing.

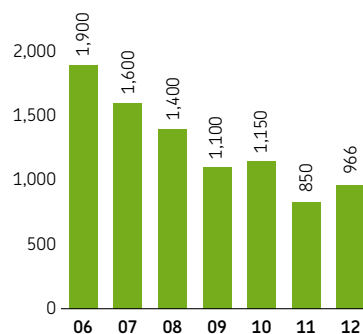
Environmental Compliance of SKF's products

The SKF Group has a centralized service for the environmental compliance surveillance of SKF's products, with respect to chemical legislation, such as for example (but not limited to) REACH and RoHS.

Metal as raw material ('000 tonnes)



Use of Volatile Organic Compound, VOC (tonnes)



The provisions of the REACH 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. In addition to the environmental compliance surveillance mentioned above, this includes supplier contacts to verify compliance regarding use of chemical substances. For more information about health and safety related to SKF's products, please refer to "Sustainability in SKF – Policies and Practices" available in the Topics related to annual report at skf.com.

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. Therefore, SKF monitors total water consumption at operating units and not according to water withdrawal by source. Water consumption by the Group in 2012 was 5.66 million cubic metres, compared with 5.58 million cubic metres in 2011.

SKF has established specific targets for reducing water consumption applicable to sites located in areas of water scarcity. SKF in Bengaluru India has reduced its water use by close to 40% since 2007.

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

Geothermal energy and recycling of grey water at SKF Jinan, China



SKF's factory in Jinan is designed and constructed according to LEED requirements and SKF's Sustainable Factory Rating procedure. Some examples related to renewable energy and reduces water usage are presented below.

Water

Water is collected from rainwater harvesting, from condensed water, the air conditioning system and from basins and showers. After a purification process the water is reused for flushing toilets and landscaping. Together, this results in an estimated 50% reduction in potable water usage compared to traditional systems.

Renewable energy

SKF Jinan has also installed a geothermal heating/cooling system used for climate control and process cooling. 300 boreholes were drilled, each 100 meters deep, to drive the water-sourced heat pump system. This system will realize 40% savings on sourced heating and cooling energy per year for the factory.

water handling. Many units have also introduced closed-loop water systems or installed waste water treatment facilities. Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). »see page 83

As all new SKF facilities, the factory in Jinan, China has been designed and constructed according to these standards and has a water system allowing 50% savings in potable water use compared to baseline, read more in the highlight on the previous page.

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 95,131 tonnes in 2012.

A common waste product from SKF's manufacturing process is grinding swarf. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2012. The 2012 recycling percentage of grinding swarf Group-wide was 76% and SKF will define a new target aimed at maintaining focus on this issue during 2013.

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

Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). As at all new SKF facilities, SKF's factory in Jinan, China has been designed and constructed according to these standards and has a water system allowing 50% savings in potable water use.

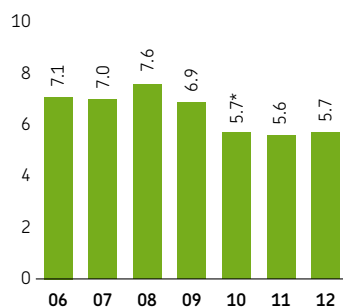
requirements. Specifications and requirements about the type of packaging materials and related products are also defined in the standard.

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. In case pallet bases, collars or lids are damaged they will be repaired and put back into circulation.

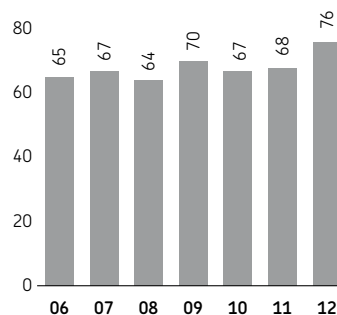
SKF Logistics Services provides component suppliers with GSPs and the same transport packaging is used when products are finally shipped to customers. Reusing the same transport packaging eliminates waste. For each pallet there is a returnable deposit which is refunded when the pallet boxes are returned 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 is about promoting a safe working environment, health, education and well-being of SKF's employees.

SKF's leadership position has been established over many years through the commitment, knowledge and passion of the Group's employees around the world. SKF is powered by people and the company's ability to attract, retain and develop its employees is therefore absolutely critical for maintaining this leadership. SKF cares for our people, and our people care for SKF. This is the essence of employee care.

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

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

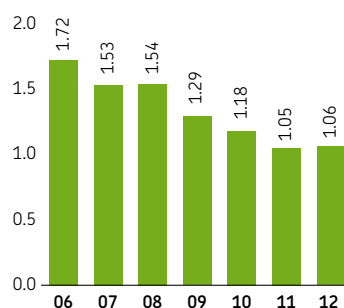
The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) will celebrate 10 years in 2013. One of the first agreements of its kind, the framework helps to promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of employee care throughout the Group.

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. 127 out of 225 SKF units worldwide achieved no recorded accidents for a minimum of four consecutive quarters at the end of 2012. 2012's accident rate was 1.06 (1.05), significantly lower in comparison to 13.78 in 1994 when SKF started monitoring it.

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 2012, the certificate covered 104 sites in 30 countries.

Accident rate for the SKF Group



Accident rate definition;
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

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 SKF Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN Global Compact.

In addition, the SKF Code of Conduct is the basis of the above mentioned global framework agreement and has been used as 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 at 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 2012, audits were conducted at 28 units, of which eleven were in Europe, eight in Asia, eight in the Americas and one in Africa. The audits showed eight non-compliances with the Code of Conduct; seven of which were also legal non-compliances related to work hours, one was related to fair competition for vacant positions for all employees. Corrective action was taken in all cases.

In addition to identify and follow up on the non-compliances, Group Policy Audit also makes recommendations to issues found not to be non-compliances, but still important to address.

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.

During 2012, SKF underlined and made it more clear and open that the company does not tolerate any retaliation towards any employee who speaks up by asking a question, makes a complaint or cooperates in an investigation, provided that the employee is raising a legitimate concern and/or reporting a problem in good faith.

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 SKF World Union Council.

There is 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.

Continuous improvements in safety with Business Excellence in Tudela

In Tudela, as at many other SKF production plants, SKF applies its Business Excellence approach in order to create a lean and demand driven manufacturing with continuous improvements.

One central aspect of Business Excellence in any manufacturing channel is the daily management meeting, also known as a pulse meeting. This is a quick meeting during which deviations that occurred during the last shift are brought up. Safety is always the first issue on the agenda. If a safety deviation is

raised, which could be an accident, near miss or accident waiting to happen, someone is immediately assigned to take care of the situation. If it is something that could be replicated in other channels or a more serious issue, then the deviation is escalated by the team leader. These types of short pulse meetings are held on three levels at the Tudela factory. All deviations are placed on a whiteboard until taken care of and closed.

Working environment

Every 18 months SKF carries out an employee survey called the Working Climate Analysis (WCA) globally, with the aim of continuously improving the working environment. The WCA collects employees' feedback on the working climate both locally and globally, in relation to the company's values and drivers. Follow-up dialogues are held by managers with their teams, with the purpose of identifying and implementing improvement plans.

In 2012, the response rate for the WCA was 85.0% (85.3%), while the absolute number of employees finalizing the survey increased by 8%. The result is presented in 14 different categories with multiple subcategories. 2012 year's result showed a slight overall increase from 2011. The scope is 100% of the Group's employees.

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 are 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 97.5% in 2012, while the retention rate of employees was 93%.

At the end of 2012, 30% of the Board of Directors and 21% of SKF's Group Management positions were held by women. Locally, 70% of SKF units have at least one woman in local management. The total number of female managers in local management throughout SKF was 17% (the proportion of female employees in the Group was 22%).

SKF has 65 country managers globally, representing 59 nationalities. SKF aspires to recruit, develop and promote the best local talent for managing its local business units. The diversity approach is to enforce "diversity for good business" – to mix teams based on contextual business needs. Cultural diversity is endorsed through international assignments, global leadership programmes and global project teams.

Job openings at SKF are posted on the intranet. The SKF Code of Conduct stipulates how all employees are entitled to a fair chance to compete for job opportunities.

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, see page 173–175, Notes – social performance.

Building diversity as a success factor at SKF in India



Building a diverse workforce and achieving diversity of thought has been identified as a key to business success at SKF India. Two main approaches have been used to strengthen and sustain diversity.

Thought diversity is one by which different ways of thinking are encouraged and stimulated. The result is that more aspects are covered prior to an important decision. The other approach is building a culture that ensures an atmosphere in which diversity is highly valued, sustained and respected.

There are different aspects of diversity in India, as there are in many parts of the world. Under the umbrella of Thought diversity – gender diversity and ability diversity have been identified as two focus areas.

Ability diversity seeks to find the special ability of any person regardless of hinderance or impairment. SKF actively participates at job fairs promoting equal opportunities for every individual. SKF is also partnering with the Samarthanam Trust and participating in finding and enhancing the abilities which may sometimes be "hidden" behind a physical or financial impairment. »see page 101

Gender diversity is exemplified by strengthening women's position in society and at the company. SKF India's women's affinity group is a formalized learning and coaching network supporting this. In addition, The Prevention of Sexual harassment committee was constituted in 2012 and has representatives across SKF's locations in India. It has been ensured that there is a fair representation across genders in the committee. The work of this committee goes along with SKF's policy to create healthy and safe work environments.

Health Week – Colombia

Once a year, Health Week is held at SKF Colombia with particular focus on physical health and security, mental health and well-being, environmental issues and team building – for all employees and managers. One week in October 2012 was

dedicated to this and all employees were offered the chance to take part in activities such as an "ecological walk", general medical examination, audiometric, dental health, personal safety and vaccinations and prevention of diseases.

Health and well-being

SKF takes care to ensure the well-being and life-balance amongst the Group's employees.

83% of SKF's employees are covered by some type of documented health and well-being policy or programme. All units in Africa and a number in Latin America and East Asia have established programmes to prevent HIV/AIDS. Previous Sustainability Reports and the company website have reported various HIV/AIDS initiatives or programmes. More information about this is also available on page 103 in the Community Care section.

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 it is incorporated into company activities. See the Community Care section for further information about some of SKF's engagements.

Million steps – Walking Spree USA

SKF USA's Walking spree was initiated in 2010 as a means of improving health and increasing health awareness among employees. Heart disease is the most common cause of death in the USA (and in many other countries), and inactivity can double the risk. The Million steps programme challenges SKF employees (and their spouses) to increase their average steps during the day using a pedometer to keep track. Motivators include free pedometers, local charity donations and raffle prizes for reaching new targets.

After the first year the programme was running, 40% of the participants say they lost weight and 59% feel that they have more energy.

The programme keeps expanding to more and more SKF sites in the USA and Canada and in 2012 the programme won an SKF Excellence award for Sustainability.

Italy – SKF per Me



SKF per Me (SKF for Me) is a programme for the employees of SKF in Italy. It seeks to improve the general wellbeing of SKF's employees, their families and create a sound work-life balance. The programme contains four main topics: family, wellness, time and leisure.

Family

In the family area, various support for the families of SKF employees are found, such as: scholarships and study loans, complementary summer holiday camps for the children. In this area there are also tools to support greater flexibility, such as part-time work, better remote work access, extension of the usual flexibility time and also extra availability for unpaid leave. An agreement between SKF and the national unions has also made possible an extra monthly cash contribution for employees with children who are disabled.

Wellness

In the fitness area, employees can receive subsidized fitness certificates for non-competitive sport activities, free of charge dietetics program and health checks are also available through the *Medical factory room*.

Time

In order to save time for SKF's employees, there is a service desk where various activities such as municipal tasks, post offices and bank errands, etc can be carried out, and where employees also can buy tickets to music and sporting events.

Leisure

In the entertainment area, all employees are given a personal card which can be used to purchase various consumer products and services at a discount price. A list of services is available at SKF per Me intranet.

Initiated in 2007, SKF per Me has taken form during the years using a bottom up approach. Focus groups made up of both white and workers as well as union representatives bring forward the demands and desires of the employees.

From 2011 to 2012, inquiries to the service desk increased by over 140%, whereas the summer camps' registration for employees' children increased by 30%.

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. In the latest follow up in 2012, 65% of the Group's employees have had a performance review within the last 12 months, 54% consider that they have an individual development plan in agreement with their immediate manager.

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 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 rapidly expanding 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 the 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.

To secure that SKF's people and organization have access to important and strategic courses, there are twelve work groups – called SKF Academies – covering nineteen learning areas.

As an example the SKF Leadership Academy developed and launched four new programmes during 2012:

- Manage, Lead and Coach
- Leadership in Strategy Development and Execution
- Working in a global matrix
- Leading Change

Doing business in Asia

The second step of the leadership programme Doing Business in Asia was launched in 2012. The programme targets talented leaders in Asia who will take responsible positions to lead SKF towards the next phase of the company's growth in the region. The programme covers many different aspects of business practices, such as leadership, strategy, finance and mergers and acquisitions, besides working on a real case business project.

One of the drivers behind the programme is to get more local talent to leading positions in the company. In both China and India, the talent supply on entry levels is very high, and with the leadership programmes SKF aims to support these individuals to excel into higher management positions and lead the company according to SKF values and drivers.

Human Resources Transformation project

SKF continued to make progress with its HR Transformation programme during 2012, steadily rolling out the new human resources processes to more of the global employee population.

The goal is to align all HR activities at SKF to achieve a one person agenda across the SKF Group.

Developing the HR organization to achieve this goal was the main HR Transformation activity in 2012. To achieve this, a "New Way of Working" project was established to map the current reality and define new roles, organization structures and methods. New Job descriptions were defined, a Human Resource taxonomy was created and aspects of a possible future organization were developed such as a shared service centre for recruitment which was set up in Gothenburg.

When finalized, the HR Transformation programme will establish the HR function that SKF needs to be the knowledge engineering company.

Performance management

The roll-out of a new globally common Performance Management Process is continuing. In 2012, 68 countries and about 9,000 employees were involved in the system and an additional 9,000 will be included in 2013. Employees and managers have invested time to ensure they have relevant goals set for the year and to follow up achievements and discuss priorities during the year.

Competency management

As explained above, all SKF employees are entitled to an individual development plan (IDP). The Competency Management Process is open to all employees and managers so that IDPs and competency assessments can be made all throughout the year. In combination these two processes help SKF focus on doing the right things in the organization to reach business targets. It also helps employees and managers to ensure that there is a continuous dialogue around what competencies are needed to be able to perform what is expected.



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. SKF issued a new group instruction on charitable activities in 2012, to further facilitate planning and structuring local initiatives. 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.

Forty-four countries submitted Community Care reports in 2012. Out of a total quantifiable contribution of SEK 22 million, SEK 12 million was made up of financial sponsorship to various

local charities, as well as for sports, cultural or educational events. Close to SEK 9 million was donations 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. Over the years, well over 200 activities have been driven by SKF units around the world. The number and diverse range of Community care programmes truly shows how great the demand is from local communities, as well as the high motivation that SKF employees have to contribute to a positive change.

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Natural disasters

A number of natural disasters occurred in communities in which SKF operates during 2012. In such cases there is a strong desire from SKF's employees and management to provide practical help. Sometimes, it may be more feasible and effective to help by making donations to organizations specializing in giving aid in case of catastrophic event, and sometimes it is possible to initiate hands on action.

In response to Hurricane Sandy, which struck the American eastern seaboard in November 2012, SKF USA initiated a matching programme. SKF USA matched the employee donations and in total a combined contribution of around SEK 80,000 was provided to the American Red Cross.

In Italy, SKF took an active role to help the local community in Poggio Rusco after the powerful earthquake that struck the community in May, read more in the highlight below.



Help to earthquake areas – Poggio Rusco, Northern Italy

The area of Poggio Rusco in Northern Italy was hit by a magnitude 6.0 earthquake in May 2012. At this point the damage was not particularly severe, neither to the municipality nor to the SKF plant nearby. However, four aftershocks struck the area about a week later, one of which was more violent leaving significant structural damage to the town of Poggio Rusco. Homes and the town hall were severely damaged.

SKF responded by donating and setting up a small tent village of 35 tents, temporarily taking in families who could not stay in their homes.

In addition, SKF set up two containers to host the historical archives from the town hall as well as temporary offices for the town hall staff.

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 – education is the first step to empowerment. As a result, SKF has been actively involved over the years in providing local communities with access to education and training through scholarships, partnerships, vocational training, mentorship or sponsoring events.

The SKF Hope Schools in China is one example of a long-term commitment to improve opportunities for less fortunate children or children living in remote villages, to gain access to education. The Hope School project started in 2006 and is a joint activity from all SKF facilities in China. There are now three Hope Schools running with SKF as the main sponsor.

Another initiative that started in 2006 and which has evolved over the years, 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 three 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.

In Guadalajara, Mexico, SKF has initiated a collaboration with the foundation Fondo Unido de Jalisco (Jalisco's community support institution). Together, SKF and the support institution is building a computer classroom for the programme Mano Amiga para la Niñez (Friendly hand for Kids). SKF has supported with donations to get the classroom and required utilities finalized. The next step is to acquire computer equipment. Classes will be held by SKF employees and other volunteers. The classroom is located in an underprivileged area and is able to host classes of 200 students of different ages per day.

In Austria, the Basky Project, (short for Basar SKF City) is 10 years old in 2013. The initiative tries 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 visit skf.com.



SKF Vietnam supports a scholarship programme for disadvantaged children in the school Phan Huy Ich Point Com in Ho-Chi Ming City. Between 2008 and 2012, twenty scholarships have been provided each year by the local SKF organization. Thanks to these scholarship, the children are given a good opportunity to continue going to school and to access higher education programmes provided by the centre.

Tech-Vision

Tech-Vision' is a collaboration between SKF India Ltd and the Samarthanam Trust in an attempt to enhance the individual abilities of people who are less fortunate, to equip them with the right tools and to empower them to face the world with confidence. Between 2009 and 2012, SKF Bengaluru has sponsored over 100 students ranging from 15 to 52 years old. Successful graduates leave with skills such as MS Excel and Spoken English SKF employees join as facilitators to hold

periodic workshops and knowledge sharing sessions with the objective to focus on the individual abilities of the people and enhance their strengths. SKF also hosts situation role plays and personal development training to help the students harness their abilities. In the end it is about being prepared for "new age jobs", often carried out using computers and phones.

After graduation many participants have acquired jobs in call centers, as receptionists or teaching at public schools.



Students and SKF volunteers in the Tech-Vision project at SKF in Bengaluru, India.

Youth and sports

Supporting youth and sports has been a top priority for SKF over the years.

In 2012, SKF renewed its partnership with 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. Meet the World invites up to 32 teams to play in

local tournaments held in about 20 countries every year, and the winner gets to travel to Sweden to participate in the Gothia Cup, with all expenses covered. »see gothiacup.com

A number of SKF organizations support different sport programmes, especially for those who are physically challenged. SKF Polska SA has chosen to partner with the Four King wheelchair rugby team, to help them with technical issues, marketing their team and their sport and creating awareness about the physically challenged in general. SKF Italy has chosen to support the wheelchair team of HB Torino, and also a wheelchair tennis tournament in Torino.

Meet the World – Gothia Cup qualifier

Since 2007, and under the name Meet the World, SKF has arranged local football tournaments for young people all over the world in the lead-up to the Gothia Cup in Gothenburg.

The idea behind this initiative is to give more young people – whatever their background – the chance to travel to Gothenburg, take part in the Gothia Cup and meet other young people from different countries.

In 2012, one Meet the World tournament was held in Moscow, Russia. Eight girls teams (born 1998) from six different cities competed against each other. The winners, a team from Samara over 1000 km east of Moscow, were able to come to Gothenburg, to get to know girls and boys from all over the world from all kinds of backgrounds, and to play football.



In conjunction with the 38th annual Gothia Cup football tournament held in Gothenburg, Sweden, a new world record was made at Liseberg Amusement Park in the category of "Most nationalities on a theme park ride". There were 72 different nationalities represented in the record, which included players from the SKF Meet the World tournaments, Gothia Cup and citizens of Gothenburg.

Helping to tackle challenges faced by local communities

HIV and AIDS remains a major challenge in large parts of the world, and in sub-Saharan Africa in particular. In Kenya, 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. Throughout the years since its inception in 2002, NAA has 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 40 families in the slums near the SKF office. Medical camps in the less fortunate parts of Nairobi are also helped.

In South Africa, SKF is an active member in Swedish Workplace HIV/AIDS (SWHAP) – a partnership between employer and unions established to fight HIV/AIDS in the workplace and in the local community since 2004. Even though the main topic is HIV/AIDS, the association addresses the issue of holistic well-being, encapsulating more than just physical health and well-being. Another example from South Africa is the support of

Legae Community Childcare Centre – a preschool and care centre for up to 50 children in need, as well as an after-school centre for 20 children up to the age of 13.

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 USA for example, many SKF units volunteered for various events such as the Breast Cancer Walk (Hampton, Hebron), American Cancer Society – Relay for Life (Flowery Branch, Franklin, Hobart, Seneca, Gainesville), STEP Foundation (Seneca), Red Cross Blood Drive (Columbia City, Falconer, San Diego), the SKF United Way Campaign (Flowery Branch, Hanover, Falconer, Fort Mill, Elgin, Johnson City, St. Louis) and many more. Collectively, SKF's factories and offices in the USA raised over SEK 3 million in 2012.

