

Annual Report 2006

including Sustainability Report

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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 and distributors
- for our employees
- for our shareholders

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

This is SKF

The SKF Group is the leading global supplier of products, solutions and services in the area comprising rolling bearings, seals, mechatronics, services and lubrication systems. The Group's service offer includes technical support, maintenance services, condition monitoring and training.

- SKF was founded one hundred years ago, in 1907, and grew at a rapid rate to become a global company. As early as 1920, the company was well established in Europe, America, Australia, Asia and Africa. Today, SKF is represented in more than 130 countries. The company has more than 100 manufacturing sites and also sales companies supported by some 15,000 distributor locations. SKF also has a widely used e-business marketplace and an efficient global distribution system.
- From the very beginning, SKF focused intensively on quality, technical development and marketing. Since it began operating, the Group's efforts in the area of research and development have resulted in numerous innovations that have created new standards and new products and solutions in the bearing world. In 2006, the number of first filings of patent applications was 175. SKF's technical knowledge and capabilities are within Bearings and units, Seals, Mechatronics, Services and Lubrication systems.
- The SKF business is organized into three divisions, the Industrial Division and the Service Division, servicing industrial OEM and aftermarket customers respectively, and the Automotive Division, servicing both automotive OEM and aftermarket customers. The total number of customers amounts to approximately two million.
- The Group has global ISO 14001 environmental certification and global health and safety management standard OHSAS 18001 certification. Its operations have also been approved for quality certification in accordance with either ISO 9000 or QS 9000.



Key data

	2006	2005	2004
Net sales, MSEK	53,101	49,285	44,826
Operating profit, MSEK	6,707	5,327	4,434
Profit before taxes, MSEK	6,387	5,253	4,087
Basic earnings per share, SEK	9.48	7.73	6.42
Diluted earnings per share, SEK	9.45	7.70	6.42
Dividend per share, SEK	4.50¹⁾	4.00	3.00
Cash flow after investments, MSEK	3,003	429 ²⁾	1,900 ²⁾
Return on capital employed, %	24.7	21.8	19.0
Gearing, %	39.1	33.2	24.9
Equity/assets ratio, %	42.4	45.2	49.3
Additions to property, plant and equipment, MSEK	1,933	1,623	1,401
Registered number of employees, 31 Dec	41,090	38,748	39,867

Number of shares 31 December 2006: 455,351,068 whereof A shares: 49,533,030, B shares: 405,818,038

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

²⁾ Have been recalculated due to restatement of cash flow, see Note 1.

President's letter

“ We have now set new long-term targets which reflect our performance, strategy and activities. ”



Tom Johnstone, President and CEO

2006, the last year in the SKF Group's first 100 years, was again a very good year for the SKF Group in terms of both financial performance and the steps we have taken to strengthen the Group for the future.

In 2006, our earnings per share increased by 23% to SEK 9.48. Combined with a strong cash flow, balance sheet and outlook for the Group, this has enabled the AB SKF Board to propose that the Annual General Meeting should increase the dividend by 12.5% to SEK 4.50 per share and to propose having a combined share split and redemption programme which will give each shareholder two shares, one of which will be automatically redeemed at SEK 10. Both these actions will return some SEK 6.6 billion in total to our shareholders. In addition, the Board will ask the Annual General Meeting to renew the mandate to repurchase SKF shares to have the possibility to manage the capital structure of the company going forward.

The SKF Group performed very well against the financial targets, which we set in 2003 to be achieved by 2006. These were to deliver an operating margin level of 10% while growing by 6% per annum in local currencies and having a return on capital employed of 20%. The operating margin was 12.6% (11.3% excluding income from Oy Ovako Ab), the growth in local currencies was 7.5% and the return on capital employed was 24.7%.

The SKF Group is now operating on a higher and more stable performance level, which is a result of our strong focus on profitable growth and on actively managing our operating capital. We have a clear strategy to become THE knowledge engineering company based on the platform/segment approach and on using Six Sigma to become more efficient and improve the service to our customers.

New long-term targets

Since 2006 was the last year for our current targets, we have now set new long-term targets which reflect our performance, strategy and activities. The new targets are to have an operating margin level of 12%, growth in local currencies of 6-8% and a return on capital employed of 24%.

The operating margin target will be primarily achieved through the strong focus on customers and the introduction of new products/solutions, resulting in a continued positive price/mix, through cost reductions in operations from improved efficiency, utilisation and structure and through reduced purchasing costs.

The growth target will be achieved organically both through the platform/segment approach and through the focus on faster growing segments and markets. In addition, we will grow structurally through increased activity on acquisitions to strengthen the

product portfolio of the platforms and our geographical presence. This growth will also require increased investments in our operations in the faster growing segments and regions of the world.

The return on the capital employed target will primarily be achieved through the profit improvement activities and through continued focus on reducing the operating capital in the business.

To support the implementation of the new targets and to reflect both the current performance of the Group and the outlook, the gearing target will now be to operate at around 50%. This will give the Group the flexibility to manage its capital structure in line with opportunities to strengthen its business, while maintaining a strong credit rating.

The knowledge engineering company

SKF's strategy to become THE knowledge engineering company through our platform and segment approach to the market is well known and its implementation is well under way throughout the Group.

During the year, we took a number of significant steps to support this and to strengthen our platforms through increased organic investments in our business and through acquisitions.

Investments in property, plant and equipment last year exceeded SEK 1.9 billion,

which is above depreciation and reflects both the upgrading of existing operations and the addition of new units. Three new factories were opened in Asia during the year. Two of them were in China, one for large size bearings and one for actuation systems. The third was in Indonesia for ball bearings for the motorcycle industry. An additional three new factories in Asia are under final implementation and will be opened early in 2007. These investments are designed to ensure that we have sufficient capacity to meet the demand in these fast growing markets and to ensure our long-term competitiveness.



A number of companies were acquired during the year. The acquisition of the French company SNFA, a leading supplier of high precision bearings to the aerospace and machine tool markets, will strengthen the offer to these markets. The seals platform offer for the industrial market was strengthened through the acquisition of the Austrian company, Economos, and the American company, Macrotech. In the service platform, a number of smaller acquisitions which increased our local presence and competence were made. They included Precision Bearing and Analysing (PB&A), which is a machine tool spindle reconditioning company, and Monitek, a maintenance services company. Safematic, a lubrication systems company, was also acquired to complement and strengthen this platform.

We will continue to take steps to strengthen these platforms in 2007 both through acquisitions and organic investments and by increasing our spending in R&D.



The segment approach to the market is developing very well and during the year we launched a large number of products, solutions, services and specific segment offers. We were also successful in securing many new contracts with a number of customers in all our divisions. You can read much more about this in the divisional pages of this annual report.

The SKF Group saw good growth in every region of the world in 2006, particularly in the industrial markets. The automotive business also enjoyed good growth but with a lower level of activity in the car business in North America, where we were mainly affected by the production cuts made by our customers, and in the car business in Western Europe. The Asian region was very

strong, with both China and India continuing to lead the way. Both Latin America and Middle East/Africa continued to develop well and we experienced good growth in both Western and Eastern Europe.

The growth which the SKF Group had in 2006 was ahead of the market growth for our products and services and shows that the specific segment and geographical focus we have developed is enabling the SKF Group to acquire new business in the marketplace.



To develop our competitiveness and in line with our strategy, we addressed the cost structure of our business which resulted in the announcement of the closure of our factory in South Africa and other steps in Italy, China and Bulgaria. This will result in some 1,000 people leaving the SKF Group during 2007.

Talent management

Over the last few years, we have significantly increased our emphasis on attracting, retaining and developing the right people and skills for the SKF Group. During the year, we opened three new colleges for the SKF Group in India, China and the USA, bringing the total number to five; the other two are in Sweden and the Netherlands. These colleges will work together on developing and running training programmes for our own people and for our customers and distributors. The online SKF Distributor College is also proving very successful, with more than 5,400 certificates issued for distributors during the year. These courses are designed to help our distributors train their people in technical, commercial and financial areas.

Six Sigma

Six Sigma was launched throughout the SKF Group in 2004, building on earlier experience we had in different areas of the Group. We have now trained 12 Master Black Belts, 205 Black Belts and 1,135 Green Belts and have run more than 700 projects. In 2006, the net savings from Six Sigma totalled around SEK 200 million, up by over 25% from 2005. We have now extended our Six Sigma activities to include work on Design for Six Sigma and transactional Six Sigma. Six Sigma is increasingly becoming the way of working within the SKF Group and it will be very important for us to further improve the way we work with our customers to make us the preferred company with which to do business.

Sustainability

Sustainability is another area which is in clear focus. Last year, I advised you that we had announced a target to reduce our carbon dioxide emissions by 5% per annum, regardless of volume. In 2006, we reduced them by nearly 6%. We have also been working in the last two years to speed up the development of new environmentally sound products, services and manufacturing methods, as outlined in my 2005 Annual General Meeting speech. At the beginning of 2007, we launched a number of new products and solutions ranging from taper roller bearings and deep groove ball bearings, which reduce energy loss by 30%, electromechanical actuation systems, which replace hydraulic systems, through to new environmental services where we are helping our customers reduce the energy losses in their business. In addition, we have increased focus internally within our manufacturing areas both to reduce energy consumption and CO₂ emissions and to replicate best practices throughout the Group.

Our work on sustainability meant that SKF was included in the Dow Jones Sustainability Group Index for the seventh consecutive year and the FTSE4Good Index Series for the sixth consecutive year.



To summarize, 2006 was a very good year for SKF. We delivered in line with our financial targets and took significant steps to strengthen SKF and support our objective to become THE knowledge engineering company.