SKF in Sydney, Australia, participates in the annual Sydney-to-Gong charity bicycle ride. Since 2008, employees and their business partners have raised more than the equivalent of SEK 120,000 for the MS Society of Australia through this activity.

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.

Habitat for Humanity



SKF USA has teamed up with Habitat for Humanity to sponsor and volunteer in the construction of simple, decent, affordable homes. The organization also empowers hardworking, low-income families to become homeowners by providing interest-free mortgages.

SKF USA presented USD 30,000 to Habitat for Humanity of Montgomery for building a new home for an underprivileged family in the community. In addition to the financial support, SKF sponsored six volunteer building days, during which over 100 employees took part in the construction work.

Employee Care extended to the local community



In 2012, SKF in Kenya, together with Neighbours Against AIDS (NAA), put more focus on employees and their families, whereas the previous year focusing on the surrounding community. Both aspects serve the end purpose – to create awareness of health and well-being.

According to Avert.org, one of the top priorities to mitigate the AIDS epidemic in Kenya, and other parts of Sub-Saharan Africa, is to raise awareness about people's HIV status. This is done by promoting and expanding testing. Associations like NAA are helping to make this happen.

In sub-Saharan Africa the number of new HIV infections has dropped by 26% since the height of the epidemic in 1997, according to UNAIDS.org.

Update on the SKF Forest project in Fuxin county, China



Erik Nehlander, president SKF China and Zhang Junxin, Director of Liaoning Provincial Forestry Department, planting seedlings.

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). The overall objective is to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. Joint inspections have concluded that the sites are in good condition.

- 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.
- 2012 – 120 hectares were planted with 854,000 seedlings. The survival rate was 96%

The project invested money and energy in creating local knowledge in forest planting and management.

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.

The plan for 2013 is to start the second phase of the project in Xiuyan county of Liaoning province. Here, desertification is becoming serious and biodiversity has been declining noticeably. For 2013, seedlings of red pine and larch will be planted on 235.3 hectares of land to improve the quality and ecological functions of the forest, prevent land desertification and protect the source of water for the local community.

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 presented annually to individuals or organizations for their significant contribution to sustainable development.

The 2012 award was presented to Michael Biddle and Björn Söderberg for their individual entrepreneurship and efforts managing waste and "closing the loop". Both have made significant contributions in the shift towards a circular economy. Previous prize winners include Kofi Annan, Sue Edwards, 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. »see gothenburgaward.com

SKF continues its support of pioneering Solar Impulse project

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 auto-

nomously, 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. A second plane has now been built, which will be flown coast to coast over the US, as a preparation for the coming round-the-world flight. »see solarimpulse.com

The 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. »see vetenskapsfestivalen.se/english

SKF's markets

In this chapter we describe SKF's main addressable markets from a product, solutions and services perspective covering bearings, products for linear actuation and motion control, polymer seals, lubrication systems, products for mechanical power transmission and products and services for asset efficiency.



Bearings market

The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units.



Linear and actuation and motion control market

This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion.



Polymer seals market

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into automotive, industrial or aerospace seals.



Lubrication systems market

The global lubrication market consists of automatic lubrication systems equipment, design and installation and lubrication tools and equipment.



Mechanical power transmission market

The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V- and synchronous belt drives, chain drives and shaft couplings.



Asset Efficiency Optimization market

The Asset Efficiency Optimization market addresses clients' need to improve the productivity, efficiency, and performance of their assets.

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)

Bearings market



SEK 320–330 billion

The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units. SKF estimates that the global rolling bearing market size increased by 1 to 2% in local currencies over the previous year, to between SEK 320 and 330 billion.

The automotive original equipment bearing markets, including two- and four-wheelers, accounted for more than 30%. 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) maintained around 30% of world bearing demand, of which around 30% is related to the vehicle service market and around 70% to the industrial market.

Asia's share of the world bearing market was relatively unchanged and accounted for almost 50% of the world bearing market, compared with less than 30% ten years ago. China's share of the world bearing total market was slightly down to about 25%. Japan's share of the world bearing market increased slightly, but domestic Japanese bearing demand still accounts for less than 15% of the world total. Other Asian markets with sizeable bearing production and showing growth in recent years, include India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which remains the largest of the emerging markets, is very fragmented, with the main international bearing companies accounting for about one third of the market while the other two thirds of the market consists of a host of local manufacturers. Some of the largest include: Wafangdian (ZWZ), Luoyang (LYC), Harbin (HRB), Zhejiang Tianma (TMB), Wanxiang Qianchao, and C&U.

The Indian bearing market accounts for less than 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 25% of the world market total with Germany alone accounting for almost 10%. The Americas now represent slightly more than 20% 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 bearings market with other major international companies including: 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 the world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub ball bearing units, accounting for over 10% of total world bearing demand. Roller bearings account for less than half of worldwide rolling bearing sales.

Roller bearings are named after the roller shape, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings and spherical roller bearings. All of these are available for loads acting across the shaft (radial bearings) and for loads that are parallel with the shaft (thrust bearings). There are also bearings that contain both balls and rollers simultaneously. The largest roller bearing family is the tapered roller bearing, with less than 20% of the world bearing market.



Tapered roller bearing

Linear and actuation and motion control market



This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion. SKF estimates that the global markets for linear, actuation and motion control declined by around 12–14% in 2012 over the previous year in local currencies, to around SEK 50 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.

SKF'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 higher efficiency operating (both for energy savings and for lower environmental impact purposes), reliability, flexibility and cost of ownership.

SKF is active in developing and offering a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, which provide extensive customer benefits.

SKF's main focus industries in this market include the medical industry, factory automation, semi-conductors, off-highway and the oil and gas industry. SKF is very active in the oil and gas industry and involved in developing products and solutions for sub-sea applications, which are considered tomorrow's new technological frontier of this industry.

SKF is a leading supplier for light and medium industrial actuation systems, roller screws and magnetic system solutions, including magnetic bearings, controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and positioning tables.

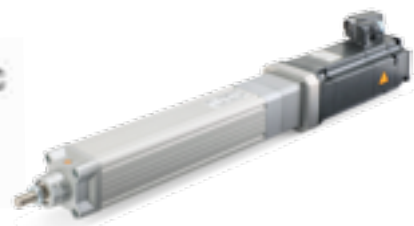
In the actuation system offering, SKF launched several SKF BeyondZero solutions in 2012, such as the actuator for solar panel tracking, the actuation system for bus-door motion and the electric cylinder for pneumatic actuation replacement.



Profile rail guide for use in the automation industry. Typical applications are car body assembly lines, packaging machines, wood-working machines as well as positioning of X-ray machines.



Inverted roller screws are used in the automation industry, mainly in robots for spot welding and riveting in car body assembly lines.



CASM electric cylinder for the automation industry. Typical applications are packaging machines, fully automatic assembly lines, modules and sub-systems for many industrial applications.

Polymer seals market



SEK 75–80 billion

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into automotive, industrial or aerospace seals. In 2012, market growth continued, although at low levels, to reach an estimated SEK 75–80 billion. In local currencies market growth for 2012 was estimated at around 3%.

Industrial seals can be segmented into power transmission seals and fluid system seals. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Fluid systems seals include fluid power seals and fluid handling seals. The majority of the fluid power seals are made for reciprocating motion and are used in both mobile and stationary fluid power applications, for example in off-highway, mining and other heavy industries. The off-highway applications represent the largest part of the market. Asia represents the major share of the industrial seals market at about 40%. The remainder is almost equally split between the Americas and Europe. In 2012, Europe lost some share due to slower growth compared to Asia and North America.

In aerospace applications, products are required to withstand difficult conditions often being critical to the system's operational reliability. In order to meet such requirements, aerospace seals are designed with specific materials and solutions. North America and Europe are still the most important markets, but the demand in Asia is growing.

Key applications in the automotive seals market include wheel ends, chassis, engines and transmissions. Transmission seals represent the largest part of the automotive dynamic seals market, with its bonded piston and shaft seal product lines. Asia represents about 52% of the automotive original equipment (OE) seals market, and North America 23%. Both gained market shares from 2011 at the expense of Europe, which dealt with weaker demand levels.

SKF is among the top global players with a strong offer in most applications across each industry. The German Freudenberg Group with its automotive focused Japanese affiliate NOK (Nippon Oil Seal Co) is the largest supplier on the world polymer seals market across all industries. Trelleborg AB and Parker Hannifin are important players on the industrial seals market,

and Federal Mogul, Dana, ElringKlinger and Bruss are significant suppliers of automotive seals. The aerospace seals market is fragmented and split between 8–9 companies and the major players are Trelleborg AB, FNOK (Simrit), St Gobain, Greene, Tweed and SKF.

SKF offers high-performance, technology-driven solutions to both original equipment manufacturers (OEMs) and the after-market. SKF supplies industrial power transmission seals as well as fluid systems seals, using both machining and moulding technologies. SKF also offers polymer sealing solutions to all the key applications in the automotive market, including car, truck and high-end motorcycle and mountain bike solutions. SKF aerospace polymer seals offer includes radial lip shaft seals, gaskets and boots mounted in helicopters' and fixed wing aircrafts' auxiliary power units, engines, gearboxes and transmissions.

SKF is present in the Asian markets with seals manufacturing, testing and engineering facilities in China, India and the Republic of Korea. The new seals factory at Mysore, India started production in 2012, and investments continued to be made across Asia to expand engineering and testing resources and capabilities.



Bonded pistons in a clutch pack



Radial shaft seal and SKF SPEEDI-SLEEVE

Lubrication systems market



SEK 30–35 billion

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 30–35 billion in 2012, relatively unchanged measured in local currencies, compared to 2011.

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. Tools and equipment include grease guns, reels, meters, pumps and fluid drain systems. Design and installation services play a significant role.

The market trend is to move from manual solutions to automatic and centralized lubrication systems, this drives market growth above the underlying market growth.

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 35%, North and Latin America together make up about 35%, and Asia and the rest of the world account for 30%.

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



SKF's MKx compact lubrication gear pump units can be used with both oil and fluid grease. As part of single-line lubrication systems or centralized oil/air systems, they distribute precise metering of lubricant in applications such as machine tools, printing, textile or woodworking machines.



SKF's Lincoln brand of FlowMaster pumps are popular for grease lubrication of large machinery applications in mining and quarry operations. Combined with the Lincoln brand of Centro-Matic single-line injectors, these systems can serve many lubrication points in machinery operating in harsh environments.

Mechanical power transmission market



SEK 150–170 billion

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

Growth in the power transmission market over the last 10–15 years has been between 3 and 10% per year. In 2007, SKF began offering a new and comprehensive range of industrial power transmission products, which have seen continuous growth of around 25 to 30% year-on-year over each of the last five years.

The global power transmission market is quite fragmented with competitors generally being regional and/or industry-specific suppliers who usually provide only partial product offerings. Many competitors offer belts or chains (usually not both), and ordinarily they offer limited or no ironware such as pulleys, sprockets, couplings, etc. Other competitors offer only the ironware without the corresponding belts or chains. Regionally speaking, the more mature markets like Europe and North

America have strong competitors covering specific but limited product ranges, while the emerging markets are less well attended.

As power transmission products greatly affect a customer's up-time and total cost of equipment ownership, they demand better availability, technical support and know-how, enhanced performance, reduced energy consumption, easier installation, smoother operation, reduced noise levels, and ultimately increased reliability and service life. SKF has a unique understanding of rotating equipment and how machine components and industrial processes are interrelated in every major industry worldwide. SKF is therefore particularly well positioned to offer power transmission products and solutions in parallel with its already broad industrial product and service platforms.



SKF Xtra Power Belts are designed to deliver up to 40% more power than standard wrapped belts. With SKF Xtra Power Belts, the service life of the application can be increased by up to 40%.



SKF Power Transmission has developed a Belt Analysis Programme that allows the user to map up to 200 drives, either through direct input or and upload from an Excel spreadsheet.

Asset efficiency optimization market



Rapidly
expanding market

The asset efficiency optimization market addresses customers' need to improve the productivity, efficiency and performance of their assets. It consists of products and services that enable customers to increase the availability and reliability of plant assets, reduce environmental impact and improve health and safety. Typically, this involves using condition-monitoring technologies like vibration analysis, thermography and oil analysis to name a few.

Growth in this market remains particularly strong in developing regions, especially Latin America and Asia, which continue to show double-digit growth driven by resource-intensive segments such as mining. More established markets such as North America and Europe show high growth potential, especially as older manufacturing sites seek to get more productivity from existing plant assets.

Market demand for these services continues to remain strong, also during economic uncertainty. As manufacturers scale back investment in new facilities, it will be more important than ever to maximize productivity of existing assets through new technology and services. The ageing workforce in many countries will drive the growth of outsourced maintenance and reliability activities that are non-core to manufacturers' business. Increasing regulatory requirements driven by health, safety and environmental concerns require customers to inspect and monitor a greater portion of their plant assets with increasing frequency. In most cases this includes traceable documentation. This is resulting in the greater use of mobile inspection and wireless devices.

All of the market factors above are leading to a greater emphasis on life cycle 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 is one of the global market leaders in this rapidly expanding market and continues to hold the strongest portfolio of products and services within its area. 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 competitive landscape remains dominated by a few key players with many small local suppliers. The largest competitor in the market is the GE Energy unit Bently-Nevada.



SKF offers a range of alignment products. For effective machine alignment, the measurement is only 5% of the process. SKF's new high-end alignment devices have a complete built-in alignment process to increase users' knowledge of alignment and walk them through all steps.



The SKF Machine Condition Indicator is a vibration sensor and indicator for monitoring non-critical machines. It is for machinery with constant operating conditions not previously monitored in plants. The device can be compared to the "check engine" light in a car.



Financial statements

»see pages 198–199, SKF's global campaign 2012

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Consolidated income statements

SEKm	Note	Years ended 31 December	
		2012	2011
Net sales	2	64,575	66,216
Cost of goods sold	5, 6	-48,102	-47,644
Gross profit		16,473	18,572
Selling expenses	6	-8,608	-8,435
Administrative expenses	6	-479	-545
Other operating income	7	649	860
Other operating expenses	7	-700	-824
Loss from associated companies	12	-2	-16
Operating profit		7,333	9,612
Financial income	8	121	67
Financial expenses	8	-943	-747
Profit before taxes		6,511	8,932
Taxes	9	-1,633	-2,708
Net profit		4,878	6,224
Net profit attributable to:			
Owners of AB SKF		4,724	6,051
Non-controlling interests		154	173
Basic earnings per share (SEK)	17	10.37	13.29
Diluted earnings per share (SEK)	17	10.37	13.29

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2012	2011
Net profit		4,878	6,224
Other comprehensive income			
Currency translation adjustments		-1,227	-96
Available-for-sale assets			
Change in fair value	14	20	-260
Cash-flow hedges			
Change in fair value	28	49	-68
Release of cash flow hedges	28	95	-127
Actuarial gains and losses, net	18	-1,646	-1,336
Income taxes related to components of other comprehensive income	9	357	472
Other comprehensive income, net of tax		-2,352	-1,415
Total comprehensive income		2,526	4,809
Total comprehensive income attributable to:			
Owners of AB SKF		2,448	4,720
Non-controlling interests		78	89

Amounts in parentheses refer to comparable figures for 2011.

General

The acquisition of General Bearing Corporation (GBC) was completed August 1 2012, and consequently, the Group's income statement only includes the results of GBC for the period August - December, 2012.

Net sales

Net sales amounted to SEK 64,575 m (66,216). The 2.5% decrease in net sales compared to 2011 was attributable to volume by 3.9%, to price and mix¹⁾ by 1.4%, to structure by 0.4% and to currency effects by -0.4%. Qualifying hedging activities affected net sales by SEK -82 m (119).

Operating profit

Operating profit amounted to SEK 7,333 m (9,612) resulting in an operating margin of 11.4% (14.5). Non-recurring items impacting operating profit for the full-year amounted to around SEK 440 m (100) of which around SEK 340 m (40) were related to various restructuring activities and the remaining SEK 100 m were primarily related to impairments and asset write-downs and had no impact on cash flow.

Exchange rates for the full year 2012, including translation effects and flows from transactions, had an estimated positive effect on operating profit of SEK 200 m (-1,200). Cost of goods sold, selling and administrative expenses amounted to SEK 57,189 m (56,624). The costs were divided into 33% (33) employee benefit expense, 38% (36) raw material and components consumed, 26% (28) other expenses and 3% (3) depreciation, amortization and impairments. For details, see Note 6.

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 and acquisition-related expenses. For further details, see Note 7.

Profit before taxes

Profit before taxes amounted to SEK 6,511 m (8,932). Financial income and expenses, net, amounted to SEK -822 m (-680). Interest costs on post-employment benefits have affected the financial net negatively by SEK -268 m (-247).

Net profit

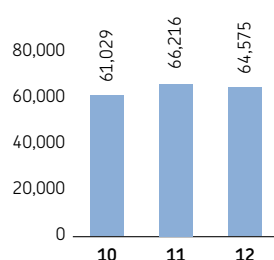
Net profit amounted to SEK 4,878 m (6,224). The actual tax rate was 25.1% (30.3).

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

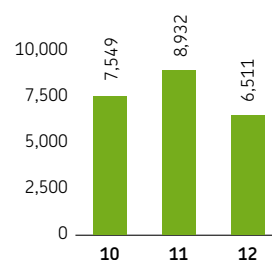
Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2012
Net sales	16,931	17,174	15,486	14,984	64,575
Operating profit	2,140	2,053	1,913	1,227	7,333
Profit before taxes	1,981	1,801	1,734	995	6,511
Basic earnings per share (SEK)	2.84	2.67	2.70	2.16	10.37

Net sales



Profit before taxes



Consolidated balance sheets

SEKm	Note	As of 31 December	
		2012	2011
ASSETS			
Non-current assets			
Goodwill	10	5,720	5,992
Other intangible assets	10	4,080	4,165
Property, plant and equipment	11	13,086	13,076
Long-term financial assets	14	1,041	1,401
Deferred tax assets	9	1,835	1,299
Investments in associated companies	12	44	11
Other long-term assets	18	103	82
		25,909	26,026
Current assets			
Inventories	13	12,856	14,191
Trade receivables	14	10,084	10,713
Tax receivables		344	326
Other short-term assets	15	2,507	2,781
Other short-term financial assets	14	813	512
Cash and cash equivalents	14	8,244	4,825
		34,848	33,348
Total assets		60,757	59,374
EQUITY AND LIABILITIES			
Share capital	16	1,138	1,138
Share premium		564	564
Available-for-sale reserve		194	174
Hedging reserve		24	-82
Translation reserve		-2,422	-1,170
Retained earnings		21,842	20,812
Equity attributable to owners of AB SKF		21,340	21,436
Equity attributable to non-controlling interests		1,128	1,019
		22,468	22,455
Non-current liabilities			
Long-term financial liabilities	20	12,730	12,500
Provisions for post-employment benefits	18	9,881	8,634
Deferred tax provisions	9	481	938
Other long-term provisions	19	1,224	1,477
Other long-term liabilities		70	125
		24,386	23,674
Current liabilities			
Trade payables	20	4,189	4,698
Tax payables		380	815
Short-term provisions	19	452	359
Other short-term financial liabilities	20	2,945	1,113
Other short-term liabilities	22	5,937	6,260
		13,903	13,245
Total equity and liabilities		60,757	59,374

Amounts in parentheses refer to comparable figures for 2011.

Assets and liabilities

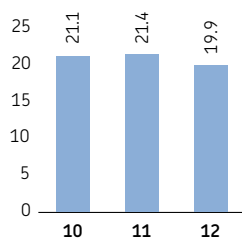
Inventories amounted to SEK 12,856 m (14,191) which as a percentage of annual sales was 19.9% (21.4). The target for the Group is 18%.

Trade receivables amounted to SEK 10,084 m (10,713) which as a percentage of annual net sales is 15.6% (16.2). The average days of outstanding trade receivables were 62 days (60). The Group's equity/assets ratio was 37.0% (37.8) which is close to the average target of 35%. Gearing was 52.8% (48.9). The target is to operate around 50%. The net debt/equity ratio was 72.5% (72.3).

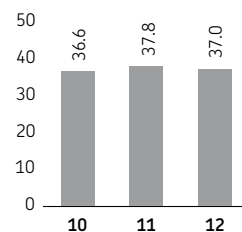
Provisions for post-employment benefits increased some SEK 1,600 m due to actuarial gains and losses, see Note 18. Financial assets totalled SEK 10,098 m (6,738) at year end of which SEK 9,057 m (5,337) were current financial assets.

During 2012, equity increased by SEK 13 m (2,561) and SEK 2,504 m (2,277) was distributed as ordinary dividend to the owners of AB SKF. For further details, see Note 16.

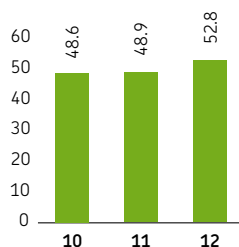
Inventories, %
of annual net sales



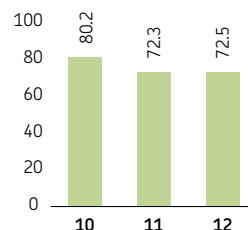
Equity/Assets, %



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2012	2011
Operating activities			
Operating profit		7,333	9,612
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	1,831	1,790
Net gain on sales of businesses, property, plant and equipment and equity securities		-129	-24
Other non-cash items		293	251
Income taxes paid		-2,839	-2,858
Contributions to and payments under post-employment defined benefit plans		-698	-486
Associated companies		-1	2
<i>Changes in working capital</i>			
Inventories		927	-1,270
Trade receivables		255	-892
Trade payables		-433	219
Other operating assets and liabilities, net		-92	-452
Interest received		115	93
Interest paid		-288	-442
Other financial items		-71	43
Net cash flow from operating activities		6,203	5,586
Investing activities			
Additions to intangible assets	10	-128	-89
Additions to property, plant and equipment	11	-1,968	-1,839
Sales of property, plant and equipment		81	75
Acquisitions of businesses, net of cash and cash equivalents	3	-848	-6
Sales of businesses, net of cash and cash equivalents	4	215	125
Investments in equity securities		-	-4
Net cash flow used in investing activities		-2,648	-1,738
Net cash flow after investments before financing		3,555	3,848
Financing activities			
Proceeds from medium- and long-term loans		4,194	5,495
Repayment of medium- and long-term loans		-1,428	-4,632
Change in short-term loans		-75	10
Other, including payment of finance lease liabilities		-4	-8
Cash dividends to AB SKF's shareholders		-2,504	-2,277
Cash dividends to non-controlling shareholders		-47	-30
Investments in financial assets		-446	-218
Sales of financial assets		238	240
Net cash flow used in financing activities		-72	-1,420
Increase(+)/decrease(-) in cash and cash equivalents		3,483	2,428
Cash and cash equivalents at 1 January		4,825	2,395
Cash effect excluding acquired/sold businesses		3,393	2,477
Cash effect from acquired/sold businesses	3, 4	90	-49
Translation effect		-64	2
Cash and cash equivalents at 31 December		8,244	4,825

Amounts in parentheses refer to comparable figures for 2011.

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 3,555 m (3,848). Adjusted for acquisitions of businesses, the cash flow amounted to SEK 4,403 m (3,854).

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 9,164 m (11,402). The gross cash flow was 14.2% (17.2) of annual net sales.

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 1,968 m (1,839), whereof approximately SEK 129 m (65) was spent on internal and external environmental improvements.

In 2012 the Group's cash outflow for acquisitions of businesses was SEK 848 m mainly attributable to the acquisition of GBC see Note 3. In 2011 the cash outflow for acquisitions of businesses was SEK 6 m.

Cash flow from financing activities

Interest-bearing loans totalled SEK 15,268 m (12,851) at year end. During the year, the SKF Group arranged new long-term financing of EUR 500 m. Loans amounting to EUR 30 m and EUR 131 m were repaid during the year.

Post-employment benefits, net, amounted to SEK 9,829 m (8,599). Interest payments amounted to SEK 288 m (442) and interest received to SEK 115 m (93).

The change in cash and cash equivalents was SEK 3,419 m (2,430). In 2012, changes in exchange rates affected cash and cash equivalents by SEK -64 m (2) mainly attributable to USD and EUR.

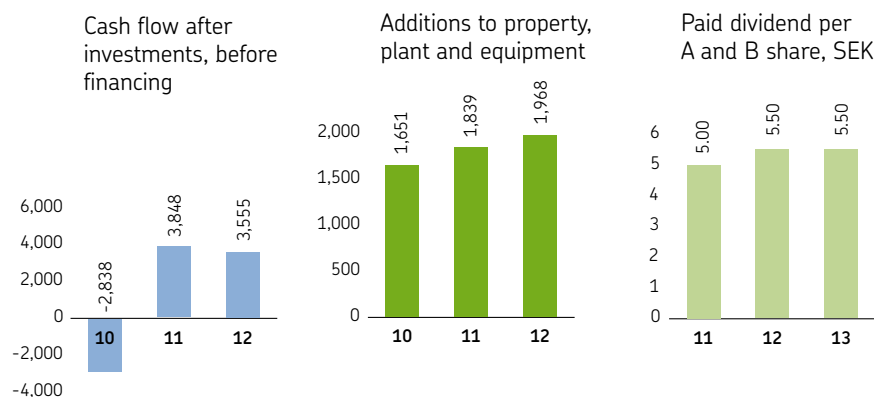
	2012 Closing balance	Cash change	Businesses acquired/sold	Other non- cash changes	Translation effect	2012 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>						
Loans ¹⁾	15,268	2,691	32	-27	-279	12,851
Post-employment benefits, net ²⁾	9,829	-698	-	2,342	-414	8,599
Other financial assets, other ³⁾	-1,195	-208	-	-27	61	-1,021
Cash and cash equivalents	-8,244	-3,393	-90	-	64	-4,825
Net interest-bearing liabilities	15,658	-1,608	-58	2,288	-568	15,604

	2011 Closing balance	Cash change	Businesses acquired	Other non- cash changes	Translation effect	2011 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>						
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

¹⁾Excludes derivatives, see Note 20.

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

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



The Board of Directors' proposed distribution of surplus for the year 2012, which is subject to approval at the Annual General Meeting in April 2013, 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 1/1/2011	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
Net profit	-	-	-	-	-	4,724	4,724	154	4,878
Components of other comprehensive income									
Currency translation adjustments	-	-	-	-	-1,149	-	-1,149	-78	-1,227
Change in fair value of available-for-sale assets and cash flow hedges	-	-	20	49	-	-	69	-	69
Release of cash flow hedges	-	-	-	95	-	-	95	-	95
Actuarial gains and losses	-	-	-	-	-	-1,649	-1,649	3	-1,646
Income taxes related to components of other comprehensive income	-	-	-	-38	-103	499	358	-1	357
Cost for Performance Share Programmes, net ¹⁾	-	-	-	-	-	-40	-40	-	-40
Dividends	-	-	-	-	-	-2,504	-2,504	-47	-2,551
Non-controlling interest	-	-	-	-	-	-	-	78	78
Closing balance 31/12/2012	1,138	564	194	24	-2,422	21,842	21,340	1,128	22,468

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 dividends and impairment losses which are recognized directly in the income statement. See Note 1 for accounting principles and Note 14 for details on available-for-sale assets.

Hedging reserve

The hedging reserve accumulates activity related to cash flow hedges net of tax, 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 hedging activity.

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 2011.

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 30 January 2013. 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 26 April 2013.

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 with the assistance of independent valuation experts 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.

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 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.

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: Strategic Industries, Regional Sales and Service, and Automotive.

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

1 Accounting policies (cont.)

maker (CODM) in order to allocate resources and assess performance. The Group's internal reporting and consequently information to the CODM is structured into the Strategic Industries, Regional Sales and Service, Automotive and Other operations.

The measurement principles for the Group's operating 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, intangible assets, 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 units 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 aver-

age 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. 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.

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	
			2012	2011	2012	2011
China	1	CNY	1.07	1.00	1.05	1.10
EMU-countries	1	EUR	8.70	9.02	8.61	8.95
India	100	INR	12.63	13.88	11.88	12.98
Japan	100	JPY	8.47	8.11	7.56	8.92
United Kingdom	1	GBP	10.71	10.36	10.49	10.67
USA	1	USD	6.74	6.45	6.52	6.92

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 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.

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). Initially raw materials and purchased finished goods are valued at purchase cost and 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 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.

1 Accounting policies (cont.)

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 in the 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 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 and strategic investments in equity securities are categorized as available-for-sale. The exception is securities held by SKF Treasury Centre which are categorized as fair value through profit or loss at inception. Changes in the fair value of available-for-sale 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. 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 consump-

tion. 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/or 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 (the financial liability) 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. If a hedge relationship is discontinued, the accumulated adjustment to the carrying amount is amortized over the duration of the life of the hedged item.

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 Group'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, impairment losses recognized on financial assets, bank charges and other transaction-related costs. Foreign exchange gains and losses are recognized net in either financial income or financial expense.

1 Accounting policies (cont.)

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 as an operating expense with a corresponding offset in equity. 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 2010, which will be settled in 2013, SKF International AB (SKF Treasury Centre) has 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 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 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 potential 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.

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 business unit 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 programmes are defined as activities that materially change the way a unit does business. Restructuring provisions are recognized according to the general rules for provisions explained above, where an obligation is assumed to exist only when a detailed formal plan has been established and a public announcement of the plan has occurred thereby 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.

1 Accounting policies (cont.)

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 any 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 discount rate for each country is determined by reference to yields on high quality corporate bonds (AA-rated corporate bonds or indexes as well as mortgage bonds for the plans in Sweden) having maturities matching the duration of the obligation. 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 long-term 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 long-term 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 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) and when applicable 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.

New accounting principles

New accounting principles 2012

IASB issued several new or amended accounting standards effective starting 1 January 2012. None of these had a material impact on the SKF Group's financial statements.

New accounting principles 2013

Starting from 2013 the Group will apply the amended IAS 19 "Employee Benefits". The most significant impact for the Group is the alignment of the expected return on plan assets to the discount rate for funded pension plans. There is no effect on the balance sheet, cash flow or total equity as this is a reclassification between the income statement and actuarial gains and losses in other comprehensive income. The Group's financial statements for 2012 will be restated in the Q1 2013 press release as shown in the table below.

2012 (SEKm)	As reported	Restated
Income statement		
Operating profit	7,333	7,315
Financial expense	-943	-1,028
Taxes	-1,633	-1,592
Net profit	4,878	4,816
Comprehensive income		
Actuarial gains and losses, net	-1,646	-1,543
Income taxes related to components of other comprehensive income	357	316
Other comprehensive income, net of tax	-2,352	-2,290

Additionally, the following are effective for the Group as from 1 January 2013 and are not expected to have any material effect on the Group's financial statements when applied.

- IFRS 10 "Consolidated Financial Statements" is the new standard for determining whether an entity should be included within the consolidated financial statements. The basis for consolidation under the new standard continues to be the principle of control which is now defined as; (1) power over the investee, (2) exposure to variable returns of the investee and (3) the ability to influence those returns. This will have no change to the Group's current consolidation structure (2013).
- IFRS 12 "Disclosure of Interests 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. Any required disclosures will be made in the annual report (2013).
- IFRS 13 "Fair Value Measurement" provides a single source of guidance to fair value measurement already used today. Additional disclosure requirements may be required in the annual report (2013).
- IAS 1 amendment "Presentation of Financial Statements" requires that a separate presentation within other comprehensive income is made of items that may be reclassified to the income statement. This presentation will be made in the Group's first quarter report 2013 (2013).

Other new accounting principles issued but not yet effective

The following have been issued by the IASB and are effective for annual periods after 2013 as noted. The effect upon the Group's financial statements has not yet been determined.

- IAS 32 amendment "Offsetting financial assets and financial liabilities". The amendment to IAS 32 clarifies when an entity has the legally enforceable right to set-off financial assets and financial liabilities (2014).

* 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 (2015).

* Indicates that this has not yet been endorsed by the EU.

2 Segment information

SKF has around 140 manufacturing sites in 28 countries and is represented in over 130 countries through its own sales companies and over 15,000 distributor locations. SKF operates primarily through three business areas: Strategic Industries, Regional Sales and Service, and Automotive. These business areas are each focusing on specific customer industries representing groups of related industrial and automotive products worldwide. For more information on the Business areas and other operations please see the Administration report.

Both Strategic Industries and Regional Sales and Service serve the industrial market by delivering products, services and solutions to both OEMs and end users within the different industries: Aerospace, Energy, Industrial drives, Precision, Railway, Off-highway, Lubrication systems, Industrial distribution,

General industries (Automation, Machine tool, Medical) and Heavy and Special industry (Metals, Pulp and Paper, Mining and Cement, Food and Beverage and Marine).

Automotive serves the automotive market by delivering products, services and solutions to both OEMs and end users within the different industries; Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

Other operations include businesses managed outside of the three divisions, primarily PEER, GBC, SKF Logistics Services and other minor operations. Previously published amounts have been reclassified to conform to the current Group structure in 2012.

SEKm	Net sales		Sales including intra-Group sales		Contribution to Profit before tax	
	2012	2011	2012	2011	2012	2011
Strategic Industries	20,204	20,807	32,028	33,613	3,139	4,686
Regional Sales and Service	25,329	25,868	25,728	26,249	3,222	3,271
Automotive	17,123	18,043	20,767	22,148	467	1,477
Other operations	1,919	1,498	4,639	1,581	465	313
Subtotal operating segments	64,575	66,216	83,162	83,591	7,293	9,747
Eliminations of intra Group sales	–	–	-18,587	-17,375	–	–
Timing differences related to intra-Group sales and other timing differences	–	–	–	–	-247	-342
Eliminations and unallocated items	–	–	–	–	287	207
Financial net	–	–	–	–	-822	-680
	64,575	66,216	64,575	66,216	6,511	8,932

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2012	2011	2012	2011	2012	2011
Strategic Industries	947	969	112	39	681	902
Regional Sales and Service	89	97	6	2	116	91
Automotive	588	597	-24	-3	1,055	793
Other operations	70	54	–	6	89	80
Eliminations and unallocated items	43	29	–	–	155	62
	1,737	1,746	94	44	2,096	1,928

SEKm	Assets		Liabilities	
	2012	2011	2012	2011
Strategic Industries	25,345	27,466	3,769	4,561
Regional Sales and Service	7,054	7,982	1,740	1,886
Automotive	11,432	12,017	3,199	3,332
Other operations	2,664	1,761	761	640
Subtotal operating segments	46,495	49,226	9,469	10,419
Financial and tax items	12,278	8,363	26,419	24,000
Eliminations and other unallocated items	1,984	1,785	2,401	2,500
	60,757	59,374	38,289	36,919

Geographic disclosure

SEKm	Net sales by customer location		Non-current assets	
	2012	2011	2012	2011
Sweden	1,723	2,152	1,563	1,431
Europe excl. Sweden	25,914	28,183	9,465	10,024
North America	14,314	12,738	6,508	6,628
Asia-Pacific	15,780	17,241	4,712	4,519
Middle East/Africa	1,833	1,946	14	16
Latin America	5,011	3,956	939	780
Eliminations	–	–	-220	-107
	64,575	66,216	22,981	23,291

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (17) were located in the USA, 13% (14) in Germany, and 11% (12) 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% (28) were located in the USA, 17% (18) in Germany, 12% (11) in China, 8% (9) in France and 6% (7) in Italy.

3 Acquisitions

SEKm	2012	2011
Total fair value of net assets acquired		
Non-current assets, excluding goodwill	459	60
Current assets	671	106
Non-current liabilities	-167	–
Current liabilities	-148	-67
Non-controlling interests	-74	–
Fair value net assets acquired	741	99
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	131	40
Total acquisition cost	872	70
Less:		
Cash and cash equivalents acquired	-90	-24
Consideration payable on acquisition prior to IFRS 3 revised	–	-40
Payment of consideration on prior years acquisitions	66	–
Cash outflow	848	6

In 2012, the Group had total net cash outflows of SEK 848 m for the acquisition of General Bearing Corporation and for consideration on prior years' acquisitions.

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. 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.

Acquisition of General Bearing Corporation

In August 2012, the Group acquired 100% of the shares of General Bearing Corporation (GBC). GBC, headquartered in West Nyack, New York, USA with 3 factories in China, has about 1300 employees. GBC, with the General and Hyatt brands serve the automotive and heavy duty markets in the USA. The acquisition of GBC is fully in line with SKF's strategy to develop product offerings with complementary brands enabling the Group to better serve these markets.

The total acquisition cost for GBC was SEK 872 m. The table above shows the fair values of the net assets acquired in GBC.

Non-current assets include tradenames of SEK 155 m and customer relationships of SEK 82 m. Tradenames are considered to have an indefinite life as the Group intends to promote these brands in the foreseeable future. Goodwill is attributable to GBC's position as a strong second brand with good growth and margins in the truck and car segments, providing a foundation for future growth in certain selective markets. GBC contributed SEK 339 m of net sales and SEK 17 m of net profit to the Group's results. This represents their results from the date of acquisition to the end of 2012.

Proforma net sales and net profit

Had GBC been acquired at 1 January 2012, the consolidated revenue for the Group would have amounted to SEK 65,214 m, and consolidated net profit would have been SEK 4,913 m. This unaudited proforma information adds GBC's income statement for the period January to July and adjusts for the additional amortizations arising from the fair value adjustments required by IFRS 3. Additionally, net financial costs were adjusted to reflect the change in the Group's net interest bearing liabilities caused by the payment of the purchase price. Income taxes have been included in all proforma adjustments.

4 Divestments of businesses

SEKm	2012	2011
Property, plant and equipment	2	266
Inventory	92	157
Trade receivables and other assets	34	154
Provisions for post-employment benefits	–	–87
Trade payables	–	–159
Other provisions and liabilities	–33	–93
Net assets disposed of	95	238
Profit	105	–14
Total consideration	200	224
Less:		
Cash and cash equivalents	–	–73
Consideration payable/-receivable	27	–26
Cash outflow for prior year divestment	–12	–
Total cash inflow	215	125

During 2012, the Group sold their distribution business in Australia and New Zealand to US-based Applied Industrial Technologies.

During 2011, the Group sold their forgings business in OMVP, in Villar Perosa, Italy to the German based company Neumayer

Tekfor Holding GmbH. The Group also sold the cage factory in Gothenburg to the Japanese component manufacturer Nakanishi Metal Works CO., Ltd.

5 Research and development

Research and development expenditures totalled SEK 1,607 m (1,481). 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 15 m (28).

6 Expenses by nature

SEKm	2012	2011
Employee benefit expenses including social charges	19,000	18,716
Raw material and components consumed, including traded products	20,523	21,703
Change in work in process and finished goods	1,114	-1,271
Depreciation, amortization, and impairments	1,831	1,790
Other expenses, primarily purchased services, shop supplies and utilities	14,721	15,686
Total operating expenses	57,189	56,624

<i>Depreciation, amortization and impairments were accounted for as (SEKm)</i>	2012			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,429	62	-17	1,474
Selling expenses	70	176	111	357
Administrative expenses	-	-	-	-
	1,499	238	94	1,831

<i>Depreciation, amortization and impairments were accounted for as (SEKm)</i>	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

7 Other operating income and expenses

SEKm	2012	2011
Other operating income		
Exchange gain on trade receivables/payables	449	666
Profit from sale of property, plant and equipment	20	65
Profit from sale of businesses	105	10
Other	75	119
	649	860
Other operating expenses		
Exchange loss on trade receivables/payables	-579	-737
Loss from sale of property, plant and equipment	-10	-4
Loss from sale of businesses	-	-34
Acquisition-related expenses	-23	-
Other	-88	-49
	-700	-824

8 Financial income and financial expenses

SEKm	2012	2011
Interest income	114	55 ¹⁾
Interest expense	-483	-381 ¹⁾
Net gains/losses:		
Interest on post-employment benefits, net	-268	-247
Exchange differences, net	-55	9
Other financial income including dividends	7	3
Other financial expenses ²⁾	-137	-119
Financial net	-822	-680
Reflected as:		
Financial income	121	67
Financial expenses	-943	-747
Financial net	-822	-680

¹⁾ Restated for cross-currency interest rate swaps which previously were presented gross in interest income and interest expense are now presented net as interest expense.

²⁾ Include costs related to unwinding the discount on provisions, bank charges and other transaction-related costs.

<i>Financial net specified by category of financial instruments (SEKm)</i>	2012			2011		
	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	38	-	-	20	-	-
Derivatives held for trading	14	-81	177	13	-17	-261
Derivatives held for hedge accounting	-	121	-34	-	42 ¹⁾	-22
Financial assets classified as loans and receivables	61	-	-64	22	-	444
Financial assets classified as available-for-sale	1	-	4	-	-	3
Other financial liabilities, primarily loans	-	-523	-131	-	-406	-185
Other liabilities	-	-	-405	-	-	-333
	114	-483	-453	55	-381	-354

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. 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 liabilities, which includes primarily net interest costs on post-employment benefits and other financial expenses.

9 Taxes

Tax expense (SEKm)	2012			2011		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-2,296	–	-2,296	-2,774	–	-2,774
Deferred taxes	663	357	1,020	66	472	538
	-1,633	357	-1,276	-2,708	472	-2,236

The increase in deferred tax taken through the income statement was caused primarily by the release of untaxed reserves in Sweden and tax benefits arising on inter-company transfers as well as timing differences related to financial assets and restructuring provisions.

Taxes charged to other comprehensive income includes SEK 498 m (447) related to actuarial gains and losses, SEK -38 m (52) related to cash flow hedges and SEK -103 m (-27) related to net investment hedges.