As we now enter 2007, which is our 100th anniversary, we have an opportunity to look back and also to look forward to the next 100 years. In doing this, I believe we can say that SKF has had a very proud past and it has an even more exciting future. A number of activities with our employees, customers, distributors, partners and shareholders are planned to celebrate this historic event.

Finally, I would like to take this opportunity to thank all the SKF employees for their excellent commitment and support during the year. They really did an outstanding job.

Göteborg, 30 January 2007

Tom Johnstone
President and CEO

SKF – the knowledge engineering company

SKF delivers a wide range of products and services to a large number of customers in a variety of industries and to all the geographical regions of the world. SKF's service and product offerings are tailored to meet the specific requirements, conditions and needs of each customer.

Having worked for the past 100 years in the industrial and automotive industries throughout the world, SKF has not only built an extensive customer knowledge base, it has also established a broad technical knowledge base, largely as a result of the continuous development of its many products, solutions and services. SKF's three divisions offer technical expertise and capabilities represented in five platforms: Bearings and units; Seals; Mechatronics; Services and Lubrication systems. Through these platforms, SKF's divisions offer intelligent product combinations, engineered and supported by a century of experience, that help customers through lower total cost of ownership, product reliability, lower maintenance requirements, asset uptime and sustainability.

In terms of sales, SKF is the leading global supplier of products, customer solutions and services in the rolling bearing business and a leading seals supplier. SKF also enjoys an increasingly important position in the markets for linear motion products, high precision bearings, spindles, spindle services for the machine tool industry, electrical actuators, actuation systems, reliability

systems and lubrication systems. SKF utilizes the capabilities of all the platforms to offer its customers tailor-made solutions that are designed to strengthen their offer to their customers or will make their production more effective. SKF also focuses on offering environmentally sound solutions that reduce energy consumption and lessen the impact on the environment.

SKF's industrial Original Equipment Manufacturer (OEM) customers manufacture products and production equipment, such as pumps, fans, compressors, motors, gearboxes, machine tools, up to entire paper machines, steel mills, printing presses and windmills. Given that these customers demand the development and delivery of products, services and solutions that offer the highest possible performance and the most efficient asset utilization, SKF needs to have a thorough knowledge not only of its own customers' products but also of their application and the challenges facing them. SKF focuses on continuously developing its products and solutions, often customizing them to meet demanding technical criteria. OEM customers in these segments number more than ten thousand. Their needs are handled primarily through SKF's Industrial Division, which offers a wide range of highly qualified products and advanced engineering services, including advanced technology, computer-based simulations and calculations.

Aerospace, within the Industrial Division, supplies manufacturers of engines and gearboxes, fixed wing aircraft and helicopters, as well as maintenance, repair and overhaul organizations.

The aerospace business is characterized by long development and qualification lead times, followed by application life cycles that often exceed 20 years. Since the products are custom designed for each application, production volumes are generally low. SKF works closely with its customers to develop innovative products and to devise solutions to satisfy the challenging demands associated with the industry. Typically, aerospace applications have the most rigorous requirements for reliability and quality. The products require a very high strength-to-weight ratio and must be able to perform under extreme operating conditions. SKF is then able to pass on the knowledge acquired from the aerospace business to other business areas within the company, such as meeting the challenging demands associated with applications for high-speed trains and racing cars.

The SKF Service Division is responsible for the industrial aftermarket, providing products and services for end-users. SKF, along with the largest network of authorized distributors in the bearing world, has developed a truly unique service organization. SKF and its some 7,000 distributor locations are not only located close to their customers wherever they are in the world, their combined knowledge also ensures a thorough under-



The Manufacturing Development Centre (MDC) in Göteborg, Sweden, is the central resource for process- and manufacturing-related research and development. The MDC provides cutting-edge skills in new technologies and innovation that can be used in the manufacturing environment of the SKF Group world-wide.

standing of customers' business conditions and requirements.

With an efficient supply chain, technical and logistic services and e-business portals, SKF and its distributors have developed the right stock profile and availability to offer the appropriate solutions to customers.

Providing an end-user solution means supplying the right bearing, seal, lubricant or other products and services in a timely manner to keep the customer's factory operating. These tailored solutions also help customers increase the productivity of a factory through the optimum combination of maintenance systems and services. This offer of asset management includes a wide range of products and services. Products include hand-held computers that monitor the condition of a piece of equipment to sophisticated software that enables the customer to make the right decisions to optimize the utilization of assets. Services include mechanical services, preventive and predictive maintenance, maintenance management system implementation and consulting to determine the optimum blend of maintenance methods.

Over the last eight years, SKF has developed maintenance solutions, technology and asset management in order to provide solutions that optimize plant asset efficiency and reduce maintenance costs. This has been achieved through acquisitions and internal business development. Developing knowledge and sharing best practices globally are the key components contributing to SKF's success in the service business.

In order to provide more to its customers and to extend the geographical reach of its services, SKF has appointed Certified Maintenance Partners (CMP) – partners, who, with the help of SKF, have increased



SKF has, in close cooperation with Hansen Transmission International (HTI) in Belgium, supported HTI with customized design solutions in their development of gear units for various industry applications, and in particular for planetary gear units for wind turbines.

their skills and expertise to offer end-users certain maintenance and reliability services. The number of CMPs is growing rapidly, having risen from 75 partners in 2005 to 143 partners in 2006.

SKF's Industrial and Service Divisions work closely together to identify customers' needs and ensure that the Group's capabilities are effectively utilized throughout the entire life cycle of the equipment they serve. In 2006, they jointly accounted for more than three fifths of the Group's total net sales and approximately four fifths of the Group's operating profit.

Through its Automotive Division, SKF supplies a category of customers that deal with

the manufacture of a large series of products for which there are specific and exacting requirements in terms of technology, quality, logistics, environment, safety and price. These customers include the manufacturers of cars and trucks, the aftermarket for the automotive industry, as well as household appliances, small electric motors, two-wheelers and similar products.

SKF deals both with the automotive manufacturers and with their direct suppliers. Since the lead time for developing a new generation of cars or trucks is approximately four to six years, SKF's dialogue and product development involvement with the customer begin several years before the start of





In December, SKF Mexico held a graduation ceremony for the very first Certified Maintenance Partners graduating class in Mexico. A Certified Maintenance Partner is an SKF Authorized Distributor that has been trained to provide specialist services. Supported by the global resources of SKF and using the latest technologies, an SKF Certified Maintenance Partner can help customers look inside their machinery and also provide a clear, concise report containing a summary of the readings and recommendations for different problem areas.

production. Customer demands in terms of innovation, performance and quality are very high and almost all automotive products and solutions are specifically designed for each individual customer.

A characteristic of the automotive business is that volumes are generally very high. The business scope normally covers a total vehicle life cycle, which naturally varies for different cars and trucks but usually extends to approximately six to eight years. High annual volumes, in combination with a vehicle life-cycle scope, form the basis of these large contracts. Ultimately, the volume will depend

on how successful the automotive producers are in terms of sales to end-customers.

To service the automotive aftermarket, SKF operates the vehicle service market business. For many years, this business has been based on SKF's "kit" concept. The idea is to offer mechanics a convenient solution to help speed up and facilitate repair work by providing repair kits that contain all the necessary components to change wheel bearings, water pumps, timing belts and so on. The specific kit for the car model is listed in both a catalogue and a computer-based system. SKF currently has approximately 6,000 different kits on the market.

The SKF knowledge that is acquired by managing automotive customers' demands is often utilized for solutions for other customer groups, thereby creating positive synergies.

Over time, SKF's offerings have evolved from bearings of different types to more unitized modules, integrating knowledge and the capabilities of bearings, sealing solutions, mechatronics and lubrication systems.

SKF's application engineers tailor integrated solutions to achieve the optimal and most beneficial design for each customer.

SKF's markets

The world bearing market

The size of the world bearing market is usually defined as global sales of rolling bearings, which comprise ball and roller bearings of various designs. SKF estimates that this market is worth about SEK 235 billion a year, excluding various types of mounted bearing unit but including spherical plain bearings. The Western European markets account for about 30% of the total, the North-American for about 25%, while China and Japan each account for approximately 15%. Other markets that have a sizeable local production of bearings and are recording interesting growth are Brazil, the Republic of Korea, India and Thailand, as well as Central and Eastern Europe.

SKF is the world leader for bearings and the largest supplier to the European markets. In Western Europe, SKF is closely followed by the German Schaeffler Group, with its INA and FAG brands. SKF is number two in North America, with the US company Timken (incl. Torrington) as the largest supplier there. SKF is the number-one supplier in the Asian markets outside Japan. The Japanese bearing market is dominated by the domestic manufacturers NSK Ltd, NTN Corp. and JTEKT (known as Koyo Seiko prior to its merger with Toyoda Machine Works in 2006).

The largest, and also the fastest growing of the emerging markets, is China. It is a very fragmented market with many local manufacturers. SKF is one of the leading bearing

companies in China – both as an importer and as a local manufacturer. In recent years, all the major international bearing companies have set up production in the country. China, as well as India, in particular, is expected to experience significant growth over the next few years both as a market and as a global supply base.

The Central and Eastern European markets, where SKF is the leading bearing company in the region, are also characterized by a number of local manufacturers serving more than 50% of the market. Their total size, however, accounts for only a few percentage points of the world market.

The rolling bearing world can also be divided according to the different types of

bearings. Ball bearings, of various designs, account for more than half the market, while different designs of roller bearings make up the balance.

The most popular of the ball bearing types is the deep groove ball bearing, which accounts for about one third of the total world bearing market. Other ball bearings are angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and hub bearing units for automotive wheels. The roller bearings are named according to the shape of the rollers, such as cylindrical, needle, tapered or spherical. The largest of the roller bearing families is the tapered roller bearing, with a share of less than 20% of the total world bearing market. Sales of this type of bearing have declined over the last couple of decades, as wheel hub units incorporating mainly balls are now replacing tapered roller bearings to a large extent in automotive wheel applications.