Gross deferred taxes per type (SEKm)	2012		2011	
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions
Intangibles and other assets	-277	1,130	-70	1,140
Property, plant and equipment	-68	1,074	-66	1,148
Inventories	-438	444	-447	469
Trade receivables	-41	5	-44	45
Provisions for post-employment benefits	-2,371	26	-2,008	21
Other accruals and liabilities	-620	27	-615	30
Tax loss carry-forwards	-331	–	-333	–
Other	-138	224	-69	438
Gross deferred taxes	-4,284	2,930	-3,652	3,291
Net deferred taxes presented in the Consolidated balance sheet	-1,835	481	-1,299	938

Unrecognized deferred tax assets

SKF Group had total unrecognized deferred tax assets of SEK 283 m (239), whereof SEK 58 m (49) related to tax loss carry-forwards, SEK 189 m (155) related to tax credits and SEK 36 m (35) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Unrecognized deferred tax assets of SEK 25 m are related to tax losses which will expire during the period

2013 to 2017. The remaining unrecognized assets will expire after 2018 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 5 m (20) 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 7 m (61) 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)	2012	2011
Tax calculated using statutory tax rate in Sweden	-1,709	-2,349
Difference between statutory tax rate in Sweden and foreign subsidiaries	-422	-265
Other taxes	-70	-50
Tax credits and similar items	128	87
Non-deductible/non-taxable differences	422	-126
Change in tax rate, mainly in Sweden	38	–
Tax loss carry-forwards	-12	62
Current tax referring to previous years	-16	-40
Other	8	-27
Actual tax	-1,633	-2,708

The corporate statutory income tax rate in Sweden was 26.3% (26.3). The actual tax rate on profit before taxes was 25.1% (30.3). The Swedish corporate statutory income tax rate was reduced to 22% starting 2013.

Gross value of tax loss carry-forwards

At 31 December 2012, certain subsidiaries had tax loss carry-forwards amounting to SEK 1,710 m (1,571), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2013	119
2014	115
2015	106
2016	72
2017	98
2018 and thereafter	1,200

10 Intangible assets

SEKm	2012 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2012 Opening balance
<i>Acquisition cost</i>								
Goodwill	6,166	–	128	–	–	-24	-307	6,369
Patents, tradenames and similar rights	1,612	–	152	–	–	–	-74	1,534
Software	525	72	1	-5	–	–	-5	462
Customer relationships	2,557	–	79	–	–	–	-84	2,562
Leaseholds	113	33	5	–	–	–	-5	80
Capitalized development	282	16	–	–	–	–	-10	276
Other intangible assets	567	7	2	-12	–	–	-86	656
	11,822	128	367	-17	–	-24	-571	11,939

SEKm	2012 Closing balance	Amort- ization	Businesses sold	Disposals	Impair- ments	Other	Translation effects	2012 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	446	–	–	–	109	-24	-16	377
Patents, tradenames and similar rights	242	14	–	–	–	1	-9	236
Software	449	5	–	-4	–	-1	-5	454
Customer relationships	631	170	–	–	–	–	-27	488
Leaseholds	11	3	–	–	–	–	–	8
Capitalized development	101	10	–	–	–	–	-4	95
Other intangible assets	142	36	–	-12	–	–	-6	124
	2,022	238	–	-16	109	-24	-67	1,782

Net book value **9,800** **10,157**

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
Patents, tradenames and similar rights	1,534	5	–	-6	–	–	8	1,527
Software	462	4	–	-2	–	–	4	456
Customer relationships	2,562	–	–	-21	–	–	-21	2,604
Leaseholds	80	47	–	–	–	-4	7	30
Capitalized development	276	27	–	-12	–	–	-1	262
Other intangible assets	656	6	–	-24	–	–	63	611
	11,939	89	-38	-65	–	-4	119	11,838

SEKm	2011 Closing balance	Amort- ization	Businesses 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** **10,194**

In 2012, additions to capitalized software and development included SEK 83 m (27) that was internally generated.

The impairment losses in both 2012 and 2011 are related to certain CGUs in Strategic Industries, where volumes did not develop as expected.

The tradenames within the following CGUs, Lincoln amounting to SEK 965 m (1,025), Peer SEK 163 m (173) and General Bearings Corporation SEK 149 m are considered to have indefinite useful lives as the SKF Group anticipates continuing to promote these brands in the foreseeable future.

The CGU Lincoln contains significant goodwill and other intangible assets with indefinite lives, amounting to SEK 4,343 m (4,584) whereof SEK 3,378 m (3,559) relates to goodwill.

The recoverable amounts for Lincoln have been determined based on value in use using the DCF model as described 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% (3). The terminal growth factor used to calculate the terminal value was 2.5% (2.5) and the pre-tax discount rate was 13% (13).

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	2012 Closing balance	Additions	Businesses acquired/sold	Disposals	Impair- ments	Other	Translation effects	2012 Opening balance
<i>Acquisition cost</i>								
Buildings	6,066	215	19	-210	–	121	-199	6,120
Land and land improvements	774	14	–	-11	–	4	-37	804
Machinery and supply systems	22,193	845	96	-389	–	298	-957	22,300
Machine toolings and factory fittings	3,237	308	–	-328	–	72	65	3,120
Construction in process including advances	1,969	586	39	-2	–	-558	-77	1,981
	34,239	1,968	154	-940	–	-63	-1,205	34,325

SEKm	2012 Closing balance	Depreciation	Businesses sold	Disposals	Impair- ments	Other	Translation effects	2012 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,003	221	–	-86	3	19	-127	2,973
Land improvements	183	2	–	-1	4	9	-8	177
Machinery and supply systems	15,514	1,000	–	-637	-22	-79	-450	15,702
Machine toolings and factory fittings	2,453	276	-10	-159	–	-13	-38	2,397
	21,153	1,499	-10	-883	-15	-64	-623	21,249
Net book value	13,086							13,076

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 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							12,922

<i>Leased property, plant and equipment consisted of the following (SEKm)</i>	2012	2011
<i>Acquisition value</i>		
Buildings	78	86
Land and land improvements	13	14
Machinery, machine toolings, factory fittings and supply systems	2	2
	93	102
<i>Accumulated depreciation</i>		
Buildings	17	15
Machine toolings and factory fittings	2	1
	19	16
Net book value	74	86

12 Associated companies

Investments in associated companies include a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, which was acquired in August 2012 as part of the acquisition of GBC, see Note 3. Other investments include a 20% share in CoLinx, LLC in the USA, and 50% share of AEC Japan Co. Ltd. Condensed balance sheet and income statement information for these associated companies is shown below.

<i>Aggregated financial statements of associated companies (SEKm)</i>	2012	2011
Non-current assets	79	68
Current assets	158	100
Total assets	237	168
Equity	130	84
Non-current liabilities	19	24
Current liabilities	88	60
Total equity and liabilities	237	168
Net sales	677	808
Profit before taxes	8	8

13 Inventories

SEKm	2012	2011
Raw materials and supplies	3,793	3,892
Work in process	1,474	1,748
Finished goods	7,589	8,551
	12,856	14,191

Inventory values are stated net of a provision for net realizable value of SEK 1,099 m (1,072). The amount charged to expense for net realizable provisions during the year was SEK 193 m

(151). Reversals of net realizable provisions during the year were SEK 23 m (25).

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
2012	10,084	8,254	1,125	325	127	253
2011	10,713	9,033	1,114	268	110	188

The average days outstanding of trade receivables in 2012 were 62 days (60). Trade receivables as a percentage of annual net sales totalled 15.6% (16.2). Trade receivables included receivables sold with recourse amounting to SEK 74 m (120). 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)	2012	2011
Allowances as of 1 January	272	263
Additions	50	65
Reversals	-34	-34
Changes through the income statement	16	31
Allowances used to cover write-offs	-21	-17
Acquired companies	5	-
Currency translation adjustments	-16	-5
Allowances as of 31 December	256	272

Financial assets per category 2012

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	193	–	–	–	–	193	29
Equity securities	–	435	–	–	–	435	–
Marketable securities	–	–	–	388	–	388	–
Debt securities	–	18	72	–	–	90	72
Trade receivables	10,084	–	–	–	–	10,084	10,084
Deposits	472	–	–	–	–	472	472
Cash and cash equivalent	2,222	–	6,022	–	–	8,244	8,244
Derivatives (see Note 28)	–	–	–	174	102	276	240
Carrying amount	12,971	453	6,094	562	102	20,182	19,141
Fair Value	12,969	453	6,094	562	102		

Financial assets per category 2011

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		

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 32 m (30) 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	2012	Level 1	Level 2	Level 3	2011
Fair value through profit or loss								
Trading securities	357	–	103	460	345	–	120	465
Cash and cash equivalents	6,022	–	–	6,022	2,642	–	–	2,642
Trading derivatives	–	174	–	174	–	128	–	128
Available-for-sale								
Equity securities	403	–	–	403	385	–	–	385
Debt securities	18	–	–	18	18	–	–	18
Derivatives used for hedge accounting	–	102	–	102	–	395	–	395
Total	6,800	276	103	7,179	3,390	523	120	4,033

<i>Reconciliation of financial assets in Level 3 (SEKm)</i>	Closing balance	Financial net	Withdrawals	Translation effect	Opening balance	Profit/loss related to assets included in closing balance
Fair value through profit or loss						
Trading securities 2012	103	4	-14	-7	120	4
Trading securities 2011	120	8	-8	2	118	8

15 Other short-term assets

SEKm	2012	2011
Advances to suppliers	135	189
Prepaid expenses	434	473
Accrued income	140	258
Value added taxes receivables, net	958	903
Other current receivables	840	958
	2,507	2,781

16 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2011	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
Conversion of A shares to B shares	-300,200	300,200	–	–
Closing balance 31/12/2012	42,649,282	412,701,786	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, 184,287,465 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 addi-

tional 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 (5.50) per share to be paid to the shareholders on 7 May 2013. The proposed dividend for 2013 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 2 May 2013. The total proposed dividend to be paid is SEK 2,504 m (2,504). 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 4 May 2012, a dividend of SEK 5.50 (5.00) per share was paid to shareholders.

17 Earnings per share

	2012	2011
Net profit attributable to owners of AB SKF (SEKm)	4,724	6,051
Weighted average number of ordinary shares outstanding	455,345,945	455,351,068
Basic earnings per share (SEK)	10.37	13.29
Dilutive shares from Performance Share Programmes	187,462	–
Weighted average diluted number of shares	455,533,407	455,351,068
Diluted earnings per share (SEK)	10.37	13.29

To fulfill AB SKF's obligations under the Performance Share Programme 2010, which will be settled in 2013, SKF International AB (SKF Treasury Centre) has 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 weighted average number of ordinary shares in the table above has been reduced.

Allotment of performance shares will be made under SKF's Performance Share Programme 2010 due to fulfilment of the

TVA (Total Value Added) target. Consequently there is an effect on diluted earnings per share from that programme. Future allotment of performance shares covered by SKF's Performance Share Programmes 2011 and 2012 requires that all the conditions of the programmes are met. As of 31 of December 2012 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 information regarding SKF's Performance Share Programmes.

18 Provisions for post-employment benefits

Amount recognized in the consolidated balance sheet (SEKm)	2012			2011		
	Pensions	Other	Total	Pensions	Other	Total
Present value of unfunded defined benefit obligations	1,031	1,626	2,657	968	1,663	2,631
Present value of funded defined benefit obligations	16,085	194	16,279	14,604	186	14,790
Less: Fair value of plan assets	-8,939	-168	-9,107	-8,747	-75	-8,822
Net post-employment benefit liabilities	8,177	1,652	9,829	6,825	1,774	8,599
<i>Reflected as</i>						
Other long-term assets	-52	–	-52	-35	–	-35
Provisions for post-employment benefits	8,229	1,652	9,881	6,860	1,774	8,634
Net post-employment benefit liabilities	8,177	1,652	9,829	6,825	1,774	8,599

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

18 Provisions for post-employment benefits (cont.)

drug costs for certain plan participants. At 31 December 2012, this reimbursement right totalled SEK 20 m (30).

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>	2012	2011
<i>Defined benefit expense</i>		
Current service cost	413	370
Interest cost	753	765
Expected return on assets	-502	-523
Curtailments	4	-6
Other	16	10
Post-employment defined benefit expense	684	616
Post-employment defined contribution expense	391	342
Total post-employment benefit expense	1,075	958

Whereof

Amounts charged to operating profit	807	711
Amounts charged to financial expense	268	247
Total post-employment benefit expense	1,075	958

<i>Geographical distribution of total defined benefit obligations (SEKm)</i>	2012	2011
Europe	11,126	9,797
Americas	7,565	7,398
Rest of the world	245	226
	18,936	17,421

<i>Geographical distribution of total plan assets (SEKm)</i>	2012	2011
Europe	4,979	4,649
Americas	4,007	4,068
Rest of the world	121	105
	9,107	8,822

<i>Specification of total plan assets (SEKm)</i>	2012	2011
Government bonds	2,044	2,360
Corporate bonds	2,945	2,362
Equity instruments	3,262	2,989
Real estate	582	824
Other, primarily cash and other financial receivables	274	287
	9,107	8,822

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 98 m (85) related to buildings in the USA and

Switzerland where the Group is the lessee under operating lease arrangements. Lease expense for the Group under these leases was SEK 7 m (9).

Changes in the present value of the defined benefit obligation (SEKm)

	2012			2011		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	15,572	1,849	17,421	14,486	1,927	16,413
Interest cost	677	76	753	690	75	765
Current service cost	376	37	413	341	29	370
Settlements and curtailments	4	3	7	-25	-	-25
Actuarial gains (-)/losses	1,866	68	1,934	680	-18	662
Contributions by plan participants	29	14	43	34	14	48
Benefits paid	-735	-137	-872	-774	-133	-907
Business sold	-	-	-	-	-90	-90 ¹⁾
Other (including reclassifications)	43	2	45	-8	34	26
Translation differences	-716	-92	-808	148	11	159
Closing balance 31 December	17,116	1,820	18,936	15,572	1,849	17,421

¹⁾ Relates to OMVP, see Note 4.

<i>Changes in the fair value of plan assets (SEKm)</i>	2012			2011		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	8,747	75	8,822	9,189	79	9,268
Expected return on assets	499	3	502	520	3	523
Settlements	-	-	-	-17	-	-17
Actuarial gains/losses (-)	311	6	317	-645	-9	-654
Contributions by employer	236	88	324	122	2	124
Contributions by plan participants	18	-	18	24	-	24
Benefits paid	-472	-1	-473	-520	-	-520
Other (including reclassifications)	-9	-	-9	-16	-	-16
Translation differences	-391	-3	-394	90	-	90
Closing balance 31 December	8,939	168	9,107	8,747	75	8,822

Actual return on plan assets			819			-131
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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 5,669 m (4,023).

Expected cash outflows

Cash outflows for 2013 are expected to be some SEK 600 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 2012 and 2011.

Alecta's profit in the form of the collective consolidation level amounted to 129% (113). 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 1,900 m. A decrease by 1 percentage point in the discount rate would increase the total defined benefit obligation by approximately SEK 2,400 m.

18 Provisions for post-employment benefits (cont.)

<i>Principal weighted-average assumptions at end of year</i>	2012	2011
<i>Discount rate</i>		
Europe	3.6	4.6
Americas	4.0	4.5
Rest of the world	3.6	4.7
<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	3.1	3.0
Americas	4.9	4.7
Rest of the world	6.7	5.7
<i>Medical cost trend rate</i>		
USA	8.25	8.50
<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	3	4
Effect on the defined benefit obligation	68	66
<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	-3
Effect on the defined benefit obligation	-59	-58

The assumed medical care cost trend rate at the end of 2012 was 8.25%, and is projected to decline by 0.25% per year, to an ultimate rate of 4.50% in 2027.

<i>Historical information (SEKm)</i>	2012	2011	2010	2009	2008
Total present value of defined benefit obligations	18,936	17,421	16,413	16,541	15,840
Fair value of plan assets	-9,107	-8,822	-9,268	-9,552	-9,515
Deficit	9,829	8,599	7,145	6,989	6,325
Experience adjustments on plan liabilities, losses/gains(-)	410	-93	131	-41	94
Experience adjustments on plan assets, losses (-)/gains	-317	654	-139	358	-2,492

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	2012 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2012 Opening balance
Restructuring	324	292	-103	-5	-5	-3	148
Environmental	78	2	-11	–	–	-4	91
Claims	460	31	-164	-38	-6	-12	649
Long-term employee benefits	497	124	-122	-20	55	-14	474
Other	317	46	-153	-39	2	-13	474
	1,676	495	-553	-102	46	-46	1,836

Restructuring expenses relate to SKF's programme to improve efficiency, reduce cost and strengthen profitable growth that was launched during the year. In particular the expense relates to early retirement and other voluntary reductions primarily in Germany, Italy, Sweden and USA.

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 refers mainly to jubilee provisions in Italy and part time retirement and anniversary bonuses in Germany.

Other provisions primarily include insurance and anti-dumping duties.

20 Financial liabilities

		2012		2011	
SEKm	Maturity	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term financial liabilities					
EUR 500 m (outstanding EUR 396 m)	2013	–	–	3,640	3,739
EUR 130 m (outstanding EUR 100 m)	2014	861	865	1,163	1,169
EUR 100 m	2015	896	896	916	916
EUR 100 m	2016	861	862	895	895
SEK 1,000 m	2017	1,000	1,001	1,000	1,001
EUR 500 m	2018	4,733	4,815	4,762	4,762
EUR 500 m	2019	4,274	4,347	–	–
Other long-term loans	2014-2018	100	101	119	121
Derivatives held for hedge accounting	2014-2018	5	5	5	5
Subtotal long term financial liabilities		12,730	12,892	12,500	12,608
Short term financial liabilities					
EUR 500 m (outstanding EUR 265 m)	2013	2,277	2,354	–	–
Medium-term loans	2013	23	22	16	15
Trade payables	2013	4,189	4,189	4,698	4,698
Short-term loans	< 3 months	243	244	341	341
Derivatives held for trading	2013	161	161	729	729
Derivatives held for hedge accounting	2013	241	241	27	27
Subtotal short term financial liabilities		7,134	7,211	5,811	5,810
		19,864	20,103	18,311	18,418

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 2012 and 2011. 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 are required to be repaid.

Two of the EUR 100 m loans are subject to fair value hedging; for the loan due 2015, the fixed EUR interest rate has been swapped into floating EUR interest rate and for the loan due 2014, the floating EUR interest rate has been swapped into floating SEK interest rate.

EUR 30 m out of the EUR 500 m bond due 2019, the EUR 500 m bond due 2018, two EUR 100 m loans and the EUR 265 m outstanding of the EUR 500 m bond loan due 2013 have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to SEK 9,188 m (8,715).

More information regarding financial risk management and hedge accounting can be found in Note 28. Methods used for establishing fair value are described in Note 1. Interest rates for the loans are disclosed in Note 11 of the Parent company.

21 Leasing

	2012		2011	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
<i>Future minimum lease payments at 31 December (SEKm)</i>				
Within one year	9	465	8	449
Later than one year but within five years	27	977	29	980
Later than five years	27	381	37	495
Total	63	1,823	74	1,924
Less: Interest	-8		-12	
Present value of minimum lease payments under finance leases	55		62	
Less: Current portion	-7		-6	
Non-current portion	48		56	

Net rental expense primarily related to operating leases was SEK 565 m (533). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in the USA, Sweden, Germany, China, 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	2012	2011
Employee related accruals	1,984	2,377
Customer advances	230	214
Deferred income	320	152
Value added taxes payable, net	292	223
Other current liabilities	1,128	1,318
Other accrued expenses	1,983	1,976
	5,937	6,260

23 Assets pledged and contingent liabilities

<i>Assets that have been pledged to secure loans and other obligations (SEKm)</i>	2012	2011
Mortgages on real estate	10	10
Chattel mortgages	44	46
	54	56

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of SEK 2 m (6) at 31 December.

<i>Contingent liabilities at nominal values (SEKm)</i>	2012	2011
Guarantees	23	26
Other contingent liabilities	30	15
	53	41

24 Related parties

<i>The SKF Group's transactions with related parties (SEKm)</i>	2012	2011
Associated companies:		
Sales of goods and services	33	37
Purchases of goods and services	134	259
Receivables as of 31 December	2	3
Liabilities as of 31 December	13	4

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 2012 FAM is the major shareholder of the Parent company, holding 29.5 % (29.4) of the voting rights and 12.9 % (12.9) 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 8 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 2012, 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 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.

25 Remuneration to Key Management (cont.)

Performance Shares

The Annual General Meeting 2012 decided on the introduction of SKF's Performance Share Programme 2012. The terms and conditions of 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 and summarized in the Consolidated Financial Statements Note 25 of the Annual Report 2011.

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.

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 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.

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 2012 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 2012 shall amount to SEK 400,000. Each other Board member not employed by the company 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 2012 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 2012 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 2012. After the Annual General Meeting 2012 the number of shares according to (i) above was determined to 2,559.84 shares for the Chairman, and to 879.94 shares for each other Board member. After the press release according to (ii) above the value of an SKF B share was determined at SEK 155. The variable allotment for the Chairman amounts to SEK 396,775, and for each other Board member to SEK 136,391, and will be paid out in April 2013.

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 2012 as salary and other remunerations a total of SEK 10,420,356. Additionally, Tom Johnstone was entitled to short-term variable salary of SEK 4,651,265 related to 2011 performance. Tom Johnstone's fixed annual salary 2013 will remain unchanged and will amount to SEK 10,000,000.

The variable salary in 2012 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 75.

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 3,747,396 corresponding to SEK 1,498,958 per year. The amount SEK 3,747,396 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 2012 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 5,538,296.