The polymer seals market

SKF is a leading company within the global polymer seals market and estimates that the world market for various automotive, industrial and aerospace applications is worth approximately SEK 62 billion per year.

The Western- European and North-American markets each account for about one third of this, while the Asian market accounts for about one quarter. With a market share of below 10%, SKF is, nevertheless, one of the major suppliers to the fragmented polymer seals market. SKF has particularly strong positions in seals integrated with bearings and automotive seals. In 2006, SKF strengthened its global position in industrial seals with two acquisitions. The German Freudenberg Group (including its partnerships with the Japanese company NOK) is the largest supplier on the world polymer seals market, followed by the US company Parker Hannifin and the Swedish company Trelleborg.

The lubrication systems market

The market for lubrication systems is mainly divided into two segments, oil- and grease-based systems. The total world market for both segments totals approximately SEK 10 billion. SKF is the leader in the global oil-lubrication systems market and a strong player in grease lubrication. In Europe, SKF is the clear market leader for oil and grease lubrication.

The largest competitor in lubrication systems is the US company Lincoln Industrial Corp. Lincoln focuses on grease-lubrication systems and is the largest company within

this segment, as well as being the leader in the total US market. SKF and Lincoln together cover more than 20% of a very fragmented world market.

The linear motion market

The linear motion market includes very many different products unified by the fact that they all provide linear movements. The industry consists of a very large number of companies, some of which have evolved from firms producing mechanical components, while others have specialized in motors or controls. All the companies which provide linear-motion control combine mechanics, electric motors and controls. The value of the world motion-control market, including systems and components, is in the region of SEK 100 billion. SKF focuses primarily on the medical, healthcare, machine tool and factory automation segments by providing products such as actuators, linear guides and ball and roller screws or complete subsystems. SKF's annual growth rate in this business is in the two-digit per cent area.

The asset efficiency market

Manufacturers today require more return than ever from capital investments in plant machinery and processes. Through the effective implementation of asset efficiency

programmes, manufacturers can improve the performance of existing assets, raise productivity and minimize undesirable health, safety and environmental consequences. SKF has been successfully developing a range of services and technologies to enable its customers to achieve these results.

This is a fast growing area in both developed and developing industrialized economies. SKF leverages its local presence in all these markets to provide specific consultancy, products and support tailored to suit each customer's requirements. By combining expertise in friction management and asset reliability, SKF is able to develop advanced software and instrumentation solutions which, when combined with service, enable a customer to reduce the total cost of ownership of key assets.

A larger percentage of the SKF Group's sales will be service and software related in the future. Each year, these products are increasing their contribution to the Group. As a result, SKF has extended its leadership in the reliability systems business among its traditional bearing competitors and, by virtue of its specialist knowledge of friction management, SKF has developed a leading niche in prolonging the life cycle of rotating machinery assets.



The Power of Knowledge Engineering

During 2006 and 2007, SKF is carrying out its most extensive public relations campaign ever, with advertisements in the international media, including newspapers, periodicals and television. The aim of the campaign is to show that SKF is the knowledge engineering company.

Board of Directors' Report

The Group's net sales in 2006 increased by 7.7%, from SEK 49,285 million to SEK 53,101 million. This increase was attributable to volume 5.3%, price/mix 2.1%, structure 0.1% and currency effects 0.2%. Operating profit amounted to SEK 6,707 million (5,327). The SKF Group's profit before taxes amounted to SEK 6,387 million (5,253). Earnings per share amounted to SEK 9.48 (7.73).

Compared with 2005, exchange rates for the full year 2006, including the effects of translation and transaction flows, had a positive effect on SKF's operating profit of approximately SEK 250 million.

The Group's financial net was SEK -320 million (-74). Excluding revaluation of share swaps, the figure was SEK -355 million (-224). SEK 740 million of the interest-bearing loans was amortized in 2006. Interest-bearing loans at year-end totalled SEK 8,053 million (4,296), while provisions for post-employment benefits amounted to SEK 4,731 million (4,916).

Cash flow after investments before financing for the year amounted to SEK 3,003 million (429). Return on capital employed for the 12-month period ended 31 December was 24.7% (21.8).

SKF's capital expenditure on property, plant and equipment amounted to SEK 1,933 million (1,623). Depreciation was SEK 1,476 million (1,485). The increase in capital expenditures in 2006 reflects the upgrading of existing operations and the addition of new factories and capacity primarily in Asia to support the strong growth in that region. Of the Group's total capital expenditure, SEK 105 million (89) was attributable to the improvement of SKF's environment both internally and externally.

Expenditure on research and development was SEK 875 million (837), corresponding to 1.6% (1.7) of annual sales. This does not include the customization of products and services, as well as development expenditure on IT solutions. The number of first filings of patent applications was 175. The number in 2005 was 176.

Market development

Sales for the full year, calculated in local currencies and compared to last year, were higher. Sales were higher in Europe, with Germany, Spain, Italy, Sweden and Central and Eastern Europe showing the best performance. Sales in North America were

relatively unchanged. Sales in Asia were significantly higher; in particular China and India showed strong development. Sales in Latin America were higher and Brazil was especially strong. Sales were significantly higher for the Industrial Division and the Service Division and slightly higher for the Automotive Division.

Most important factors influencing the financial result

The continued improvement in the SKF Group's financial results in 2006 can be attributed to a continued focus on delivering value to its customers, higher sales, improved pricing, increased productivity and cost control in spite of higher raw material prices that started at the end of 2004 and continued throughout 2005 and 2006 was addressed at a very early stage by the Group, enabling it to offset the negative impact by cost reductions, increased productivity and improved sourcing and pricing. The main raw materials for the Group are steel and steel-based components.

SKF's sales growth has stayed ahead of the general development in the marketplace, due to its strong customer focus and its



Around the European Commission Headquarters in Brussels, there is a double façade with movable glass panes. These panes are operated by a total of 800 SKF actuators. The system is computer controlled so that the panes are closed in sunlight to reduce the need for air conditioning and opened again when it is cloudy to obtain a maximum of light and avoid the use of artificial light. During the night, the panes are closed to prevent the loss of heat inside. This reduces energy use by 30-50%.

segment and platform approach. Customer segments experiencing strong development during the year were energy, metal, mining, pulp & paper and medical, to mention just a few.

Examples of new SKF solutions that were launched included:

- For wind energy, a range of large hybrid bearings, a new high-capacity cylindrical roller bearing and a new automatic lubrication solution
- For factory automation, an electro-mechanical solution for automatic spot welding equipment
- For off-highway, new steer-by-wire solutions
- For agriculture, a new hub unit programme
- For the industrial aftermarket, new or improved bearing-related products, as well as maintenance and condition monitoring products and services
- For the automotive industry, a new asymmetrical hub bearing solution, a taper-taper version to complete the family of X-Tracker hub units
- For the transmission area, new components for the gearbox synchronization area, as well as a hybrid pinion unit system, that reduces friction in the bearing arrangement
- For the automotive aftermarket, kits with increased value and added features.

Some examples of important business acquired during the year:

- New performance-based Integrated Maintenance Solutions contracts with customers all over the world in the food and beverage, pulp and paper and hydrocarbon processing industries
- An order from Alstom for axleboxes for the new generation of Italian Pendolino tilting trains and one from Bombardier Transportation for the new Talent trains
- A co-operation agreement covering machine tool spindle services with Niigata Machine Techno Co Ltd., Japan, and a service agreement with Alteams Oy in Finland involving the reconditioning of machine tool spindles
- An order from DaimlerChrysler Truck Group in Germany for the new pressure valve stem seal
- An order from Repower Systems AG for 100 SKF WindCon condition monitoring systems for wind turbines and also the largest order to date for the SKF WindCon condition monitoring system for the wind industry from Prokon Energiesystem GmbH.

Strategy

SKF is continuing to implement its business strategy to achieve long-term profitable growth and to achieve its financial targets.

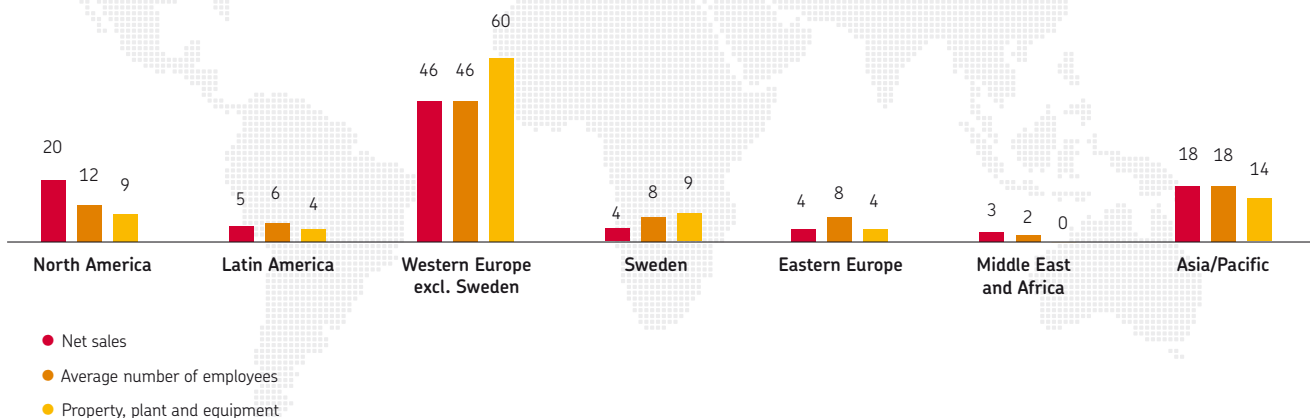
The strategy is:

- to develop new products, solutions and services with higher added value and improved price quality by applying its platform and segment approach
- to strengthen the product portfolio within the platforms through increased investment in R&D and through acquisitions
- to focus and invest in faster growing segments and regions
- to reduce capital employed and fixed costs.