Group Management

SKF's Group Management, consisting of 14 people at the end of the year, received in 2012 (exclusive of the President) salary and other remunerations amounting to a total of SEK 57,405,427, of which SEK 46,470,632 was fixed annual salary and SEK 10,934,795 was short-term variable salary related to 2011 performance.

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 75.

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 2012 the normal retirement age is 65 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.

25 Remuneration to Key Management (cont.)

	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 2012 ³⁾	Amounts expensed in 2012 ³⁾	Amounts paid in 2012 related to 2011 ³⁾	Amounts expensed in 2012 ³⁾	Amounts paid in 2012 related to prior years ³⁾	Amounts expensed in 2012 ³⁾	Amounts paid and expensed in 2012 ³⁾	Amounts expensed in 2012 ³⁾
<i>Amounts in SEK</i>								
Board of directors of AB SKF								
Leif Östling	1,200,000	1,200,000	346,618	407,756	–	–	225,000	–
Ulla Litzén	412,500	412,500	119,150	140,166	–	–	125,000 ⁶⁾	–
Winnie Fok	412,500	412,500	119,150	140,166	–	–	–	–
Lena Treschow Torell	412,500	412,500	119,150	140,166	–	–	–	–
Peter Grafoner	412,500	412,500	119,150	140,166	–	–	80,000	–
Lars Wedenborn	412,500	412,500	119,150	140,166	–	–	255,000	–
Joe Loughrey	412,500	412,500	119,150	140,166	–	–	–	–
Jouko Karvinen	412,500	412,500	119,150	140,166	–	–	80,000	–
Baba Kalyani	412,500	412,500	119,150	140,166	–	–	–	–
CEO ⁴⁾	10,420,356	11,123,839	4,651,265	1,991,266	–	-210,600	–	5,538,296
Group Management ^{4), 5)}	46,470,632	48,318,012	10,934,795	6,548,902	–	-558,230	–	48,876,977
whereof AB SKF	36,452,117	38,271,672	9,177,666	5,343,697	–	-452,250	–	46,764,477
Total	61,390,988	63,941,851	16,885,878	10,069,252	–	-768,830	765,000	54,415,273
whereof AB SKF	51,372,473	53,895,511	15,128,749	8,864,047	–	-662,850	765,000	52,302,773

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 107 m.

⁵⁾ Exclusive of CEO.

⁶⁾ Of the amount expensed SEK 62,500 was paid 2012.

SKF's Performance Share Programme

Allotment of shares under SKF's Performance Share Programme normally requires that the persons covered by each of the programmes are employed in the SKF Group during the entire three year calculation period.

- SKF's Performance Share Programme 2009: No allotment of shares has been or will be made due to non-fulfillment of the TVA target for the financial year 2009.
- SKF's Performance Share Programme 2010: Allotment of shares will be made in the beginning of 2013. In total 259,231 SKF B shares will be allotted pursuant to the terms of the programme, based on the degree of achievement of TVA target level for the financial year 2010, and TVA decline of 31% (the financial year 2012 compared to the financial year 2010).
- SKF's Performance Share Programme 2011: Any allotment of shares shall be made following the expiry of the three year calculation period, i.e. during 2014, if all the conditions in the programme are met.
- SKF's Performance Share Programme 2012: No allotment of shares will be made due to non-fulfillment of the TVA target for the financial year 2012.

For further details of SKF's Performance Share Programmes, see page 150.

Costs for SKF's Performance Share Programmes

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 described in Note 1, as SEK 141 for SKF's Performance Share Programme 2010 and SEK 177.6 for SKF's Performance Share Programme 2011. Amounts expensed in 2012 were SEK -13 m (57) excluding social charges.

The total provision for all programmes was SEK 72 m (85) and in addition the total provision for social charges for all programmes was SEK 15 m (9).

To fulfil AB SKF's obligations under the Performance Share Programme 2010, 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 programme. The fair value of the swap agreement as per 31 December 2012 was SEK -27 m and was recorded directly in equity.

Cost for Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted by the Annual General Meeting 2012 a variable allotment, calculated as described on page 151. The variable allotment amounts in total to SEK 1,487,903 (1,299,820) and will be paid out in April 2013.

Men and women in Board of Directors and Group Management

	2012		2011	
	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%	14	79%
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>	2012	2011
Audit fees	37	36
Audit related fees	2	1
Tax fees	4	4
Other fees to auditors	2	1
	45	42
<i>The Parent Company's share (SEKm)</i>		
Audit fees	3	3
Audit related fees	1	–
Tax fees	–	–
Other fees to auditors	1	1
	5	4

Audit fees relate to examination of the annual report and financial accounting and the administration by the Board and the President as well as other tasks related to the duties of a company auditor. Audit related fees are attributable to the review of SKF's sustainability report. Tax fees and

other fees to auditors relate to all other consultancy assignments.

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

	2012		2011	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	582	62%	249	56%
Subsidiaries in Sweden	2,312	81%	2,684	81%
Subsidiaries abroad	41,274	79%	39,953	79%
	44,168	79%	42,886	79%
<i>Geographic specification of average number of employees in subsidiaries abroad</i>				
	2012		2011	
	Number of employees	Whereof men	Number of employees	Whereof men
France	3,156	82%	3,548	82%
Italy	3,379	77%	3,418	76%
Germany	5,897	87%	5,235	87%
Other Western Europe excluding Sweden	4,018	79%	3,982	81%
Central and Eastern Europe	3,906	65%	4,023	65%
USA	5,247	73%	5,142	75%
Canada	239	78%	231	75%
Latin America	3,593	82%	3,393	82%
China	5,379	71%	4,572	69%
India	3,274	96%	3,262	96%
Other Asian countries/Pacific	2,840	81%	2,893	81%
Middle East and Africa	346	79%	254	74%
	41,274	79%	39,953	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%

Key figures ¹⁾	2012	2011
Total equity, SEKm	22,468	22,455
Gearing, %	52.8	48.9
Equity/assets ratio, %	37.0	37.8
Net debt/equity, %	72.5	72.5
Return on capital employed, %	16.2	23.6

¹⁾ Definition of these key figures is available on page 192.

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.

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. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. 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. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from SEK 54,318 m (55,616) to SEK 4,019 m (5,753). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from 1 to 6 months on average. Hedge accounting as defined by IAS 39 has been limited to USD only.

Net currency flows (SEKm)	2012	2011
USD	5,220	5,720
USD related ¹⁾	2,795	3,024
EUR	-4,959	-3,501
Other ²⁾	963	510
SEK	-4,019	-5,753

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 2013 as in 2012, 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 630 m (590), including the effect 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 6 months (5).

28 Financial risk management (cont.)

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 41 m (12) if SEK had strengthened and weakened, respectively, by 10% against all other currencies. The corresponding effect on the hedge reserve in equity from revaluation of cash flow hedges would have been an increase/decrease of SEK 52 m (149).

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 157.

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 25,149 m (21,486) and total interest bearing financial assets amounted to SEK 9,491 m (5,881). 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.

To manage the interest rate risk and currency risk in the borrowing, the Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating SEK interest rates and fixed EUR interest rates are swapped into floating EUR interest rates.

As of the balance sheet date, given the prevailing amount of net interest-bearing 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 around SEK 50 m (70). For details on interest rates of individual loans, see Note 11 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 403 m (385), which are categorized as available-for-sale. If the market share prices had been 10% higher/lower at the balance sheet date, the available-for-sale reserve in equity would have been SEK 40 m (39) higher/lower.

Liquidity risk

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

the balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks that will expire in 2017, 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 shows 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 2012 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 2012. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid. SEK 2,277 m of the loans that matures during 2013 are due in December.

SEKm	2012 Cash flows			2018 and thereafter
	2013	2014	2015-2017	
Loans	-2,952	-1,270	-3,460	-9,189
Trade payables	-4,189	–	–	–
Derivatives				
Outflows	-42,946	-98	-19	–
Inflows	43,006	119	63	–
Total	-7,081	-1,249	-3,416	-9,189

SEKm	2011 Cash flows			2017 and thereafter
	2012	2013	2014-2016	
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

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 19,747 m (17,036) 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>	2012	2011
Trade receivables	10,084	10,713
Other receivables	1,143	975
Derivatives	276	523
Cash and cash equivalent	8,244	4,825
Total	19,747	17,036

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 financial liabilities the SKF Group, as of the balance sheet date, used cross-currency interest rate swaps (receive variable EUR interest, pay SEK variable interest) for an amount of EUR 100 m (100) and interest rate swaps (receive fixed EUR interest, pay EUR variable interest) for an amount of EUR 100 m (600). The fixed-income EUR bonds that have been swapped into variable EUR interest debt are also included as hedge instruments in hedges of net investments in foreign operations, see section regarding net investment hedges below.

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 below), the Group had designated interest rate derivatives with a net amount of SEK -188 m (382) as fair value hedges as of 31 December 2012.

The following table shows the changes in the fair value of the hedges recorded in interest expense during the year.

SEKm	Financial expense 2012	Financial expense 2011
Financial liabilities (hedged items)	369	318
Cross-currency interest-rate swaps (hedging instruments)	-360	-327
Difference (inefficiency)	9	-9

Cash flow hedges

During 2012, 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 2012 financial year, gains totalling SEK 58 m (loss of 43) resulting from the change in the fair value of currency forwards designated as cash flow hedges were taken to other comprehensive income. During the year losses of SEK 82 m (gain of 119) were transferred via other comprehensive income to net sales. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity forward contracts were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2012 financial year, losses totalling SEK 9 m (loss of 25) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year losses of SEK 13 m (gain of 8) was transferred via other comprehensive income to cost of goods sold. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

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.

Nominal value	2013				2014-2015	Total
	Q1	Q2	Q3	Q4		
Currency forwards, USDm ¹⁾	140	110	-	-	-	250
Electricity forwards, SEKm	7	5	5	7	20	44

¹⁾ For the outstanding USD forward currency contracts the average rate was 6.7422.

A list of the fair values of derivatives is shown in the table in the derivatives section below.

Hedges of net investments

As of the balance sheet date net investments in foreign operations for a nominal amount of EUR 1,204 m (1,139) were hedged by the Group against changes in the EUR/SEK exchange rate. EUR loans for an amount of EUR 995 m (930) and derivatives for an amount of EUR 209 m (209) were designated as hedge instruments. The result of the hedges totalled SEK 392 m (106) before tax in 2012 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 2012 or in 2011.

28 Financial risk management (cont.)

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	2012	2011
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	-188	382
Net investment hedges	Hedge accounting	62	25
Economic hedges	Trading	-65	-245
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	5	-46
Net investment hedges	Hedge accounting	-16	19
Economic hedges	Trading	75	-364
Electricity forwards			
Cash flow hedges	Hedge accounting	-7	-12
Embedded derivatives	Trading	3	3
		-131	-238

Parent Company income statements

SEKm	Note	Years ended December 31	
		2012	2011
Revenue	2	4,655	2,018
Cost of revenue	2	-5,462	-2,018
General management and administrative expenses	2	-967	-205
Other operating income		6	3
Other operating expenses		-11	-19
Operating loss		-1,779	-221
Income from participations in group companies	3	4,895	3,852
Financial income	3	498	404
Financial expenses	3	-993	-867
Profit after financial items		2,621	3,168
Change in untaxed reserves	4	500	-123
Profit before tax		3,121	3,045
Taxes	5	-39	-255
Net profit		3,082	2,790

Parent Company statements of comprehensive income

SEKm	Note	Years ended December 31	
		2012	2011
Net profit		3,082	2,790
Other comprehensive income			
Change in fair value of available-for-sale assets	9	18	-260
Other comprehensive income		18	-260
Total comprehensive income		3,100	2,530

Parent Company balance sheets

SEKm	Not	As of December 31	
		2012	2011
ASSETS			
Non-current assets			
Intangible assets	6	843	–
Property, plant and equipment	7	53	3
Investments in subsidiaries	8	23,064	22,634
Long-term receivables from subsidiaries		12,144	11,952
Investments in associated companies	8	1	1
Investments in equity securities	9	403	385
Deferred tax assets	5	35	23
		36,543	34,998
Current assets			
Short-term receivables		–	1
Short-term receivables from subsidiaries		4,923	2,154
Tax receivables		36	13
Other short-term receivables		14	81
Prepaid expenses		22	5
Cash and cash equivalents		1	2
		4,996	2,256
Total assets		41,539	37,254
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		183	165
Retained earnings		7,042	6,769
Net profit		3,082	2,790
		10,307	9,724
		12,363	11,780
Untaxed reserves	4	1,040	1,540
Provisions			
Provisions for post-employment benefits	10	234	193
Other provisions		5	1
		239	194
Non-current liabilities			
Long-term loans	11	12,143	11,945
Long-term liabilities to subsidiaries		134	140
		12,277	12,085
Current liabilities			
Short-term loans	11	2,277	–
Trade payables		76	14
Short-term liabilities to subsidiaries		12,815	11,329
Other short-term liabilities		14	8
Accrued expenses and deferred income		438	304
		15,620	11,655
Total shareholders' equity, provisions and liabilities		41,539	37,254
Assets pledged		–	–
Contingent liabilities		20	5

Parent Company statements of cash flow

SEKm	Years ended December 31	
	2012	2011
Operating activities		
Operating loss	-1,779	-221
<i>Adjustments for</i>		
Depreciation and amortization	114	1
Income taxes paid	-75	-306
Payments under post-employment defined benefit plans	-22	-25
Exercise of Performance Share Programmes	-	-20
<i>Changes in working capital</i>		
Trade payables	62	-3
Other operating assets and liabilities, net	166	429
Interest received	495	401
Interest paid	-929	-836
Other financial items	-61	-28
Net cash flow from operating activities	-2,029	-608
Investment activities		
Additions to property, plant and equipment	-53	-
Additions to intangible assets	-954	-
Dividends received from subsidiaries	3,103	2,389
Sales of shares in subsidiaries	61	18
Investments in subsidiaries	-431	-395
Net cash flow used in investing activities	1,726	2,012
Net cash flow after investments before financing	-303	1,404
Financing activities		
Proceeds from medium- and long-term loans	4,176	5,443
Repayment of medium- and long-term loans	-1,370	-4,568
Cash dividends to AB SKF's shareholders	-2,504	-2,277
Net cash flow used in financing activities	302	-1,402
Increase(+)/decrease(-) in cash and cash equivalents	-1	2
Cash and cash equivalents at January 1	2	-
Cash and cash equivalents at December 31	1	2

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 1/1/2011	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
Net profit	–	–	–	3,082	3,082
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	18	–	18
Cost under Performance Share Programmes ²⁾	–	–	–	-13	-13
Dividend	–	–	–	-2,504	-2,504
Closing balance 31/12/2012	1,138	918	183	10,124	12,363

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 2011.

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.

2 Revenues and operating expenses

The business model for AB SKF has changed from being a service provider in 2011 to in 2012 being the entrepreneur within the Group. As such AB SKF is entitled to the residual profits while taking costs for management and research and development. Consequently, in 2012 revenues are comprised of residual profits from subsidiaries. Cost of revenues include

research and development expenses totalling SEK 1,498 m. Of the total operating expenses, SEK 2,655 m was invoiced from subsidiaries.

In 2011 AB SKF as service provider had sales to subsidiaries for SEK 2,018 m and expenses from subsidiaries totalling SEK 1,528 m.

3 Financial income and financial expenses

SEKm	2012	2011
Income from participations in Group companies		
Dividends from subsidiaries	3,103	2,389
Received Group contribution	1,768	1,612
Paid Group contribution	-36	-9
Other financial income from investments in subsidiaries	61	-
Impairment of investments in subsidiaries	-1	-140
	4,895	3,852
Financial income		
Interest income from subsidiaries	495	401
Other financial income	3	3
	498	404
Financial expenses		
Interest expenses to subsidiaries	-433	-434
Interest expenses to external parties	-496	-402
Other financial expense	-64	-31
	-993	-867

Other financial income from investments in subsidiaries consists of profits in connection with sales of shares.

4 Untaxed reserves

<i>Change in untaxed reserves (SEKm)</i>	2012	2011
Change in tax allocation reserves	690	-123
Change in accelerated depreciation reserve	-190	–
	500	-123
<i>Untaxed reserves (SEKm)</i>		
Accelerated depreciation reserve	191	1
Tax allocation reserves	849	1,539
	1,040	1,540

5 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2012	2011
Current taxes	-51	-252
Deferred taxes	12	-3
	-39	-255
<i>Net deferred taxes per type (SEKm)</i>		
Provisions for post-employment benefits	32	20
Other	3	3
Deferred tax assets	35	23
<i>Reconciliation of the statutory tax in Sweden and the current tax (SEKm)</i>		
Tax calculated using the statutory tax rate in Sweden	-821	-801
Non-taxable dividends and other financial income	816	629
Other non-deductible and non taxable profit items, net	-34	-83
Actual tax	-39	-255

The corporate statutory income tax rate in Sweden was 26.3% in 2012 and 2011. As from 2013, the Swedish corporate statutory tax rate was reduced to 22%, which resulted in a deferred tax income of SEK 26 m.

6 Intangible assets

SEKm	2012 Closing balance	Additions	2012 Opening balance
<i>Acquisition cost</i>			
Technology and similar items ¹⁾	886	886	–
Other	68	68	–
	954	954	–
SEKm	2012 Closing balance	Depreciation	2012 Opening balance
<i>Accumulated depreciation</i>			
Technology and similar items ¹⁾	111	111	–
Other	–	–	–
	111	111	–
Net book value	843	843	–

¹⁾ Amortized over 8 years.

7 Property plant and equipment

SEKm	2012 Closing balance	Additions	2012 Opening balance
<i>Acquisition cost</i>			
Buildings	4	–	4
Machine toolings and factory fittings	22	9	13
Construction in process including advances	44	44	–
	70	53	17

SEKm	2012 Closing balance	Depreciation	2012 Opening balance
<i>Accumulated depreciation</i>			
Buildings	1	–	1
Machine toolings and factory fittings	16	3	13
	17	3	14
Net book value	53	50	3

8 Investments in subsidiaries and associated companies

Investments in significant subsidiaries are specified below. Investments in associated companies were SEK 1 m (1) 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>	2012	Additions	Impair- ment	2011	Additions	Impair- ment	Disposals and capital- repayments	2011
Investments in subsidiaries	23,064	431	-1	22,634	535	-140	-18	22,257

Name and location	Registration number	2012			2011		
		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	100	156
SKF Bearings Bulgaria EAD, Bulgaria	–	24,664,309	100	183	24,664,309	100	183
SKF Ukraine, Ukraine	–	1,266,122,556	99.9	205	821,379,918	99.8	176
SKF do Brasil Limitada, Brazil	–	252,582,248	99.9	540	243,461,248	99.9	540
SKF Argentina S.A., Argentina	–	890,144	2.4	3	890,144	2.4	3
SKF India Ltd., India	–	24,639,048	46.7	94	24,639,048	46.7	94
SKF Couplings Systems AB, Hofors, Sweden	556019-4150	7,500	100	259	7,500	100	259
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	–	153,320	51	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	–	373,354,766	62.2	65	108,224,966	32.3	65
SKF Technologies (India) Private Limited, India	–	1,426,500,101	89.2	395	826,500,101	82.7	243
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	–	48,400	100	12	48,100	100	12
SKF Logistics Services Belgium NV/SA, Belgium	–	29,907,952	99.9	28	29,907,952	99.9	28
SKF Portugal-Rolamentos Lda, Portugal	–	61,601	95	4	61,601	95.0	4
SKF Ložiska, A.S., Czech Republic	–	430	100	10	430	100	10
SKF Svéd Golyóscsapágy Zrt., 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	–	88,191	99.9	0	88,192	100	0
SKF Venezolana S.A., Venezuela	–	19,506,514	97.5	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	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	11	375,000	100	0
SKF Lubrication Comp. Center, Linköping, Sweden	556124-6082	1000	100	8	1000	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	5,000	100	2	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				4,890			4,697

8 Investments in subsidiaries and associated companies (cont.)

Name and location	Registration number	2012			2011		
		No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Carried forward	–			4,890			4,697
SKF Belgium NV/SA, Belgium	–	1,778,642	99.9	9,801	650,506	99.9	9,802
SKF Korea LTD, Republic of Korea	–	128,667	100	74	128,667	100	74
SKF South Africa Pty.Ltd, South Africa	–	1,422,480	100	43	1,422,480	100	43
SKF Australia 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 Hellas S.A., Athens, Greece	–	2,000	100	0	2,000	100	0
Other companies							
Trelanoak Limited, United Kingdom	–	6,965,000	100	120	6,965,000	100	120
SKF Holding Maatschappij Holland B.V., The Netherlands	–	60,002	100	5,042	60,002	100	5,042
SKF Verwaltungs AG, Switzerland	–	500	100	502	500	100	502
SKF Holding Mexicana, S.A. de C.V., Mexico	–	22,687,633	98	239	2,268,763	98	104
SKF China Company Ltd. Shanghai, China	–	133,400	100	1,135	133,400	100	1,135
SKF Treasury Centre Asia Pacific Pte Ltd., Singapore	–	61,500,000	100	467	61,500,000	100	467
SKF Logistics Uruguay S.A., Uruguay		566,886,506	100	174	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	99.6	40
Bagaregården 16:7 KB, Göteborg, Sweden	916622-8529	–	–	55 ¹⁾	–	–	53 ¹⁾
				23,064			22,634

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)	2012	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	100	The Netherlands
SKF Industrie S.p.A, Airasca, Italy	100	The Netherlands
SKF France S.A., Montigny-le Bretonneux, France	100	France
Transrol S.A.S, Chambéry, France	100	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	98	Switzerland
SKF de Mexico, Puebla, Pue, Mexico	37.8	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 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
SKF Aeroengine France, Valenciennes, France	100	France
Lincoln Industrial Co., St. Louis, USA	100	USA
Lincoln GmbH, Walldorf, Germany	100	Germany
SKF Taiwan Co. Ltd., Taipei, Taiwan	100	The Netherlands
ABBA Taipei, Taipei, Taiwan	100	Taiwan
SKF Wazhou Bearings, Dalian, China	51	China
Nankou SKF Bearings, Beijing, China	51	China
SKF Sealing Solutions Wuhu Co. Ltd., Wuhu, China	100	China
General Bearing Co., New York, USA	100	USA
SKF Sealing Solutions Austria GmbH, Judenburg, Austria	100	Austria
SKF Bearing Industries Malaysia, Nilai, Malaysia	100	The Netherlands
S2M France S.A., Saint-Marcel, France	100	France

9 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	2012 Book value, SEKm	2011 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	33	361	356
NN, Inc., USA	4.5	700,000	USD	2	42	29
					403	385

10 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>	2012	2011
Present value of funded pension obligations	250	180
Less: Fair value of plan assets	-199	-157
Net obligation	51	23
<i>Present value of unfunded pension obligations</i>	183	170
Net provisions	234	193

SEK 234 m (193) of the net provision relates to "Tryggande-lagen". SEK 143 m of plan assets are invested in government bonds and the remainder in equity instruments.

<i>Change in net provision for the year (SEKm)</i>	2012	2011
Opening balance January 1	193	162
Defined benefit expense	42	56
Other	21	-
Pension payments	-22	-25
Closing balance December 31	234	193
<i>Components of expense (SEKm)</i>		
Pension cost	45	52
Interest expense	6	5
Return on plan assets	-9	-1
Defined benefit expense	42	56
Defined contribution expense	90	43
Total post-employment benefit expense	132	99

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 3.75% (4.0%) and for the other defined benefit plan it is 3.5% (3.5%). Expected cash out-flows for 2013 are SEK 24 m.

11 Loans

SEKm	Maturity	Interest rate	2012		2011	
			Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
EUR 500 m (Outstanding EUR 265 m)	2013	4.25	2,277	2,354	3,542	3,739
EUR 100 m	2015	2.95	861	896	895	916
SEK 1,000 m	2017	3.42	1,000	1,001	1,000	1,001
EUR 500 m	2018	3.88	4,286	4,815	4,450	4,762
EUR 500 m	2019	1.88	4,274	4,347	–	–
Long-term loans						
EUR 130 m (Outstanding EUR 100 m)	2014	2.94	861	865	1,163	1,169
EUR 100 m	2016	0.79	861	862	895	895
			14,420	15,140	11,945	12,482

12 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

SEKm	2012	2011
Salaries, wages and other remuneration	478	299
Social charges (whereof post-employment benefit expense)	277 (132)	172 (99)

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.

Proposed distribution of surplus

Fair value reserve	SEK	183,074,221
Retained earnings	SEK	7,041,263,754
Net profit for the year	SEK	3,082,231,581
Total surplus	SEK	10,306,569,556
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	183,074,221
Retained earnings	SEK	7,619,064,461
	SEK	10,306,569,556

¹⁾ Suggested record day for right to dividend, May 2, 2013.

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 2012 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 30, 2013

Leif Östling, *Chairman*
 Ulla Litzén, *Board member*
 Tom Johnstone, *President and CEO, Board member*
 Winnie Fok, *Board member*
 Lena Treschow Torell, *Board member*
 Peter Grafoner, *Board member*
 Lars Wedenborn, *Board member*

Joe Loughrey, *Board member*
 Jouko Karvinen, *Board member*
 Baba Kalyani, *Board member*
 Niklas Thoreson, *Board member*
 Kennet Carlsson, *Board member*
 Virpi Ring, *Deputy board member*
 Martin Björkman, *Deputy board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued February 28, 2013.

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 data and examples on how SKF works to improve environmental performance please see Environmental Care. »see pages 82–93 For site by site data refer to the Environmental data spreadsheet available at skf.com.

Scope and data collection: All environmental data reported in the SKF Sustainability Report – Environmental Care, (except scope 3 – Logistics data, see note 3) 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/business area, and Group level. Data verification is performed at each level before it is reviewed by external auditors. The reporting of greenhouse gas emissions is done according to the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resource Institute.

1 Net sales

SEKm	2012	2011	2010	2009	2008	2007	2006
Net sales	64,575	66,216	61,029	56,227	63,361	58,559	53,101

2 Energy use and associated CO₂ emissions (scope 1 & 2*) at SKF facilities

Targets: 5% reduction in absolute energy use in 2016 vs. 2006 and 5% year-on year improvement in energy efficiency (measured as energy use/output)

Energy	2012	2011	2010	2009	2008	2007	2006
Total energy use (GWh)	1,678	1,763	1,777	1,555	1,849	1,930	1,959
Indexed energy efficiency (GWh/output)	104	100	113				

Energy efficiency is calculated by dividing GWh used at SKF's production sites by an internal measure of output. In this table it is shown as an indexed indicator based on previous year as index 100. Because the measure of output is recalculated, only the last three years are comparable.

CO ₂ (tonnes)	2012	2011	2010	2009	2008	2007	2006
Direct combustion (scope 1*)							
LPG	4,709	4,294	3,668	2,732	3,831	3,968	4,236
Fuel oil	3,693	5,811	6,843	5,521	5,882	6,708	11,834
Natural gas	56,380	56,932	60,197	57,856	67,028	69,441	68,966
Total scope 1	64,781	67,036	70,707	66,109	76,741	80,117	85,037

	2012	2011	2010	2009	2008	2007	2006
Supplied energy (scope 2*)							
Electricity	395,017	427,495	403,662	339,908	415,573	454,752	456,656
Heating energy	35,511	33,898	42,075	34,376	37,309	41,902	45,983
Total scope 2	430,528	461,394	445,737	374,284	452,882	496,654	502,639
Total CO ₂ (scope 1 and 2) Tonnes	495,309	528,430	516,444	440,393	529,623	576,771	587,676
Total minus purchased VERs** 2010 and 2011		448,430	476,444				

* SKF reports greenhouse gas emissions in accordance with the Green House Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, suppliers etc. refer to note 3). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures 2006 to 2012 are adjusted according to the GHG-protocol for acquisitions and divestments.

** Voluntary emission reduction certificates produced according to the Voluntary Carbon standard (VCS). See previous year's annual report for detailed info.

Note 3 Logistics data: SKF Logistics Services downstream (from SKF to customer) transportation of goods. The scope includes emissions of the Air, Ocean and Express shipments on a global level. For road transportation, the Group is mainly reporting emissions from its network within Europe. During 2012 SKF increased the scope of reporting to include additional

countries outside Europe e.g. Uruguay, where SKF has setup a large logistics hub. For a lot of road transportation outside the scope explained above, there are difficulties in obtaining reliable data from logistics providers. The reporting period was Q4 2011 to Q3 2012. It lags one quarter due complexity of data compilation.

3 Logistics data and related CO₂ emissions

Target: 30% reduction of CO₂ / tonne-kilometre for goods transport by 2016 compared to 2011

	2012	2011	2010	2009
Shipped Weight Tonnes	472,822	532,795		
Total CO ₂ emissions Tonnes (scope 3)	51,933	51,638*		
Transport works (million tonne-kilometres)	2,149	2,047		
CO ₂ gram per tonne-kilometre	24.2	24.9		
Fill rate for trucks** (% of available truck space utilized)	80%	81%	77%	72%
Shipped weight per transport mode				
Road %	66%	63%	67%	67%
Sea %	32%	35%	31%	31%
Express %	<0.5%	<0.5%	<0.5%	<0.5%
Air %	1.6%	1.5%	2%	2%
CO ₂ emissions per transport mode				
Road %	17%	16%	18%	18%
Sea %	25%	23%	23%	31%
Express %	4%	2%	2%	4%
Air %	54%	59%	57%	47%

* Restatement from previous years to reflect the same scope as 2012.

** The fill rate indicator covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

4 Total revenue of BeyondZero portfolio solutions and avoided global greenhouse gas emissions enabled by these solutions

Target: to reach total revenues of BeyondZero portfolio solutions of 10 Billion SEK in 2016.

4a Total SKF BeyondZero portfolio revenues, SEKm

SEKm	2012	2011
Total SKF BeyondZero portfolio revenues	2,972	2,500*

The annual SKF BeyondZero portfolio revenues consist of the total sales from individually selected products and solutions as well as that from SKF's business with the renewable energy and electric vehicle industry.

* From 2012 the SKF BeyondZero portfolio is reviewed by external auditors. The result for 2011 is estimated.

4b Avoided greenhouse gas emissions enabled by specific SKF solutions*

Tonnes CO _{2e}	2012
Avoided greenhouse gas emissions, specific SKF solutions*	52,000

* The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific SKF BeyondZero portfolio solutions sold during 2012. These calculations focus on the difference in the life cycle impact of the SKF solutions compared to defined baseline solutions. The baseline is defined as the most common solution on the market.

This figure is intended to show the magnitude of the savings and will become more comprehensive as further calculations, updates and refinements are done during the course of 2013.

4c Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries**

Tonnes CO ₂ e	2012
Avoided greenhouse gas emissions**	1,620,000

** The figure has been estimated as SKF's part of the avoided greenhouse gas emissions made possible by the whole renewable energy industry. An economic allocation factor of 6% has been used. Going forward, this category will also include SKF's sales to the electric vehicle industry.

There is no standard method for companies to calculate environmental benefits, such as reductions in carbon dioxide emissions, from their products and services. The statements in this report concerning environmental impacts, as well as cost savings and revenue increases, are based on results experienced by SKF's customers and/or based on internal calculations by SKF's personnel and do not constitute a guarantee that any future results will be the same. For more details, including documentation about reduced environmental impacts, visit: www.beyondzero.com.

5 Material use

Tonnes	2012	2011	2010	2009	2008	2007	2006
Metal as raw material from external suppliers	368,401	413,945	412,068	297,950	431,781	431,076	361,953
Rubber as raw material from external suppliers	4,247	4,354	3,915	2,961	3,757	2,621	2,265

6 Chemical Use

	2012	2011	2010	2009	2008	2007	2006
Alcohols (tonnes)	1,500	1,542	1,514	1,293	1,569	1,395	1,283
Solvents (tonnes)	966	847	1,144	1,075	1,435	1,596	1,888
Hydraulic Oil (tonnes)	2,435	2,515	2,501	1,932	3,039	3,209	3,016
Grease (tonnes)	1,615	1,515	1,416	1,175	1,639	1,728	1,804
PCB (Sites with)	0	1	1	1	1	2	1
Other oils (tonnes)	3,246	3,843	3,114	3,160	4,130	8,103	8,910
Lubrication Oils (tonnes)	793	986	880	649	887	–	–
Cutting Oils (tonnes)	2,271	2,456	2,656	1,971	9,478	–	–
ODS-Class I Manufacturing (kilogram)	0	0	0	0	0	0	19
ODS-Class II Manufacturing (kilogram)	0	0	15	1	88	121	191
ODS-Class III Manufacturing (kilogram)	300	138	119	24	–	–	–
ODS-Class I Non-Manufacturing (kilogram)	0	0	30	30	–	–	–
ODS-Class II Non-Manufacturing (kilogram)	2	124	107	253	–	–	–
ODS-Class III Non-Manufacturing (kilogram)	745	294	477	281	–	–	–

ODS: Ozone-depleting substances

7 Water use

	2012	2011	2010	2009	2008	2007	2006
Water use (1,000 N Cubic Meters)	5,662	5,584	5,652	6,898	7,622	6,956	7,084

8 Residual products and recycling

	2012	2011	2010	2009	2008	2007	2006
Turning Chips (tonnes)	49,207	54,536	64,782	51,085	83,444	92,919	90,713
Turning Chips Recycled (%)	100	100	100	100	100	100	100
Other metal scrap (tonnes)	5,625	6,318	7,487	7,670	18,413	76,599	73,522
Other metal scrap recycled (%)	100	100	100	100	100	100	100
Grinding swarf (tonnes)	20,297	23,221	20,899	15,740	24,324	25,125	23,427
Grinding Swarf Recycled (%)	76	68	67	70	64	67	65
Used oils (tonnes)	3,861	3,899	4,275	3,880	5,742	5,510	4,869
Used oils recycled (%)	96	95	94	96	97	93	76
Paper and carton (tonnes)	4,276	4,193	4,084	3,390	4,194	4,223	3,946
Paper and carton recycled (%)	100	100	98	96	97	97	98
Waste sent to landfill (tonnes)	9,371	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 Employee Care and Community Care section. »see pages 94–104
For more information, please also visit skf.com

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.

9 Accident rate for the Group

	2012	2011	2010	2009	2008	2007
Accident rate for the group	1.06	1.05	1.18	1.29	1.54	1.53

Note 10–15, Scope and data collection: The SKF Group Employee Data presented below (and in the Employee Care section) is collected annually. All figures in notes 10–15 about employee data reflects the current state on 31 December each year.

► **IMPORTANT NOTE.** In order to improve the completeness and include a greater number of employees in the social data, from 2012, the data is compiled from legal company level, whereas it has previously been compiled at operational site level. Due to this, the year over year data is not comparable between 2011 and 2012. In addition, several of the KPIs are from 2012 presented indicating “% of employees covered by agreement/policy”, whereas previously, until 2011, it has been presented as “% of operational units with agreement/policy”.

Figures are not adjusted for acquisitions and divestments. Data verification is performed at each level before it is reviewed by external auditors.

10 Attendance rate 2012, % time by region

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
Percentage of total time attending	96%	98%	93%	98%	99%	94%	94%
Percentage of total time away from work due to occupational illness/injury*	0.51%	0.13%	0.10%	0.13%	0.55%	0.23%	0.91%

* Only time off due to verified occupational illness/injury is included. Not all legal SKF companies globally report work related and other illness separately. In these cases, the data are not accounted for.

11 Employee retention rate by region (and total)

Percent	Female	Male	2012 Total	2011	2010	2009	2008	2007
Asia and Pacific	89.2	87.6	88	88	91	94	86	87
Middle East and Africa	84.6	95.1	93	90	94	95	88	86
North America	89.9	91.0	91	91	95	96	91	90
Latin America	83.1	87.2	86	94	93	96	95	94
Eastern and Central Europe	96.6	94.9	96	97	96	95	90	95
Western Europe	95.6	96.9	97	97	96	96	96	96
Group	92.2	92.9	93	94	95	95	93	94

▷ Comment: Data from 2012 is aggregated from legal units in SKF (see explanation on page 173). The data are therefore not comparable to previous years.

12 SKF employees by region covered by independent trade union agreement

Percent	2012	2011	2010	2009	2008	2007
Asia and Pacific	70	54	52	65	60	61
Middle East and Africa	23	0	0	0	0	0
North America	91	30	28	30	28	35
Latin America	88	100	100	100	100	100
Eastern and Central Europe	85	63	100	100	100	100
Western Europe	94	88	88	90	88	88
Group	86	65	66	71	67	70

▷ Comment: Data from 2012 is aggregated from legal units in SKF (see explanation on page 173). The data are therefore not comparable to previous years.

13 SKF employees by region covered by formalized health and wellbeing policy/programme*

Percent	2012	2011	2010	2009	2008	2007
Asia and Pacific	69	14	16	20	25	17
Middle East and Africa	82	100	100	100	100	100
North America	94	48	48	52	45	46
Latin America	98	33	33	33	40	20
Eastern and Central Europe	47	0	0	0	0	0
Western Europe	92	22	20	20	20	16
Group	83	26	26	28	27	24

▷ Comment: Data from 2012 is aggregated from legal units in SKF (see explanation on page 173). The data are therefore not comparable to previous years.

* Examples of formalized health and wellbeing policies/programmes may include for example, but not limited to HIV/AIDS and other infectious disease, health and fitness, stress, work-life balance or other issue relevant to the local needs. Until 2011, the data represents units with HIV/AIDS policy or programmes alone.

14 Local management with at least one woman, by region

Percent	2012	2011	2010	2009	2008	2007
Asia and Pacific	73	54	56	50	60	67
Middle East and Africa	50	100	100	100	100	100
North America	85	85	70	70	72	77
Latin America	64	67	67	67	60	60
Eastern and Central Europe	60	88	100	100	100	100
Western Europe	69	82	78	86	80	80
Group	70	76	72	76	75	77

► Comment: Data from 2012 is aggregated from legal units in SKF (see explanation on page 173). The data are therefore not comparable to previous years.

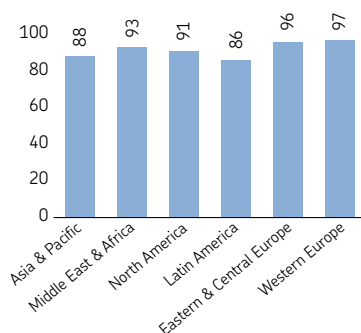
15 Total percentage of women in local management, by region

Percent	2012	2011	2010	2009	2008	2007
Asia and Pacific	16.4	9	8	8	9	9
Middle East and Africa	16.7	33	50	20	20	24
North America	16.2	18	16	16	15	18
Latin America	18.7	17	13	11	9	7
Eastern and Central Europe	29.1	38	46	46	46	35
Western Europe	16.4	18	17	19	18	17
Group*	17.1	17	16	18	16	16

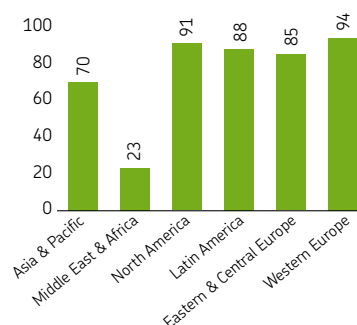
* The proportion of women in the Group's total number of employees is 22%.

► Comment: Data from 2012 are aggregated from legal units in SKF (see explanation on page 173). The data are therefore not comparable to previous years.

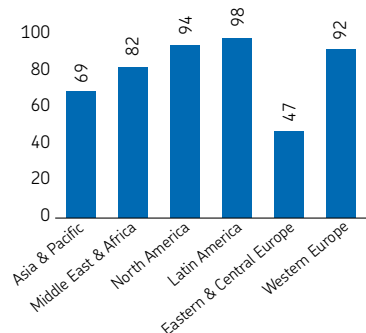
Employee retention rate by region, %



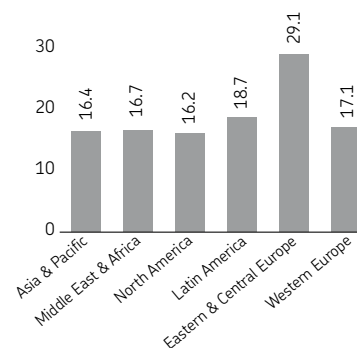
SKF employees by region covered by independent trade union agreement, %



SKF employees by region covered by formalized health and well-being programme, %



Total percentage of women in local management, by region, %



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 2012. 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 2012 – 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 2012 with exception of the environmental and social performance in SKF Annual Report 2012 – 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 8–175.

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 2012.

Review Report on the environmental and social performance

We have reviewed the environmental and social performance in SKF Annual Report 2012 – Financial, environmental and social performance. The environmental and social performance is constituted by the sustainability information on pages 11–13, business care pages 33–35, 69–70, 77–78, environmental care, employee care and community care found on pages 82–104, Notes – Environmental and social performance on pages 170–175 in the annual accounts and consolidated accounts as well as documents on SKF's website in "Topics related to Annual Report 2012" 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 a selection of supporting evidence in

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 sub-

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 judgement, 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.

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.

stantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become 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 2012" in the document "Review activities 2012".

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 2012 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 2012 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 2012 and on SKF's website in "Topics related to Annual Report 2012" marked with * has not, in all material respects, been prepared in accordance with the above stated criteria.

Göteborg, 28 February 2013
KPMG AB
Thomas Thiel
Authorized Public Accountant

Corporate Governance Report

A row of large white rolls of paper or fabric, likely in a manufacturing or warehouse setting. The rolls are arranged in a line, receding into the background. The background is blurred, showing industrial equipment and workers in a factory environment.

»see pages 198–199, SKF's global campaign 2012

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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 in the Annual Report 2012:

- Annual Accounts Act Chapter 6, § 6, section 3; see page 73
- Annual Accounts Act Chapter 6, § 6, section 4; see page 74
- Annual Accounts Act Chapter 6, § 6, section 5; see page 81
- Annual Accounts Act Chapter 6, § 6, section 6; see page 75

Swedish Code of Corporate Governance

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

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 2012 was also held in accordance with the Code rules. SKF has on 30 October 2012 announced the change of date of the Annual General Meeting in 2013. This is a deviation from Rule 1.1 in the Code, which states, inter alia: “As soon as the time and venue of the shareholders’ meeting have been decided, and no later than in conjunction with the third quarter report, the information is to be posted on the company’s web site”. The reason for the change was that a Board member due to late upcoming reasons was prevented from participating on the original date of the Annual General Meeting.