This should be achieved despite fluctuations in market demand, raw material price increases and currency impact.

The platform and segment approach is unique to SKF and is based on combining a strong technology focus from the platforms and a strong customer focus from the segments. SKF has defined five different technology platforms, which cover the company's technical capabilities. These platforms are: Bearings and units, Seals, Mechatronics, Services and Lubrication systems. SKF has also defined approximately 40 customer segments in which it operates. Examples of these segments include the car industry, wind energy, the railway industry, machine tool industry and paper industry. Based on a strong understanding of customer needs and challenges today and in the future, SKF utilizes the capabilities of all or some of its

Geographical distribution of net sales, average number of employees and property, plant and equipment (per cent)



Mud motor bearings used for oil and gas drilling operate in extremely harsh conditions. The re-designed SKF mud motor bearing contains eight to twelve rows of bearings. The bearings are constructed so that, when new, the majority of the load is carried by the first few rows. As each row starts to wear, the load is shifted to the next row, until all the rows are worn equally. The load is then shifted back to the first row and the process is repeated. This unique SKF design enables the bearing to last up to 50% longer than previous bearing designs and enables a 30% increase in the mean time between failures.



platforms to develop tailor-made solutions for each of its customer segments. In this way, SKF can offer its customers specific solutions with improved performance, reduced energy consumption and reduced total cost, while giving SKF higher added value and better price quality.

The SKF Group operates through three divisions, each focusing on specific customer groups worldwide.

The Industrial Division is responsible for sales to industrial OEM customers and for the product development and production of a wide range of bearings, lubrication systems, linear motion products, by-wire systems and couplings.

The Service Division is primarily responsible for sales to the industrial aftermarket, mainly via a network of some 7,000 distributor locations. The division also supports customers with knowledge-based products and service solutions to optimize plant asset efficiency.

The Automotive Division is responsible for sales to the producers of cars, light trucks, heavy trucks, buses, two-wheelers, household appliances, power tools and electric motors and also for sales to the vehicle service market. The division develops and produces bearings, seals and related products and service solutions.

Fulfilled targets and new targets

The financial targets, which were set in 2003 to be achieved by 2006, were to deliver an operating margin level of 10% while growing by 6% per annum, measured in local currencies, and having a return on capital employed of 20%. These targets have now been fulfilled.

The operating margin was 8.0% for 2003, 9.9% for 2004, 10.8% for 2005 and 12.6% for 2006. Growth, measured in local sales was 5.2% in 2003, 11.8% in 2004, 7.3% in 2005 and 7.5% in 2006. During the period 2003 to 2006, SKF acquired companies for SEK 3,281 million net of cash. These companies' annualized sales in 2006 were approximately SEK 3,900 million.

In 2006, the Group's return on capital employed was 24.7%.

New long-term targets for the SKF Group were announced in January 2007. The new targets are to have an operating margin level of 12%, sales growth in local currencies of 6-8% per annum and a return on capital employed of 24%. The new gearing target is to operate around 50%. The previous gearing target was to be below 50%.

Employees

SKF's vision "To equip the world with SKF knowledge" underlines the importance of attracting, developing and retaining the best people in the industry. It is the responsibility of every manager to ensure that all employees receive adequate training and education. SKF has training programmes on three levels for its employees – local, divisional and corporate. An extensive training portfolio is offered on technology, Six Sigma, leadership, sustainability, sales and marketing, manufacturing, project management and finance etc.

In 2006, part of the talent management programme process focused on creating a manufacturing "acceleration pool". The goal of this on-going programme is to increase the number of potential factory managers and to prepare them for future challenges to

support SKF's strategy. Candidates selected for the programme receive an individualized plan, based on the gaps that have been identified between their current abilities and the ideal profile for the job. Top management is involved in different ways to ensure the success of the programme. They act as evaluators and mentors and some are involved on a board that manages the "acceleration pool". To date, the outcome of the programme has been very positive, with 25% of the candidates becoming or on their way to becoming factory managers, already in this first year.

SKF runs its own SKF Colleges in different parts of the world to ensure training in the necessary technologies and other skills to enable SKF to offer the market the best solutions. In 2006, three new SKF College Campuses were inaugurated in Pune, India, in Shanghai, China and in Elgin, USA. The new colleges, together with the two existing colleges in Nieuwegein, the Netherlands and Göteborg, Sweden, form a world-wide network of training hubs for SKF employees, customers and distributors.

Details of salaries, wages and other kinds of remuneration are given in the Consolidated Financial Statements, Note 29.

Research & Development

The main areas for SKF fundamental R&D are:

Product R&D

- Tribology – how to reduce friction and wear and to select lubrication
- The selection of materials (steel, ceramics, plastics, polymers etc)
- Calculation models – knowledge implemented in SKF's unique software products

which helps customers quickly to select the right bearings and to predict which bearing and seal performance is expected in a specific application

- Mechatronics – the synergistic integration of mechanical engineering with electronics and intelligent computer control in the design of industrial products and processes
- Artificial Intelligence (AI) – the use of AI tools (e.g. artificial neural networks, knowledge-based systems) for knowledge generation and management in industrial systems.

In 2006, Det Norske Veritas and Germanischer Lloyd certified the increase in dynamic load ratings beyond the ISO 281 standard that had been justified for SKF Explorer bearings. This confirms that the SKF Explorer bearing has set a new performance standard.

SKF has developed new energy efficient taper roller and deep groove ball bearings, that reduce bearing energy consumption by at least 30% compared with previous bearings. The new taper roller and deep groove ball designs are technically applicable to most of the range of these two bearing types. Furthermore, the reduction of energy consumption can be achieved by many of the SKF products and services. Mechatronic products, like actuator and control units that allow self-regulating window blind systems to keep buildings warmer in winter and cooler in the summer, thereby reducing building energy consumption by 30 to 50%, or business jet auto-throttle control unit that reduces aircraft fuel consumption. SKF Reliability Systems has developed the "Client Energy and Environment Analysis" or CEEA programme, as a modified version of the "Client Needs Analysis", or CNA, which make it possible to quantify, monitor and effect life cycle energy savings in addition to traditional assets management.

Process-manufacturing R&D

Manufacturing processes R&D are designed to obtain cost-effective and environmentally friendly manufacturing.

- Advanced manufacturing processes for improved product performance by optimizing the combination of material and its heat treatment
- Near net shape forming processes for improved efficiency and material utilization, enabling SKF to reduce waste in manufacturing and to reduce variations in manufacturing.

- Simulation of manufacturing processes enabling shorter development time for new manufacturing processes, as well as supporting factories in optimizing manufacturing
- Intelligent machining – to integrate sensors and measuring equipment into machines and equipment in order to have consistent and reliable manufacturing processes to produce to the right tolerance
- Advanced intelligent technologies for vision systems and measuring
- Energy mapping of the factories.

Manufacturing

The divisions are working intensively to increase efficiency, reliability and flexibility and to reduce energy consumption and CO₂ emissions in manufacturing processes, by implementing new technologies and knowledge. This enables SKF to reduce the environmental impact on manufacturing and to reduce the total investment per unit produced, reduce costs, enhance quality and improve customer service. Continuous improvements and the application of the tools provided by Six Sigma are playing an important role in strengthening SKF's manufacturing processes. The main technologies or areas in focus are:

- Methods for manufacturing excellence
- Near net shape forming to eliminate waste and to reduce costs
- Environmentally sound processes to reduce energy consumption, emissions and waste in manufacturing
- Highly developed standardization, which keeps development costs at a lower level by rolling out new developments into the factories. This applies in the development of methods and technologies for improved flexibility by reducing resetting.

During the year, SKF further strengthened its manufacturing capacity in Asia to respond to the growing demand from this region.

- SKF built a new factory in the Dalian economic and technological development area in north-eastern China. This factory manufactures and reconditions large-sized bearings of different types. The first phase of the factory was finished by the end of 2006. The factory and manufacturing will increase stepwise until it reaches full capacity, when the factory will employ some 240 persons

- SKF's new factory for electromechanical actuators and actuation systems in Pinghu, outside Shanghai, China, started to operate. When fully operational, the Pinghu plant will employ some 400 people
- The production capacity for the automotive industry was strengthened by a new factory in Shanghai
- The capacity for the production of deep groove ball bearings was expanded in the Shanghai factory for the electrical industry
- Two new factories were built next to the existing factories in Korea, one bearing factory in Busan and one seals factory in Taegu, both for the manufacture of products for the automotive industry
- A factory was built in Jakarta, Indonesia, for the production of deep groove ball bearings
- The capacity was increased in Pune and Bangalore, India, for the production of cylindrical roller bearings and other products.

In addition, the capacity was increased in Brazil for the production of taper roller bearings.

In mid-2005, in order to reduce costs and remain competitive within the North-American automotive OEM market, SKF decided to close its bearing factory in Aiken, South Carolina, and its seals factory in Springfield, South Dakota. The two factories were closed in 2006 and the full transfer will be completed by mid-2007. Bearing production was transferred mainly to the SKF's bearing factory in Puebla, Mexico, but also to SKF factories in Korea and China, while seals manufacturing was transferred to the seals factories in Elgin, Illinois, USA, and Guadalajara, Mexico. SKF also restructured its operations in France by reducing the number of employees by some 150 at its ball-bearing factory in Fontenay le Comte.

At the end of 2006, the Group initiated a number of activities to further reduce costs and improve efficiency. The total cost of these activities amounts to SEK 400 million, of which SEK 264 million is accounted for by impairments and write-offs. The different activities that will be run in 2007 and will affect the operations in China, Italy, South Africa, Bulgaria and a number of other countries, will reduce the number of employees by about 1,000 persons. The cost had an impact on the Automotive Division of SEK 170 million, on the Industrial Division of SEK 210 million and on the Service Division of SEK 20 million.



Six Sigma

In 2006, more than 300 Six Sigma projects were run throughout the entire organization and net savings from these amounted to some SEK 200 million. Some of these projects focused on the reduction of electrical energy consumption by implementing the more efficient monitoring of processes and reducing compressed air utilization, for example. The successes are being replicated in other factories.

In process-related projects, contributions to the improvement of efficiency were made to SKF's manufacturing channels. This has also led to a simultaneous increase in productivity and quality. In order to further strengthen the interface with customers, reduce lead times and reduce waste, SKF has incorporated multiple transactional Six Sigma projects in its administrative functions.

The existing product and process development processes have been further strengthened and supplemented with the "Design for Six Sigma" (DfSS) methodology and tools. In 2006, a number of employees underwent training in DfSS.

In 2006, a growing number of successful projects were spread throughout the organization for replication purposes and knowledge sharing. In November, the first global SKF Six Sigma summit was held in Lisbon, Portugal. More than 200 active Six Sigma practitioners and sponsors met to share insights and knowledge, as well as to promote the completed projects for replication throughout all parts of the organization.

SKF has trained a total of 12 Master Black Belts, 205 Black Belts and 1,135 Green Belts. SKF has now expanded its Six Sigma activities to include Design for Six Sigma and Transactional Six Sigma (including Lean Six Sigma and Six Sigma for growth).

In 2006, SKF's President and CEO, Tom Johnstone, was recognized with the ISSSP European Six Sigma Leader Award by the ISSSP, the International Society of Six Sigma Professionals, for his work on committing the company to continuous improvement.

Acquisitions

SKF acquired companies during 2006 for SEK 2,129 million net of cash to improve the product portfolio for the platforms and its market presence in the key segments/markets.

Bearings/units

- **SNFA SAS**

SNFA is a leading French manufacturer of bearings for aerospace and machine tool applications. Slightly more than half SNFA's business is attributable to aerospace applications. The company was included in the third quarter of 2006 in SKF's reporting and contributed with net sales of SEK 451 million. SNFA has its head office in Paris and one factory for manufacturing aerospace bearings located in Valenciennes, outside Paris, and two factories for manufacturing high-precision bearings located in Turin in Italy and Charfield in the UK. SNFA employs 720 persons. SKF paid a total amount of SEK 1,281 million net of cash. SNFA will strengthen and complement both SKF's aerospace and high precision bearings offerings.

Seals

- **Economos Austria GmbH**

Economos is an Austrian industrial seals company manufacturing hydraulic and pneumatic seals for the oil and gas, food and beverage, pulp and paper, mining and steel industries. The company is included in the fourth quarter of 2006 in SKF's reporting and contributed net sales of SEK 126 million. Economos has a global presence, with Western Europe as its main market. Economos is headquartered in Judenburg, Austria, and operates through more than 20 subsidiaries around the world and its extensive distributor network. SKF paid SEK 417 million net of cash for the company. Economos' sealing and engineering plastics solutions will strengthen SKF's market position in industrial seals.

- **Macrotech Polyseal Inc, now renamed SKF Polyseal Inc.**

Macrotech is a leader in fluid power seals and engineered plastics for industrial customers in the US market. The product range mainly comprises injection-moulded PU hydraulic seals. The largest customer segments are fluid power (mainly hydraulics) and process equipment. It is based in Salt Lake City, Utah, with two factories. The company is included in the second quarter of 2006 in SKF's reporting and contributed net sales of SEK 199 million. SKF acquired 51% of the shares of this North-American seals company. As part of the agreement, SKF will acquire the remaining 49% within three years. The purchase price for 51% of the shares in the company was SEK 141



SKF acquired several companies in 2006. One of them was the French company SNFA SAS, a leading manufacturer of bearings for aerospace and machine tool applications. SNFA has one manufacturing factory for aerospace bearings situated in Valenciennes, outside Paris, and two factories for the manufacture of high-precision bearings situated in Turin, Italy, and Charfield, UK. In the pictures from the left: Giovanna Aiello and Franco Melito at the factory in Turin, Italy.

million net of cash. This acquisition will strengthen SKF's position in industrial seals by bringing to the Group new products and new technologies.

Services

- Precision Balancing & Analyzing (PB&A) PB&A, located in Mentor, Ohio, USA, specializes in the repair and upgrading of machine tool spindle mechanisms and at acquisition it had 40 employees. PB&A's activities complement SKF's spindle service operations and improve the geographical coverage of the US market.
- Monitek Australia Monitek in Brisbane, Australia, is a leading Australian predictive maintenance services company. It is a supplier of high-quality vibration monitoring and wear debris analysis in the mining industry. At acquisition, the company had 29 employees. Monitek strengthens SKF's position as a leading provider of reliability services to the mining industry in Australia.

SKF paid a total of SEK 63 million net of cash for Precision Balancing & Analyzing and Monitek Australia. These companies' annual sales amount to approximately SEK 70 million.

- RC DEI Norge AS RC DEI's business consists mainly of services for condition-based maintenance; principally servicing the oil and gas industry on the continental shelf of the North Sea. RC DEI has a turnover of approximately SEK 14 million and

is located outside Stavanger, Norway. SKF acquired the remaining 50% of this Norwegian company from the AGR Group. SKF previously owned 50% of the company through its subsidiary DEI, Aberdeen, Scotland, which SKF acquired in 1999.

Lubrication systems

- John Crane's lubrication systems business SKF paid SEK 220 million net of cash for the business, which is headquartered and has its manufacturing operations in Muurame in Finland. It also has sales offices in Sweden, Germany, the USA and Brazil. The company is included in the fourth quarter of 2006 in SKF's reporting and contributed net sales of SEK 73 million. The products, segments served and geographical presence of this business complement in SKF's existing lubrications systems business and will enable SKF to offer its customers a wider range of solutions and improved value propositions.

Acquisitions subsequent to year end

Services

- Preventive Maintenance Company Inc. (PMCI) PMCI in Elk Grove Village, Illinois, USA, is a market leader in Predictive Maintenance (PdM) services for industrial customers in the pulp & paper, metals, food, automotive and other industries. PMCI has 70 employees with annual sales of approximately USD 10 million. This company was acquired in January 2007. The PMCI acquisition strengthens SKF's market leadership in reliability services, condition monitoring products and maintenance strategies.

Sale of steel business and outsourcing of transactional handling

SKF is investing in its core business and divesting what it regards as non-core business.

- AB SKF, Rautaruukki Corporation and Wärtsilä Corporation sold the operating companies owned by Oy Ovako Ab to a company owned by Hombergh Holdings BV shareholders, WP de Punderd Ventures BV and Pampus Industrie Beteiligungen GmbH & Co. KG. The sale was completed in November 2006. The total price of the shares was approximately EUR 660 million, comprising a cash payment at closing of approximately EUR 535 million, a deferred cash payment of EUR 15 million to be paid in July 2008 and an interest-bearing vendor note of EUR 110 million to be paid within three to six years of closing. SKF owned 26.5% of Ovako and 2006 received an income from the jointly controlled company of SEK 725 million, which includes their result from the operation and their gain on the sale of Oy Ovako Ab's subsidiaries.
- SKF decided to outsource its transactional handling within the financial area. As of 1 January 2007, the different transactional handling activities in accounts payable, accounts receivable and general ledger, within SKF's major European bearing operations, will be transferred step by step to Capgemini. The transfer will be completed by mid-2007 and will result in a reduction of some 100 staff positions within the finance area.



SKF's headquarter in Göteborg, Sweden

Financial objectives and dividend policy

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

Financial performance management model

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

TVA is the operating profit, less the pre-tax cost of capital in the country in which the business is conducted. The TVA result devel-

opment for the Group correlates well with the trend for the share price over a longer period of time. Variable salary programmes are based on this model. The financial targets are cascaded down to the divisions and business units through SKF's financial performance management model.

Financial position

In recognition of the financial stability of the Group, the capital structure targets are also revised and envisage a gearing of around 50% and an equity/assets ratio of around 35%. This will still ensure the financial flexibility to enable the Group to continue to invest in good opportunities to strengthen the business, while maintaining a strong credit rating. On 31 December 2006, the gearing was 39.1% (33.2).

Financing

It is SKF's policy that the financing of the Group's operations should be long term. As of 31 December 2006, the average maturity of SKF's loans was 5.4 years.

In December 2006, SKF issued a 500 million euro seven-year note in the European bond market.

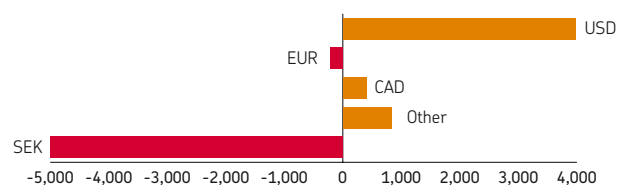
Dividend policy

SKF's dividend policy is based on the principle that the 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 Directors' view is that the dividend should amount to approximately one half of SKF's average net profit calculated over a business cycle.

Net currency flows 2006

Currency	Flows, MSEK	Average rate
USD	3,970	7.59
EUR	-200	9.37
CAD	400	6.69
Other ¹⁾	820	
SEK	-4,990	

¹⁾ Other is a sum comprising some ten different currencies.