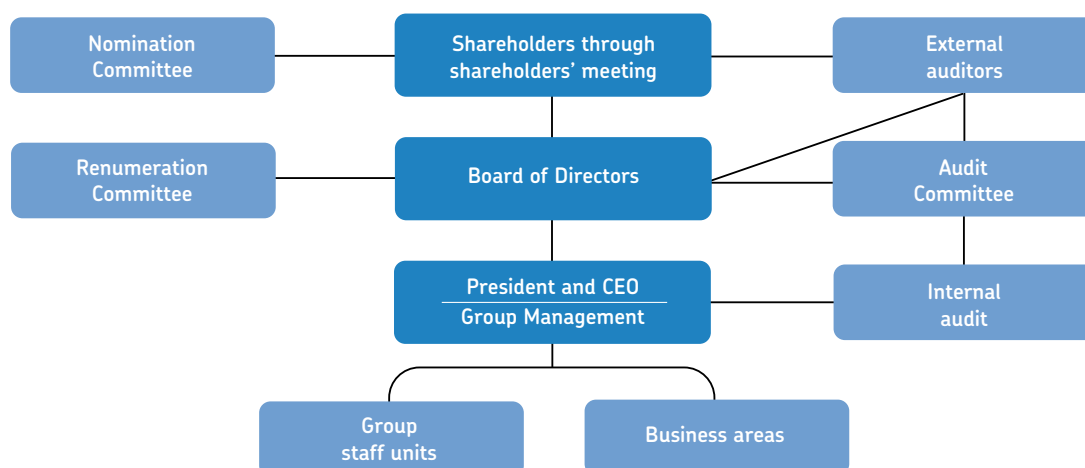
The auditor of the company has reviewed this Corporate Governance Report.

Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2012, 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 2012 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 2013. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 28 September 2012, it was announced that a Nomination Committee consisting of the following

Governance structure



representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2013:

- Claes Dahlbäck, Foundation Asset Management
- Ramsay Brufer, Alecta
- Evert Carlsson, Swedbank Robur Funds
- Caroline af Ugglas, Skandia Liv

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2013:

- 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 Auditor
- proposal for fee to the Auditor
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2014

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2013.

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.

Since January 2012 SKF primarily operates with three business areas: SKF Industrial Market, Strategic Industries;

SKF Industrial Market, Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to OEMs and end-users.

Further, there are seven Group staff units: Group Finance and Corporate Development, Group Technology Development, Group Legal and Sustainability, Group People and Business Excellence, Group Purchasing, Group Communications and Government Relations, and Group Business Transformation. See pages 188–189 in the Annual Report 2012.

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

The Board of Directors

Composition and remuneration of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of 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 2012. 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 2012 can be found in the Annual Report 2012, 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 2012. The variable allotments will be paid out in April 2013. This is a deviation from Rule 9.8 in the Code, which states, inter alia: "The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years". By Instruction 1–2010 the Rule's scope of application has been extended to include also synthetic options and other types of incentive programmes that do not involve the acquisition of shares. The Nomination Committee has informed the company that it is of the opinion that the proposal presented for decision by the Annual General Meeting is appropriate particularly considering that the Nomination Committee has told the Board of Directors that it is an appropriate principle that each Board member elected by the Annual General Meeting during a period of three years should invest an amount equal to the annual board allotment after tax in shares in SKF, and keep these shares as long as the relevant person is a Board member of SKF.

**Members of the Board of Directors
as of 31 December 2012**



Leif Östling

Chairman, Board member since 2005

Born 1945

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

Other assignments: Vice Chairman of Scania AB and ISS A/S.

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 186.



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.

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 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, Alecta, The Grand Hotel, ELK Entertainment AB 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 SAG Group GmbH and President of the Board of Scania Schweiz AG.

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


Joe Loughrey

Board member since 2009

Born 1949

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

Other assignments: Board member of Hillenbrand, Inc., the Vanguard Group, Oxfam America, The V Foundation for Cancer Research and the Lumina Foundation for Education. Chairman of Conexis 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



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.

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



Niklas Thoresson

Board member since 2012

Born 1974

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

Other assignments: Chairman Unionen, SKF, Gothenburg.

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



Martin Björkman

Deputy board member since 2011

Born 1970

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

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

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



Virpi Ring

Deputy board member since 2012

Born 1967

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

Other assignments: 2nd vice Chairman Unionen, SKF, Gothenburg, and board member Higab.

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

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 seven meetings in 2012. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	7/7
Ulla Litzén	7/7
Tom Johnstone	7/7
Winnie Fok	7/7
Lena Treschow Torell	6/7
Peter Grafoner	7/7
Lars Wedenborn	7/7
Joe Loughrey	7/7
Jouko Karvinen	6/7
Baba Kalyani	4/7
Lennart Larsson (resigned in March 2012)	1/7
Kennet Carlsson	6/7
Jeanette Stenborg (resigned in March 2012)	1/7
Niklas Thoresson (elected in March 2012)	6/7
Martin Björkman	7/7
Virpi Ring (elected in March 2012)	6/7

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 2012 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 three meetings in 2012. The members of the committee were present at the meetings as follows:

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

Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Leif Östling, and the Board member 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 eight meetings in 2012. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	8/8
Ulla Litzén	8/8
Lars Wedenborn	8/8

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 PEAB and Axfood.

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 2011-2012. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2012 amount to SEK 6 million, and they amounted to SEK 5 million in 2011.

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.

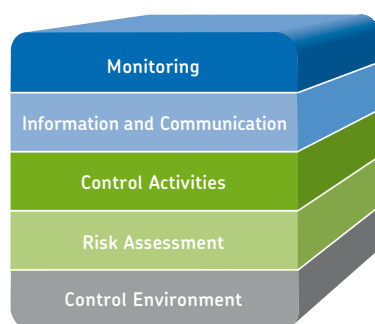
The Audit Committee assists the Board of Directors by preparatory work to secure the quality of the company's financial reporting. This is, for example, achieved through the Audit Committee's review of the financial information and the company's internal financial controls.

The Board of Directors had one meeting with the auditor in 2012 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the

external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with five Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

SKF applies the Internal Control – Integrated Framework launched in 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 documented in detail, all the critical finance processes and controls for the parent

company and all subsidiary companies. SKF implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require 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 implementation of SICS 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. SKF has implemented a risk-based annual testing programme of critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function 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, 30 January 2013
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 2012 on pages 178–187 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, 28 February 2013
KPMG AB

Thomas Thiel
Authorized Public Accountant

Group Management

as of 31 December 2012



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



Henrik Lange

President, SKF Industrial Market, Strategic Industries

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



Tryggve Sthen

President, SKF Automotive

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



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: Gunnebo AB, Gamla Livförsäkringsbolaget SEB Trygg Liv, Ågrenska AB, AB Ludvig Svensson and Försäkringsbolaget PRI Pensionsgaranti
Shareholding in SKF: 16,665



Vartan Vartanian

President, SKF Industrial Market, Regional Sales and Service

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



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

**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

Board member: IHM Business School

Advisory Board member: Edward Lynx

Shareholding in SKF: 2,165

**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: 434

**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: 2,122

**Poul Jeppesen**

President & CEO, SKF USA

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, Previous positions within SKF: President, SKF Actuation System and several other positions

Shareholding in SKF: 416

**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

**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 and International Council of Swedish Industry (NIR)

Shareholding in SKF: 3,165

**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

Glossary

Accident rate

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
 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.

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.

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 CO₂. This gas is generated in various processes in nature and in combustion of most fuels. CO₂ contributes to the global greenhouse effect.

Carbon intensity

The amount of CO₂ 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 worldwide 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, CO₂ emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.



SKF Six Sigma is a continuous improvement programme that targets waste and defects in all business processes, at SKF, its suppliers and its customers. 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. White Belts exist to quickly solve basic issues, by systematically adopting a simplified DMAIC model.

SKF Six Sigma consists of two major methodologies: Traditional Six Sigma (DMAIC and Lean) and Design for Six Sigma (IDDOV).

The foundations for SKF Six Sigma improvements are that they are fact-based, sustainable and directly contribute to the business objectives' achievements.

Traditional Six Sigma – DMAIC

(Define Measure Analyze Improve Control)

A methodology which uses analytical tools in the DMAIC phases and focuses on the reduction of variation.

Traditional Six Sigma – Lean

A methodology which combines tools from both Lean and Six Sigma. Lean focuses on speed and waste, Six Sigma on variation and quality – the result is better quality more quickly.

Design for Six Sigma – IDDOV

(Initiate Define Develop Optimize Validate)

A methodology which focuses on developing reliable products, processes and services, while embracing customer satisfaction and robustness. It allows production at a predictable level of costs and risks.

Six Sigma for Growth

A customer-focused approach which targets improvement in growth areas such as marketing, sales and distribution.

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).

Original equipment manufacturer (OEM)

Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gear-boxes 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)

A 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.

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.

Portion of risk-bearing capital

Equity and provisions for deferred taxes, as a percentage of total assets at year end.

Equity/assets ratio

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

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.

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.

Return on total assets

Operating profit/loss plus interest income, as a percentage of twelve months rolling average of total assets.

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.

Return on equity

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

Operating margin

Operating profit/loss, as a percentage of net sales.

Turnover of total assets

Net sales in relation to twelve months rolling average of total assets.

Basic earnings/loss per share in SEK

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

Yield

Dividend as a percentage of share price at year end.

P/E ratio

Share price at year end divided by basic earnings per share.

Registered number of employees

Total number of employees included in SKF's payroll at the year-end.

Average number of employees

Total number of working hours of all employees, divided by the normal total working time over the year.

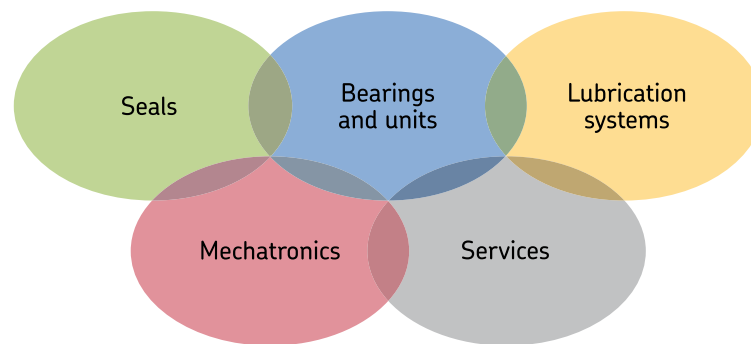
Equity per share

Equity excluding non-controlling interests divided by the ordinary number of shares.

SKF's platforms

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

SKF has defined about 40 customer industries in which it operates. Examples of these industries include 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 industries. In this way, SKF can offer its customers specific products and solutions with improved performance, reduced energy use and reduced total cost, while giving SKF greater added value and better price quality.



■ Bearings and units

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

■ 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.

■ 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.

■ Mechatronics

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

The SKF platform and industry approach

The platform and industry approach is SKF-specific and based on combining strong technology focus from the platforms and strong customer focus. The following is an example of how it works for the marine industry.

SKF offers a wide range of solutions for the marine industry. The products and services apply to many areas of a ship, making SKF a valued system and services engineering partner for machine builders, ship designers, yards and operators. Below are a selection of offers.

Shaft line

The power transmission between the engine and the propeller requires high reliability and flexible solutions to ensure ship propulsion. SKF supplies critical solutions to the shaft line as part of the total offer.

■ Coupling systems

SKF couplings systems are the standard with many well-known controllable pitch propeller manufacturers around the world, but are also used for many other applications in the marine industry. Beside the couplings, SKF also supplies SuperGrip bolts to connect conventional flanges. Mounting and dismounting shafts can be time-consuming operations that take hours or even days to complete. SKF OK Couplings can significantly reduce the time required. The inner sleeve of the OKCX and OKFX couplings are coated with carbides utilizing advanced plasma technology. This coating increases the torque capacity up to 50% higher than for the OKC or OKF coupling of the same size.

■ Bearings

SKF has a large portfolio of bearings that meet the marine industry's need for high reliability, serviceability and long service life. One unique solution from SKF is the CARB toroidal roller bearing. The bearing is characterized by its self-aligning ability, high load-carrying capacity and axial displacement ability that originate from shaft contraction or elongation due to temperature fluctuations.

■ Bearing housings

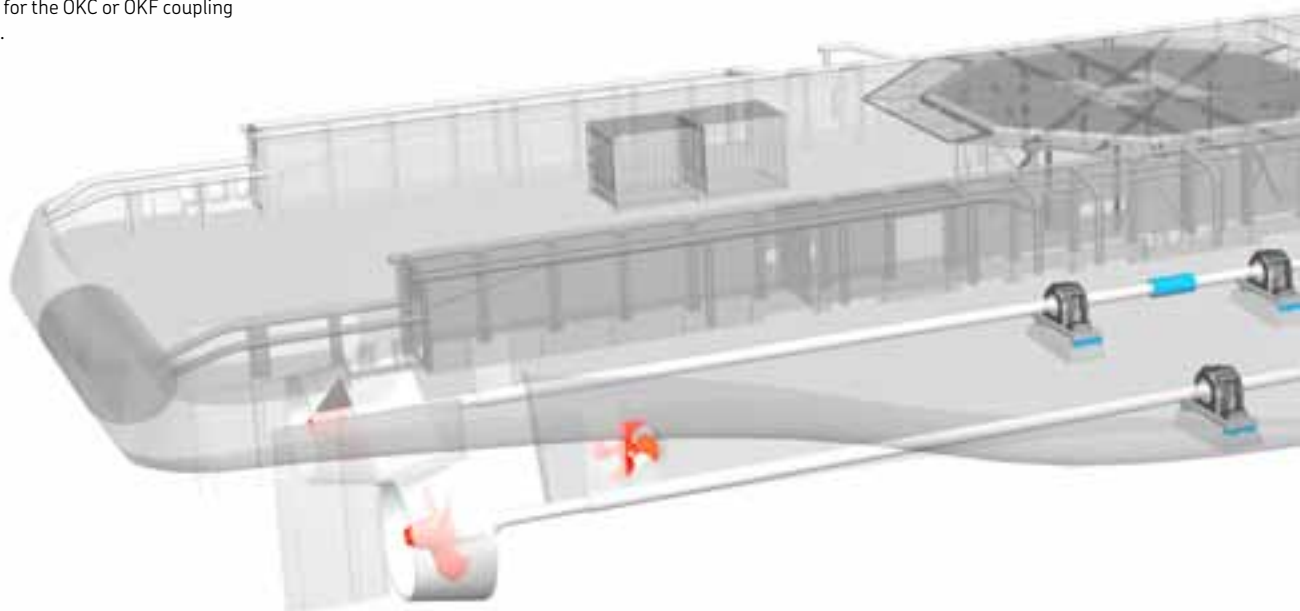
SKF has a range of bearing housings that enables efficient mounting of bearings in many onboard applications, including propulsion shaft lines and more. The housing designs enable long service life of the bearing, easy installation and is prepared for condition monitoring and proper lubrication conditions.

■ SKF Vibracon

In addition, bearing housings and other machinery can be installed on the self-aligning machine foot SKF Vibracon for fast and reliable alignment. SKF Vibracon elements are machinery mounting chocks that are easily and accurately adjusted. The elements accommodate the angular difference between machine and the mounting base without expensive machining of the base or extra work of installing epoxy resin chocks.

■ Alignment and 3D measuring services

SKF carries out dynamic, static and geometric measurements on any part of the propulsion train, as well as other rotating equipment on board and correcting alignment issues in dock or in operation. This can vary from planned maintenance to 24/7 troubleshooting anywhere around the globe.



Propeller

■ Propeller hub seals

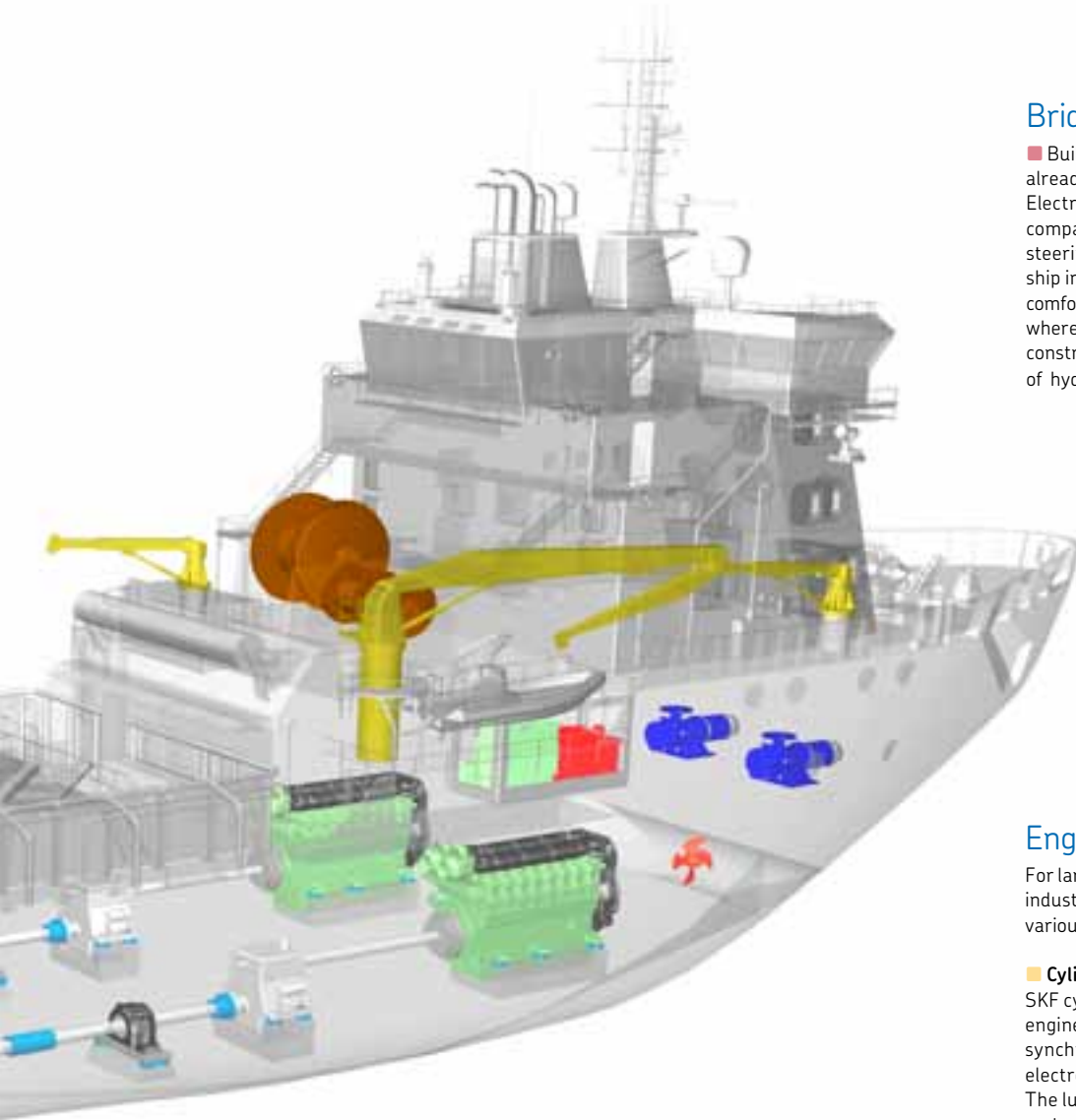
SKF provides sealing solutions for Controllable Pitch Propeller (CPP) hubs that, through hydraulic pressure, enables changing the pitch angle of the propeller blades. SKF seals are designed to resist chemicals as required and also to minimize the risk of leakage and environmental impact

■ Hydraulic nuts – The time saving technology from SKF

Traditionally, ship propellers are mounted on a tapered shaft end with a nut and key. The torque is transmitted through friction of the mating surfaces and the key performs a stand-by function if the friction is insufficient. Combined with a hydraulic ring or nut from SKF, the SKF oil injection method solves all

these problems and simultaneously eliminates the use of keys and keyways. This method is fully accepted by all the world's leading classification societies and hundreds of references for all types of vessels are available.

In addition to the hydraulic nut, SKF also provides propeller sleeves based on the SKF oil injection method that significantly reduces mounting and dismounting time.



Thruster

■ ■ ■ ■ A wide portfolio from SKF is available for thrusters, including engineering, roller bearings, slewing bearings, couplings, housings, lubrication systems and much more. To understand the real condition of the thruster is getting more important to both operators and builders. SKF meets this demand by supplying SKF Thruster Monitoring – Integrated solutions for operators and OEMs.

SKF thruster monitoring solutions provide integrated condition monitoring for mechanical thrusters in the marine and offshore industries.

The highly flexible condition-based maintenance (CBM) solution can be applied to any design of transverse (tunnel) and azimuthing (rotating) thrusters, independent of brand, arrangement and drive option.

Benefits include:

- Extended class survey intervals
- Reduced need for dry-docking
- Minimized risk of failures
- Improved ship availability
- Improved safety
- Increased profitability

Bridge

■ Building on the SKF steer-by-wire concept already used in the aviation industry, the Electronic Steering Input Unit (ESIU) is a compact solution that enables advanced steering. It also gives new possibilities for ship interior design, improving ergonomics, comfort and visibility as the ESIU can be placed where it fits best; it does not suffer from constraints associated with the passage of hydraulic hoses.

Engines

For large diesel engines used in the marine industry SKF provides lubrication systems for various purposes such as:

■ Cylinder lubrication system

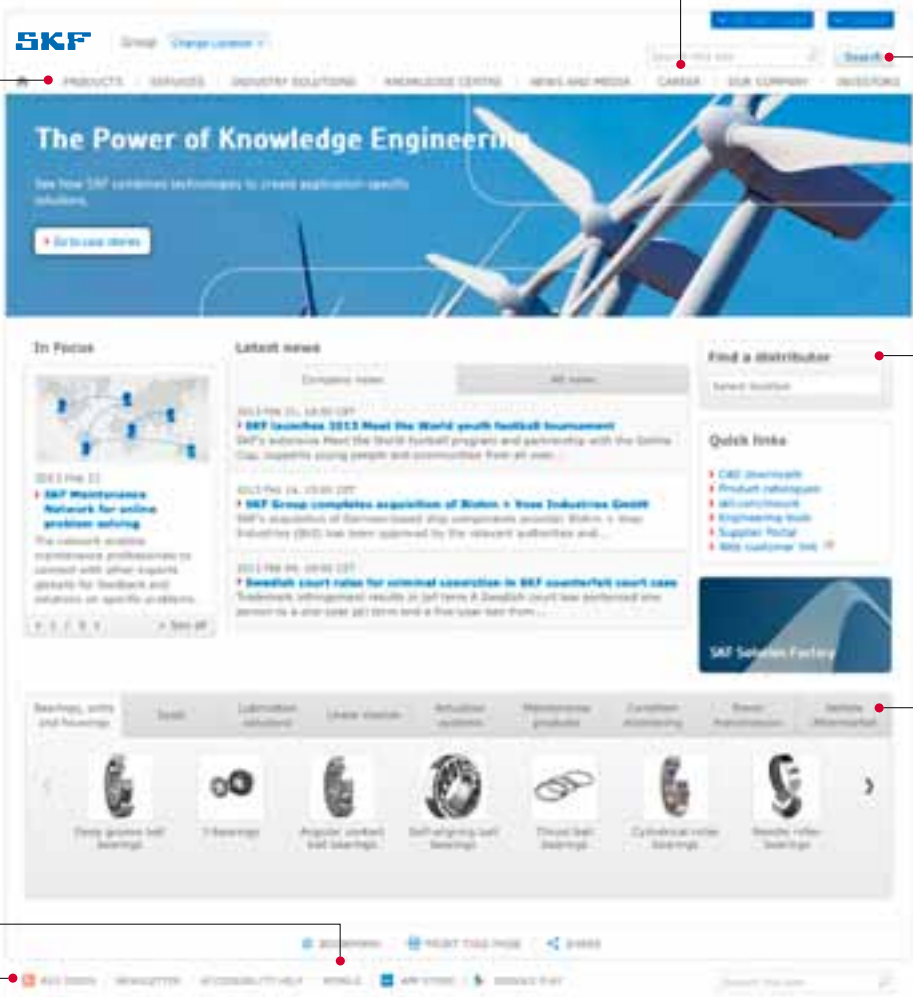
SKF cylinder lubrication systems for 2-stroke engines operate load-dependently and are synchronized to piston positioning by an electro-hydraulic system (System CLU4). The lubrication system lowers operational costs due to reducing the lubricant requirement by up to 30% compared to a mechanical system.

■ Inlet valve lubrication

The intake valve seats in high-performance 4-stroke engines are subject to extremely high stress. SKF systems provide lubrication of these critical areas, significantly extending operating life. Designed as a scalable, modular system, the lubrication solution is robust and maintenance-free.

New SKF Group website

A new SKF website was launched in December 2012 to provide comprehensive SKF knowledge in an easily accessible structure, and to better present cost-effective solutions to customers' daily challenges. In addition to a faster platform, the website offers:



The screenshot shows the SKF Group website interface. At the top, there's a navigation bar with links like PRODUCTS, SERVICES, INDUSTRY SOLUTIONS, KNOWLEDGE CENTRE, NEWS AND MEDIA, CAREERS, OUR COMPANY, and INVESTING. The main banner features the headline 'The Power of Knowledge Engineering' with a background image of wind turbines. Below the banner, there are sections for 'In Focus' (highlighting SKF Maintenance Network), 'Latest news' (with several news items), and 'Find a distributor'. A 'Quick links' section on the right provides shortcuts to CEO messages, product catalogs, engineering tools, and supplier portal. At the bottom, there's a 'SKF Solutions Factory' section with icons for various SKF products like Deep groove ball bearings, Tapered roller bearings, etc. Callouts point to specific features: 'Enhanced content with more videos and animations to better communicate what SKF solutions can do for users.' points to the main banner; 'Job-hunters and students can find opportunities and pertinent information.' points to the CAREERS link; 'Improved find ability of products and services with a powerful new search engine for faster and more accurate results.' points to the search bar; 'Easy access to SKF contacts and distributors.' points to the 'Find a distributor' section; 'One online source for all SKF product catalogues.' points to the 'SKF Solutions Factory' section; 'Mobile access to news and updates.' points to the RSS feed icon; and 'More options to subscribe to RSS feeds for the latest information.' points to the RSS feed icon.

Enhanced content with more videos and animations to better communicate what SKF solutions can do for users.

Job-hunters and students can find opportunities and pertinent information.

Improved find ability of products and services with a powerful new search engine for faster and more accurate results.

Easy access to SKF contacts and distributors.

One online source for all SKF product catalogues.

Mobile access to news and updates.

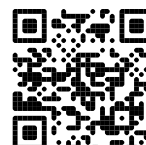
More options to subscribe to RSS feeds for the latest information.

SKF Apps

SKF mobile apps are available in the Apple app store and the Googleplay. With these apps, SKF is offering a new set of tools to customers, students and employees. The apps provide useful information and allow you to make calculations.



AppStore
Will only work for iOS5 or below.



Googleplay

SKF's financial website

SKF's financial website – 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. A selection of headlines and functions on the website is shown below.

About SKF

Targets and strategy
Sensitivity analysis
Acquisition and divestment
Production sites

Reports and presentations

Financial data

Tables and graphs
Excel documents

SKF's shares

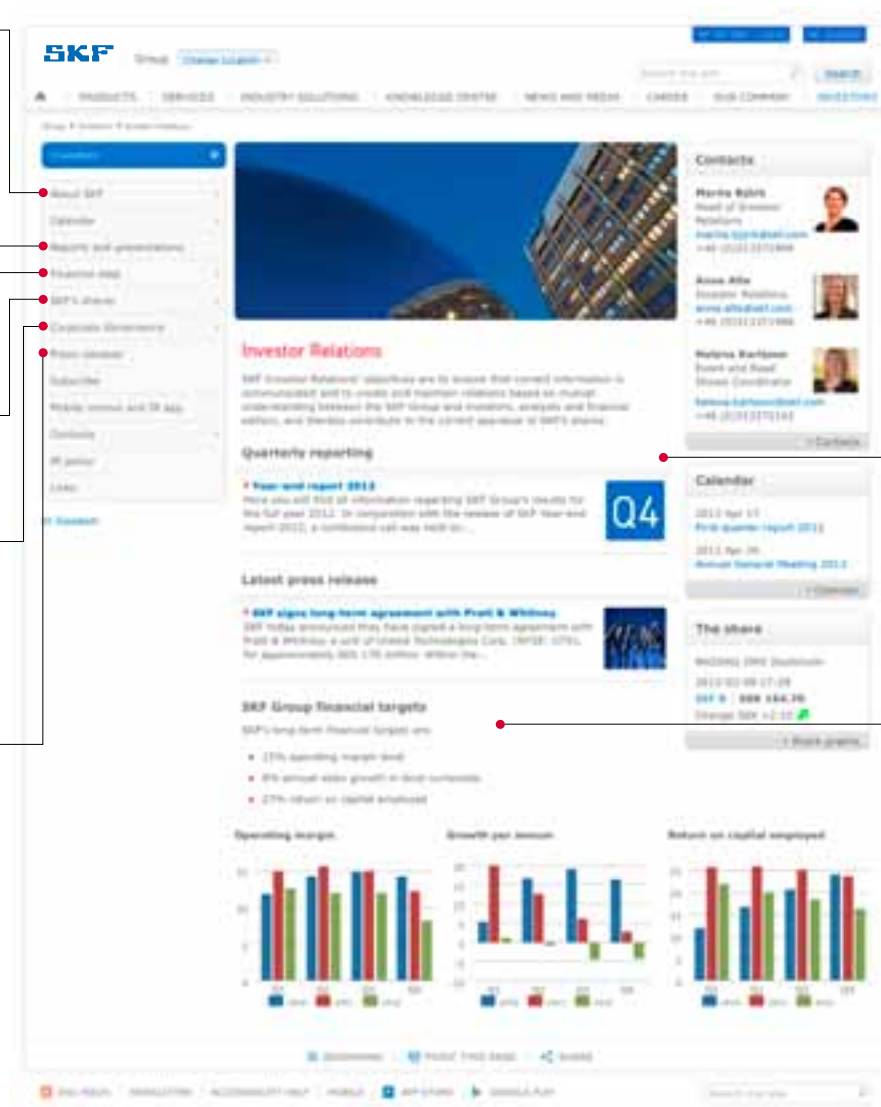
Total return
Largest shareholder
Dividend

Corporate Governance

Annual General Meeting
Board of directors
Board committees
Group management

Subscribe

Service for receiving reports by e-mail.



Information regarding the current quarterly reporting.

Financial targets and performance.

SKF's global campaign 2012

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.



Accuracy drives optimized performance

All automotive manufacturers face challenges in ensuring shorter product development time. To do so, optimizing designs with shorter prototyping and testing time is vital. The accuracy of the development process has an implication on product design, quality, and delivery timing to market. SKF help customers optimize their product design. Our global technical centre in China has created solutions for one of China's largest truck manufacturers where the finite element analysis tool was used to analyse the development of a universal joint cross and yoke assembly of the truck propeller shaft. The detailed analysis provided a stress distribution and deformation pattern of the entire universal joint. The analysis verified the cross and yoke assembly from strength point of view and helped the customer optimize the product design.

At SKF, we can help manufacturers globally and locally. We offer design support close to all our customers resulting in even more time and cost reduction.

Find out more at skf.com/poke

The Power of Knowledge Engineering




Universal Joint Yoke



Finite Element Analysis



Hugh Jia, SKF China



All automotive manufacturers face challenges in ensuring shorter product development time. To do so, optimizing designs with shorter prototyping and testing time is vital. The accuracy of the development process has an implication on product design, quality, and delivery timing to market. SKF help customers optimize their product design. Our global technical centre in China has created solutions for one of China's largest truck manufacturers where the finite element analysis tool was used to analyse the development of a universal joint cross and yoke assembly of the truck propeller shaft. The detailed analysis provided a stress distribution and deformation pattern of the entire universal joint. The analysis verified the cross and yoke assembly from strength point of view and helped the customer optimize the product design. At SKF, we can help manufacturers globally and locally. We offer design support close to all our customers resulting in even more time and cost reduction.

Find out more at skf.com/poke

The Power of Knowledge Engineering



High energy consumption, pollution and complex production procedures challenge the steel-making industry in China.

SKF engineer Xu Xiaofeng and his colleagues have been working for many years with one of China's largest steel producers to reduce operational cost and pollution while maintaining a stable operation of key equipment. One of the solutions is SKF's caster roll service that offers a complete professional solution – analysis, disassembling, testing, repairing and installation of caster roll lines and bearing reconditioning. In addition to improving the reliability of continuous casters and extending its service life by 15%, it also helps customers increase process efficiency, reduces environmental impact as well as overall costs by 20%.

This is great example of what we call Knowledge Engineering. The more efficient the system, the better the savings – for the planet and the bottom line. Advanced SKF ConRo technology's lower operational costs and diminished environmental impact help build a sustainable future. Find out more at skf.com/poke



The traffic situation has reached new levels in Indian cities. For two wheeler users, all this stopping and going in heavy traffic means increased fuel expenditure.

SKF engineer Vivek Kumar has a solution called SKF StopGo. It is a simple fist-sized unit that stops or starts the fuel flow automatically based on the vehicle's movement in traffic.

This eliminates idling time at traffic lights, improves fuel savings and reduces emissions. This is a great example of SKF knowledge engineering. Read the full story at skf.com



With increasing demand for newsprint and cardboard, paper manufacturers cannot afford downtime. Simultaneously they have to control the costs associated with maintenance and operation of heavy duty plant equipment.

SKF engineer Vijay Apte leveraged an Integrated Maintenance Solutions (IMS) contract covering dependable support and quality solutions at one paper manufacturing plant. This helped the plant cut costs by more than Rs. 800,000 over one year and reduce its unplanned machine downtime by 20%.

A typical IMS contract with SKF covers assessment, maintenance, seamless supply, technology upgrades and more. The results translate into improved profitability, uninterrupted productivity and a reduced carbon footprint overall. Read the full story at skf.com



Vast quantities of cement are needed for construction projects in booming India – its bridges, buildings, malls and more. In a typical cement factory, power bills run high with substantial wear and tear on machinery. SKF engineer Soami Pamnani knows of a solution.

The SKF Energy Efficient deep groove ball bearing cuts power usage and friction in plant motors and equipment – improvements that add up to cost savings of Rs. 270,000 in just one year, which is equal to the energy consumption of 1800 average Indian households. Read the full story at skf.com

Seven-year review – SKF Group

<i>SEKm unless otherwise stated</i>	2012	2011	2010	2009	2008	2007	2006
Income statements							
Net sales	64,575	66,216	61,029	56,227	63,361	58,559	53,101
Operating expenses	-57,189	-56,624	-52,438	-52,939	-55,618	-51,036	-47,110
Other operating income and expenses, net	-51	36	-139	-74	-34	19	-22
Profit (+)/loss (-) from jointly controlled and associated companies	-2	-16	0	-11	1	-3	738
Operating profit	7,333	9,612	8,452	3,203	7,710	7,539	6,707
Financial income and expense, net	-822	-680	-903	-906	-842	-401	-320
Profit before taxes	6,511	8,932	7,549	2,297	6,868	7,138	6,387
Taxes	-1,633	-2,708	-2,253	-592	-2,127	-2,371	-1,955
Net profit	4,878	6,224	5,296	1,705	4,741	4,767	4,432
Attributable to:							
Owners of AB SKF	4,724	6,051	5,138	1,642	4,616	4,595	4,317
Non-controlling interests	154	173	158	63	125	172	115
Balance sheets							
Intangible assets	9,800	10,157	10,194	4,014	4,654	3,516	2,586
Deferred tax assets	1,835	1,299	1,151	1,665	1,342	886	745
Property, plant and equipment	13,086	13,076	12,922	13,933	14,556	11,960	11,388
Non-current financial and other assets	1,188	1,494	1,411	1,502	1,366	2,643	2,032
Inventories	12,856	14,191	12,879	11,771	15,204	11,563	9,939
Current financial assets	19,141	16,050	13,005	14,540	15,668	14,169	17,848
Other current assets	2,851	3,107	2,839	3,590	3,310	2,365	2,100
Total assets	60,757	59,374	54,401	51,015	56,100	47,102	46,638
Equity	22,468	22,455	19,894	18,280	19,689	19,009	19,706
Provisions for post employment benefits	9,881	8,634	7,093	7,020	6,356	4,600	5,145
Deferred tax provisions	481	938	1,309	754	1,210	1,652	1,130
Other provisions	1,676	1,836	2,162	2,849	2,339	2,067	1,919
Financial liabilities	19,864	18,311	16,651	14,994	18,549	13,015	12,754
Other liabilities	6,387	7,200	7,292	7,118	7,957	6,759	5,984
Total equity and liabilities	60,757	59,374	54,401	51,015	56,100	47,102	46,638
Key figures¹⁾ (in percentages unless otherwise stated)							
Return on total assets	12.3	17.2	16.9	6.5	16.1	17.1	16.1
Return on capital employed	16.2	23.6	24.0	9.1	24.0	24.9	23.0
Return on equity	21.8	29.7	28.4	9.0	26.3	24.6	23.5
Operating margin	11.4	14.5	13.8	5.7	12.2	12.9	12.6
Turnover of total assets, times	1.07	1.16	1.19	1.04	1.25	1.25	1.22
Portion of risk-bearing capital	37.8	39.4	39.0	37.3	37.3	44.0	44.7
Gearing	52.8	48.9	48.6	49.3	50.1	36.9	38.6
Equity/assets	37.0	37.8	36.6	35.8	35.1	40.5	42.3
Investments and employees							
Additions to property, plant and equipment	1,968	1,839	1,651	1,975	2,531	1,907	1,933
Acquisitions of businesses, net of cash and cash equivalents	848	6	6,799	241	1,284	1,209	2,129
Research and development expenses	1,607	1,481	1,184	1,217	1,175	900	875
Patents – number of first filings	421	325	251	218	179	186	175
Average number of employees	44,168	42,886	40,206	38,530	43,201	41,645	39,780
Number of employees registered at 31 December	46,775	46,039	44,742	41,172	44,799	42,888	41,090

¹⁾ See page 192 for definitions.

Three-year review – SKF's business areas¹⁾

<i>SEKm unless otherwise stated</i>	2012	2011	2010
Strategic Industries			
Net sales	20,204	20,807	17,210
Sales incl. intra-Group sales	32,028	33,613	29,081
Operating profit	3,139	4,686	3,856
Operating margin ²⁾	9.8%	13.9%	13.3%
Assets and liabilities, net	21,576	22,905	22,431
Registered number of employees	19,096	19,388	19,169
Regional Sales and Services			
Net sales	25,329	25,868	23,956
Sales incl. intra-Group sales	25,728	26,249	24,287
Operating profit	3,222	3,271	2,603
Operating margin ²⁾	12.5%	12.5%	10.7%
Assets and liabilities, net	5,314	6,096	5,543
Registered number of employees	6,479	6,511	6,116
Automotive			
Net sales	17,123	18,043	18,518
Sales incl. intra-Group sales	20,767	22,148	22,653
Operating profit	467	1,477	1,934
Operating margin ²⁾	2.2%	6.7%	8.5%
Assets and liabilities, net	8,233	8,686	8,229
Registered number of employees	14,715	14,811	14,852

¹⁾ Previously published amounts have been restated to conform to the current Group structure, new in 2012.

The structural changes include business units being moved between the business areas and between other operations/Group activities and business areas.

²⁾ Operating margin is calculated on sales including intra-Group sales.

Per-share data¹⁾

<i>Swedish kronor/share unless otherwise stated</i>	2013	2012	2011	2010	2009	2008	2007	2006
Earnings per share		10.37	13.29	11.28	3.61	10.14	10.09	9.48
Dividend per A and B share		5.50 ²⁾	5.50	5.00	3.50	3.50	5.00	4.50
Total dividends, SEKm	2,504 ²⁾	2,504	2,277	1,594	1,594	2,277	2,049	1,821
Redemption per share		–	–	–	–	–	5.00	10.00
Total redemption, SEKm		–	–	–	–	2,277	4,554	–
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		163.2	145.60	191.60	123.60	77.25	104.79	113.22
Equity per share		47	47	42	38	41	40	42
Yield in percent (B)		3.4 ²⁾	3.8	2.6	2.8	4.5	4.8	4.0
Yield in percent (B), including share redemption							9.5	12.8
P/E ratio, B (share price/earnings per share)		15.7	11.0	17.0	34.2	7.6	10.4	11.9
Cash flow from operations, per share		13.6	12.3	12.2	17.6	8.1	10.8	11.2
Cash flow after investments, before financing per share		7.81	8.45	-6.23	12.63	0.14	4.67	4.74

¹⁾ See page 192 for definitions.

²⁾ According to the Board's proposal for the year 2012.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 13.00 on Friday, 26 April 2013. 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 Friday, 19 April 2013, and must notify the company at the latest by Monday, 22 April 2013 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 Friday, 19 April 2013. 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 2012. 2 May 2013 is proposed as the record date for shareholders to be entitled to receive dividends for 2012. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Tuesday, 7 May 2013.

Financial information and reporting

AB SKF will publish the following financial reports in 2013:

Year-end report 2012	30 January
Annual Report 2012	12 March
First-quarter report 2013	17 April
Half-year report 2013	16 July
Nine-month report 2013	15 October

The reports are available in Swedish and English. The financial reports are published on SKF's website skf.com, choose Investors and click on Reports and presentations.

A subscription service for press releases and interim reports is available on the website under Investors, choose Subscribe. Information is sent via e-mail or SMS.

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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 SKF employees in the pictures included in this report are:

Page 2

From left: Oscar Centeno and Chenxi Gu

Page 10 and 94

Nina Hellenen

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The report is originally written in English and translated to Swedish.

SKF Annual Report 2011 – Financial, environmental and social performance was published on 13 March 2012.

PUB GCR/R1 13609 EN · March 2013

Production: AB SKF and Admarco

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