Dividend and redemption

Due to the company's strong performance, cash generation capacity and outlook, the Board of Directors of SKF proposes an increase in the dividend of 12.5%, giving a dividend of SEK 4.50 per share.

Furthermore, the Board of Directors also proposes 2:1 share split combined with an automatic redemption procedure. Through this procedure, the shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 10.00. The proposal means that SEK 4,554 million will be distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders will be SEK 6,603 million.

These proposals are subject to resolutions by the Annual General Meeting in April 2007.

Repurchase 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 shares of Series A as well as Series B. 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 Stockholm Stock Exchange. The proposal is subject to resolutions by the Annual General Meeting in April 2007.

The Annual General Meeting in April 2006 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2006, no repurchases were made and the company owns no SKF shares.

Credit rating

The Group has an A minus (A-) rating for long-term credit from Standard and Poor's and an A3 rating from Moody's Investors Service, both with a stable outlook. SKF intends to keep a strong credit rating.

Financial risks

The SKF Group's operations are exposed to various types of financial risk. The Group's financial policy defines the main risks as being currency, interest rates, credit and liquidity

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 the SKF Treasury Centre, the Group's internal bank.

Currency risk

The SKF Group is subject to both transaction and translation exposure. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. SKF hedges 75% of the estimated net USD exposure for three to twelve months. This hedging corresponds to 50% of the total net transactional flows. As of year-end, the lengths of the actual forward contracts conformed to the basic policy. Translation exposure on Group accounts is not hedged.

Interest rate risk

Liquidity and borrowing are concentrated at Group level. By matching the maturity dates of investments made by subsidiaries with the borrowings of other subsidiaries, the interest rate exposure of the Group can be reduced.

Credit risk

The Group's policy states that only well-established financial institutions are to be approved as counterparties. Exposure per counterparty is continuously monitored.

Liquidity risk

In addition to its own liquidity, AB SKF had committed credit facilities of EUR 300 million at year-end.

More details about risk management and hedging activities can be found in the Consolidated Financial Statements, Note 32.

Risks and uncertainties in the business

The company 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 obviously 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, could have a negative effect on the demand for the Group's products and services.

However, the Group's wide geographical presence and its very broad customer base would normally mean that the business climate is good in some of the geographical regions and some of the customer segments.

Sensitivity analysis

The following shows the magnitude of changes in respect of a number of factors influencing the Group's profit before taxes. The assessment has been based on the year-end figures. All the calculations have been made on the assumption that everything else is equal.

- The annual cost of the purchase of raw material and components is approximately SEK 14,000 million. Of this amount, steel bars, tubes, components or oil-based products account for the major part. An increase of 1% in the cost of raw material and components reduces profit before taxes by SEK 138 million.
- An increase of 1% in the cost of wages and salaries (including social charges) reduces profit before taxes by SEK 155 million.
- A change of 1% in interest rates has no significant influence on profit before taxes. In 2006, the Group had net short-term financial assets (short-term financial assets less total loans) of SEK 877 million.
- A weakening/strengthening of 10% in the SEK against the USD has a positive/negative effect from net currency flows on profit before taxes of approximately SEK 400 million, excluding any effects by hedging transactions. For the commercial flows the SKF Group is primarily exposed to the USD and to US dollar-related currencies. In addition, as the major part of the profit is made outside Sweden, the Group is also exposed to translational risks of all the main currencies. A weakening/strengthening of 5% in the SEK versus all the major currencies has a positive/negative effect of the translation of profits into SEK of approximately SEK 200-250 million.

Sustainability

Reporting

SKF defines sustainability as Business Care, Environmental Care, Employee Care and Community Care and this year's sustainability report will reflect this. For the past five years, the sustainability performance data reporting has been integrated with the financial data reporting.

Business Care

At the end of August, official confirmation was given by the European Commission that a project for "Demonstrating innovative technologies that significantly improve the environmental performance of bearings" would be given financial support by the community. The project will run for three years, starting in 2006, and SKF is the company participating with expertise and two product-related projects.

Environmental Care

- Environmental permits

SKF's operations have an impact on the environment in the form of waste, air and water emissions, as well as noise. Operations requiring permits are carried out in all the countries where manufacturing takes place. In Sweden, there were three sites with operating permits on 31 December 2006: SKF Sverige in Göteborg, SKF Mekan in Katrineholm and SKF Coupling Systems in Hofors. Production at these three sites accounted for 10% of the Group's overall

production volume in 2006. These permits relate to the production of bearings, bearing housings and couplings. SKF received no significant directives from the environmental authorities in 2006. No permits were subject to review or revision in 2006.

- Environmental approval

The SKF Group has a Group-wide certificate approval according to ISO 14001, the international standard for environmental management. All units are included in a single Group-wide certificate which, at the end of 2006, encompassed 88 sites in 26 countries. Recently acquired companies are put into a plan for certification.

- Environmental target

The Group has set a target of an annual 5% reduction in carbon-dioxide emissions from energy consumption at all its factories, irrespective of production volume increases. In 2006, the emission reduction was 14.8% compared with 2005, of which 9.3% is related to the Hofors and Hällefors operations, divested in mid-2005.

Employee Care

- Health and safety certification

By the end of 2005, the SKF Group was certified according to the OHSAS 18001 health and safety management standard. This approval covers 86 sites in 24 countries. OHSAS 18001 is the health and safety equivalent of ISO 14001.

- Towards zero accidents

SKF's drive to achieve zero work-related injuries and illnesses is progressing with the highest priority. Of a total of 197 units, 88 units have zero accidents for at least one year.

Community Care

SKF is involved in many community programmes around the world, from a nursery school for children with HIV/Aids in South Africa and an orphanage in India to being the main sponsor of the major youth football tournament, the Gothia Cup. In 2006, a Group Social Policy was launched, which further encourages SKF's local management to engage SKF and its employees in worthwhile community projects.

Sustainability indexes

For the seventh consecutive year, SKF was included in the Dow Jones Sustainability Indexes and for the sixth year it was also included in the FTSE4Good Index Series. Furthermore, SKF was awarded the highest score of all rated companies in the environmental section of the Folksam Index för Ansvarsfullt Företagande (Corporate Social Responsibility).

In 2006, SKF became a participant in the UN Global Compact initiative.

Board of Directors' report of Parent Company, AB SKF

Corporate identity number 556007-3495

The Parent Company performs services of a common group character. Reported net sales refer to services invoiced to subsidiaries. Costs invoiced from subsidiaries are included in the reported cost of services provided and amount to SEK 1,023 million (988 and 905).

In 2006, the liquidation of Oy Ovako Ab, where SKF holds 26.5%, was started. The preliminary surplus from the liquidation allocated to AB SKF amounts to SEK 1,502 million and is included in Financial income. Dividend income from consolidated subsidiaries amounted to SEK 2,810 million (2,007 and 809). Additions to investments in subsidiaries amounted to SEK 363 million (857 and 961), whereof SEK 203 million related to acquisitions from companies within the SKF Group and SEK 160 million to capital contributions to existing units. No investments

from external sellers were made during 2006.

The shares of SKF Sverige AB were sold to another company within the Group. The profit on this transaction amounted to SEK 4,637 million and is included in Financial income. New borrowing amounted to SEK 4,516 million (3,196 and 0). Purchase of own bonds amounted to SEK 650 million (143 and 513).

See page 15 for proposal for redemption of shares and share split and repurchase of shares.

Risks and uncertainties in the business for the Group are described in the Board of Directors' 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

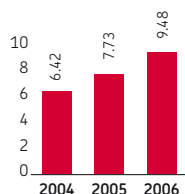
dividend income for the Parent Company, as well as a need for a write-down of the values in the shares in subsidiaries. Due to the wide geographical spread of the subsidiaries, the risk is assessed as small for the Parent Company.

Proposed distribution of surplus

Unrestricted equity in the Parent Company amounts to SEK 10,597 million. The Board of Directors and the President recommend that a dividend of SEK 4.50 per share be paid for the fiscal year 2006 in accordance with the compilation presented on page 89.

Shares and shareholders

Basic earnings per share, SEK



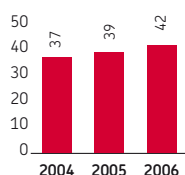
SKF shares on 29 December 2006

SKF's A and B shares have been listed on the Stockholm Stock Exchange since 1914. The total number of shares traded in 2006 was 1,208,941,205. The SKF B share is registered with the US Securities and Exchange Commission and SKF's ADRs are traded on the OTC market.

A shares, unrestricted	49,533,030
B shares, unrestricted	405,818,038
Total	455,351,068

An A share entitles 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. Of the total of 177,403,217 A shares converted to B shares up to December 2006, 1,202,828 were converted in 2006.

Shareholders' equity per share, SEK



Changes in share capital 1982–2006

	Amount paid MSEK	Share capital MSEK	Number of shares in millions	Quote 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

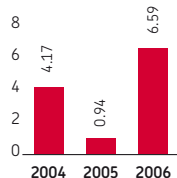
Share savings fund for employees

SKF Allemansfond, a national security savings fund for SKF employees in Sweden, was started in 1984.

On 29 December 2006, the SKF Allemansfond had 681 members and 39% of the fund was invested in SKF shares.

Assets amounted to SEK 99 million.

Cash flow after investments, before financing per share, SEK

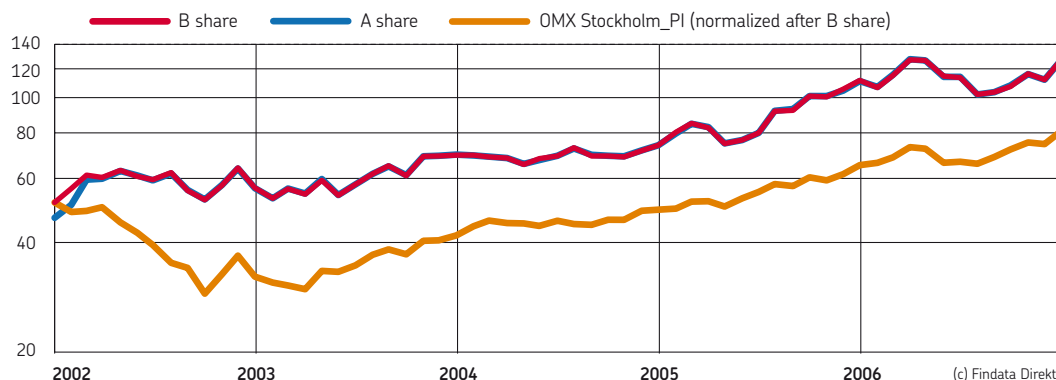


Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	35,998	77.0	12,699,767	2.8
1,001 – 10,000	9,511	20.3	26,145,608	5.7
10,001 – 100,000	917	2.0	28,405,021	6.2
100,001 –	346	0.7	388,100,763	85.3
	46,772	100.0	455,351,068	100.0

Source: VPC AB (Securities Register Centre) as of 29 December 2006.

Price development of the SKF share

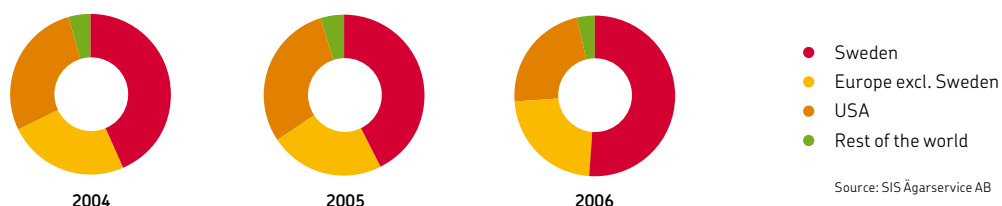


The ten largest shareholders	A shares	B shares	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
The Knut and Alice Wallenberg Foundation	24,000,000	21,750,000	45,750,000	26,175,000	29.05	10.05
Alecta	2,244,604	20,930,000	23,174,604	4,337,604	4.81	5.09
Swedbank Robur Funds	2,795,734	12,585,498	15,381,232	4,054,283	4.50	3.38
Skandia Liv	3,683,864	3,123,544	6,807,408	3,996,218	4.43	1.49
Gamla Livförsäkringsbolaget	2,190,000	1,310,400	3,500,400	2,321,040	2.58	0.77
AFA Sickness Insurance	1,384,900	5,205,659	6,590,559	1,905,465	2.11	1.45
SEB Funds	652,000	5,451,057	6,103,057	1,197,105	1.33	1.34
Fidelity Funds European Growth	0	11,735,200	11,735,200	1,173,520	1.30	2.58
FPG Försäkringsbolaget						
Pensionsgaranti, ömsesidigt	930,400	497,600	1,428,000	980,160	1.09	0.31
The Knowledge Foundation	925,000	0	925,000	925,000	1.03	0.20
Total	38,806,502	82,588,958	121,395,460	47,065,395	52.23	26.66

Source: VPC AB (Securities Register Centre) as of 29 December 2006.

As of 29 December 2006, about 49% of the share capital was owned by foreign investors, about 44% by Swedish companies, institutions and mutual funds and about 7% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, so that the actual shareholders are not officially registered.

Geographical ownership



Per-share data (definitions, see Note 1)

Swedish kronor/share	2007	2006	2005	2004	2003	2002	2001	2000
Basic earnings per share		9.48	7.73	6.42	4.48	5.42	4.76	4.31
Dividend per A and B share		4.50 ¹⁾	4.00	3.00	2.50	2.00	1.50	1.31
Total dividends, MSEK	2,049 ¹⁾	1,821	1,366	1,138	911	683	598	455
Redemption, MSEK	4,554 ¹⁾		2,846					
Purchase price of B shares at year-end on the Stockholm Stock Exchange		126.50	111.50	67.96	63.83	51.89	47.30	32.72
Shareholders' equity per share		42	39	37	34	36	36	30
Yield in per cent (B)		3.6 ¹⁾	3.6	4.4	3.9	3.9	3.2	4.0
Yield in per cent (B), incl. share redemption		11.5 ¹⁾		41.2				
P/E ratio, B		13.3	14.4	10.6	14.2	9.6	9.9	7.6
Cash flow after investments, before financing per share		6.59	0.94 ²⁾	4.17 ²⁾	5.54 ²⁾	5.81	9.38	6.33

Years prior to 2003 are reported according to Swedish GAAP.

¹⁾ According to the Board's proposal for the year 2006. ²⁾ Have been recalculated due to restatement of cash flow, see Note 1.

Analysts who follow SKF	<i>Citigroup Investment Research</i> Tim Adams	<i>Evli Bank</i> Magnus Axén	<i>Handelsbanken Capital Markets</i> Peder Frölén	<i>MainFirst Bank</i> Dirk Nettling	<i>SG Securities</i> Gaël de Bray
<i>ABG Sundal Collier</i> Erik Ejerhed	<i>Danske Bank</i> Henrik Breum	<i>Glitnir</i> Ola Asplund	<i>HSBC</i> Colin Gibson	<i>Merrill Lynch</i> Ben Maslen Mark Troman	<i>S&P Equity Research</i> Lars Glemstedt
<i>CA Cheuvreux</i> Patrik Sjöblom	<i>Deutsche Bank</i> Peter Reilly Johan Wettergren	<i>Goldman Sachs International</i> James Moore	<i>JP Morgan Securities</i> Nick Paton	<i>Morgan Stanley</i> Gustaf Lindskog	<i>Swedbank Markets</i> Mats Liss
<i>Credit Suisse</i> Patrick Marshall	<i>Dresdner Kleinwort</i> Colin Grant	<i>Hagströmer & Qviberg Fondkommission</i> Hans-Olov Öberg	<i>Kaupthing Bank</i> Joakim Höglund	<i>Oppenheim Research</i> Winfried Becker	<i>UBS</i> Michael Hagmann Fredric Ståhl
<i>Carnegie</i> Oscar Stjerngren			<i>Lehman Brothers</i> Brian Hall	<i>SEB Enskilda Equities</i> Anders Eriksson	<i>Öhman Fondkommission</i> Anders Roslund

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 regulatory system of the Stockholm Stock Exchange.

Swedish Code of Corporate Governance

In December 2004, the Swedish Code of Corporate Governance was introduced (the "Code"). The listing requirements of the Stockholm Stock Exchange prescribe that all Swedish companies registered at the Stockholm Stock Exchange, with a market capitalization exceeding SEK 3 billion, should apply the Code.

SKF applies the Code. This Corporate Governance Report has been prepared in accordance with the Code. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2006 was also held in accordance with the Code rules. The auditor of the company has reviewed this Corporate Governance Report including the section containing the Board's report on internal control over the financial reporting.

The Board shall according to the Code annually submit a report on how the part of the internal control dealing with financial reporting is organized and how well it has functioned during the most recent financial year. The report shall according to the Code be reviewed by the company's auditor. In September 2006, the Swedish Corporate Governance Board (the board's role is to keep the Code up to date and to provide norms and standards for what is regarded as good corporate governance practice within Swedish listed companies) issued new instructions for the application of the Code rules regarding internal control which are valid as of the reports on internal control for 2006 and onwards. These instructions stipulate that it

is sufficient to limit the internal control report to a description of the organization of the internal control for financial reporting made on the basis of the Guidance on the Board of Directors' Report on Internal Control over Financial Reporting, issued by the Institute of Authorized Public Accountants in Sweden (Sw. Föreningen Auktoriserade Revisorer) and the Confederation of Swedish Enterprise (Sw. Svenskt Näringsliv). The instructions further stipulate that there is no requirement for the company's auditor to review the report and that the report is to be submitted in a separate section of the Corporate Governance Report. On the basis of the statement from the Swedish Corporate Governance Board, SKF has limited the internal control report for 2006 to a description of the organization of the internal control for the financial reporting and submitted it as a separate section of the Corporate Governance Report, see page 24.

Nomination Committee

At the General Meeting of AB SKF held in the spring 2006 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 in September 2006 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 2007.

In a press release dated 16 October 2006 it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed: Claes Dahlbäck, Knut and Alice Wallenberg Foundation Marianne Nilsson, Robur Funds Bengt-Åke Fagerman, Skandia Liv Tomas Nicolin, Alecta

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2007:

- proposal for Chairman of the Annual General Meeting

- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee for the Board of Directors
- proposal for fee for the auditors
- proposal for a Nomination Committee facing the Annual General Meeting of 2008

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2007.

General about how the company is managed

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 adopts annually 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, handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board of Directors. 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 Board of Directors

The composition 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.

Information on the remuneration of the Board members decided upon by the Annual General Meeting can be found in the Consolidated Financial Statements, Note 29.

Eight Board members, including the Chairman, were elected at SKF's Annual General Meeting held in the spring of 2006. 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.

of Commerce, MIT Program for Senior Executives, retired Group President of Caterpillar Inc
Engagements: Board member PartnerRe Ltd, Northern Trust Global Services Ltd. and Scania AB
Shareholding (own and/or held by related parties): 2,400 SKF B

Technology, Stockholm), retired President and CEO Sandvik AB
Engagements: Chairman of Sandvik AB
Shareholding (own and/or held by related parties): 10,100 SKF B

Members of the Board of Directors



Anders Scharp

Chairman, Board member since 1992
Born 1934
Education and job experience: Master of Engineering (the Royal Institute of Technology, Stockholm), President AB Electrolux 1981, President and CEO AB Electrolux 1986
Engagements: Chairman of superior board of Alecta, Chairman of AB Ph. Nederman & Co, Deputy Chairman of Investor AB
Shareholding (own and/or held by related parties): 100,000 SKF B



Vito H Baumgartner

Board member since 1998
Born 1940
Education and job experience: Swiss School



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, Investor AB 1996-2001, President, W Capital Management AB 2001-2005
Engagements: Board member Atlas Copco AB, Boliden AB, Karo Bio AB, Posten AB, Alfa Laval AB and Rezidor Hotel Group
Shareholding (own and/or held by related parties): 34,000 SKF B



Clas Åke Hedström

Board member since 2000
Born 1939
Education and job experience: Master of Engineering (the Royal Institute of



Tom Johnstone

Board member since 2003
Born 1955
President and Chief Executive Officer of AB SKF. For more details, see page 22, President and Chief Executive Officer.



Winnie Fok

Board member since 2004
Born 1956
Education and job experience: Bachelor of Commerce, University of New South Wales, Australia, Chief Executive EQT Partners Asia Limited, Hong Kong
Engagements: Board member Global Beauty International Limited
Shareholding (own and/or held by related parties): 4,600 SKF A



Leif Östling

Board member since 2005

Born 1945

Education and job experience: Master of Engineering (Chalmers University of Technology, Göteborg), Bachelor of Economics (School of Business, Economics and Law, Göteborg University), President and CEO Scania AB since 1994

Engagements: Chairman of ISS A/S, Board member Scania AB, the Confederation of Swedish Enterprise and the Association of Swedish Engineering Industries

Shareholding (own and/or held by related parties): 20,000 SKF B



Eckhard Cordes

Board member since 2006

Born 1950

Education and job experience: Studies of Business Administration (Hamburg University), several management posts within the Daimler-Benz Group and the DaimlerChrysler Group between 1981 and 2005, CEO Franz Haniel & Cie, GmbH, Duisburg since 2006

Engagements: Chairman of the Supervisory Boards of Metro AG, chairman of Celesio AG and chairman of the Advisory Board of Fiege Holding Stiftung & Co. KG, member of the Supervisory Boards of Rheinmetall AG and Takkt AG, member of the Board of Directors

of Air Berlin PLC, member of the European Advisory Council of Rothschild and member of the Stuttgart Advisory Board of Deutsche Bank AG

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

Employee representatives



Göran Johansson

Board member since 1975

Born 1945

Education and job experience: Chairman of Municipal Executive Board of Göteborg

Engagements: Chairman Liseberg AB

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



Kennet Carlsson

Deputy Board member since 2001

Born 1962

Education and job experience: Employed by SKF Sverige AB since 1978

Engagements: Chairman Metalworkers' Union, SKF, Göteborg, and SKF Workers World Council, Göteborg

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



Lennart Larsson

Board member since 2004

Born 1948

Education and job experience: Employed by SKF Sverige AB since 1965

Engagements: Chairman SIF (the Swedish Union of Clerical and Technical Employees in Industry), SKF, Göteborg

Shareholding (own and/or held by related parties): 8 SKF B



Jeanette Stenborg

Deputy Board member since 2005

Born 1967

Education and job experience: Employed by SKF Sverige AB since 1987

Engagements: Board member SIF (the Swedish Union of Clerical and Technical Employees in Industry), SKF, Göteborg

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

Lennart Johansson

Honorary Chairman of the Board of Directors of AB SKF

Auditor

Thomas Thiel

Authorized Public Accountant
KPMG Bohlins AB

Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Stockholm Stock Exchange and of the Code.

The table below shows the Board members who are independent 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 General Meeting	Independence in relation to the company/senior management	Independence in relation to major shareholders of the company
Anders Scharp		
Vito H Baumgartner	X	X
Ulla Litzén	X	X
Clas Åke Hedström	X	X
Tom Johnstone		X
Winnie Fok	X	X
Leif Östling	X	X
Eckhard Cordes	X	X

Activities of the Board of Directors

The Board held seven meetings in 2006. The Board members were present at the Board meetings as follows:

Name of Board member	Presence/total number of meetings
Anders Scharp	7/7
Sören Gyll (resigned 25 April 2006)	1/1
Vito H Baumgartner	7/7
Ulla Litzén	7/7
Clas Åke Hedström	5/7
Tom Johnstone	7/7
Winnie Fok	7/7
Leif Östling	6/7
Eckhard Cordes (elected 25 April 2006)	5/7
Göran Johansson	5/7
Lennart Larsson	7/7
Kennet Carlsson	5/7
Jeanette Stenborg	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;
- the order in which the deputy Presidents shall act in the President's absence.

Issues dealt with by the Board in 2006 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.

Work in committees

Remuneration Committee

The Board of SKF has established a Remuneration Committee consisting of the Chairman of the Board, Anders Scharp, and the Board members, Vito H Baumgartner and Leif Östling. The Remuneration Committee prepares matters related to the principles for remuneration of Group Management members and employment conditions for the President.

The principles for the remuneration of Group Management members 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 held three meetings in 2006. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Anders Scharp	3/3
Sören Gyll (resigned 25 April 2006)	1/3
Vito H Baumgartner	3/3
Leif Östling (elected 25 April 2006)	2/3

Audit Committee

The Board of SKF has appointed an Audit Committee. The Audit Committee consists of Clas Åke Hedström as Chairman, and the Board members Anders Scharp, Ulla Litzén and Winnie Fok. 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 of the financial information and review of the internal financial controls.

The Audit Committee held five meetings in 2006. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Anders Scharp	5/5
Ulla Litzén	5/5
Clas Åke Hedström	4/5
Winnie Fok	5/5

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

President and Chief Executive Officer

Tom Johnstone

Board member of AB SKF's Board since 2003
Born 1955

Education and job experience: Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA, several management posts within the SKF Group, the latest as Executive Vice President AB SKF and President, Automotive Division Engagements: Board member Husqvarna AB and the Association of Swedish Engineering Industries

Shareholdings (own and/or held by related parties) in the company: 41,196 SKF B and stock options allowing him to acquire 84,841 SKF B

Material shareholdings or other holdings in companies with which the company has important business relationships: 1,450 ABB B, 700 Volvo B, 1,200 Electrolux B and 1,200 Husqvarna B

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 the Annual General Meeting in the spring of 2005, KPMG was elected as auditor for AB SKF until the Annual General Meeting in 2009. KPMG was present at the Annual General Meeting in 2005. Thomas Thiel is the auditor in charge. Thomas Thiel is also the auditor in charge at a number of other listed companies, such as Ericsson, Holmen and Swedish Match.

SKF is registered with the US Securities & Exchange Commission (SEC) and complies with the independence requirements regarding auditors issued by the SEC. 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 three years only to a limited extent been involved in matters besides the auditing for 2005 and 2006. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2006 amount to SEK 4.4 million and they amounted to SEK 1.6 million in 2005. The total fees for KPMG's services in 2004 amounted to SEK 1.3 million.

Principles for remuneration of Group Management

In April 2006, the Annual General Meeting adopted principles for remuneration of Group Management. Group Management is defined as the Chief Executive Officer 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 SKF can attract and retain the best people in order to support the SKF mission and business strategy. The remuneration of Group Management members shall be based on conditions that are market competitive and at the same time support the shareholders' best interest.

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

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. It is based on competence, responsibility and performance. SKF 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 the Group Management members is continuously monitored and used as a base for the annual review of the fixed salary.

Variable salary

The variable salary for a Group Management member is according to a performance-based programme. The purpose of the pro-

gramme is to motivate and compensate value creating achievements in order to support operational and financial targets.

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

The maximum variable salary, including both the short-term and the long-term part 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 for Group Management members between 60 and 90%.

Other benefits

SKF 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

SKF strives for establishing pension plans based on defined contribution models, which means that SKF pays a premium amounting to a certain percentage of the employee's annual salary. SKF's commitment is in these cases 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 base pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. SKF ensures by offering this supplementary defined contribution plan that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the base pension. The normal retirement age for Group Management members is 62 years.

Notice of termination and severance pay

A Group Management member may terminate his/her employment by giving six

months' notice. In the event of termination of employment at the request of SKF, the employment shall cease immediately. The Group Management member shall, however, receive a severance payment related to the years of service, provided that it shall always be maximized to two years' salary.

Preparation of matters relating to remuneration of Group Management

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

The principles for remuneration of Group Management are presented to the Board of Directors that submits a proposal for such principles to the General Meeting for approval. The Board of Directors shall approve the employment conditions for the Chief Executive Officer.

Stock related incentive programmes

Between 2001 and 2003, SKF made allocations of stock options within the framework of a Stock Option Programme that was initiated by SKF in 2000. No allocation of stock options has been made since 2003. For more information on the outstanding stock options, see Note 29.

One part of the allotment to the Board, for the time until the next Annual General Meeting has been held, is variable and corresponds to the value of the SKF B share at a certain time. For more information regarding this, see Note 29.

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.

SKF is registered with the U.S. Securities & Exchange Commission (SEC) and is therefore obliged to comply with relevant parts of the Sarbanes-Oxley Act (SOX). The financial reporting is, for example, secured through SKF's documented reporting routines in line with the provisions of SOX (Disclosure

Controls and Procedures). The aforementioned routines are in place to make sure that the information that will be published is recorded, processed, summarized and reported in due time. The Disclosure Controls and Procedures are reviewed annually by the Audit Committee and the Audit Committee reports the outcome of the review to the Board. SOX also contains a requirement that all SEC-registered companies shall make an annual review of the company's internal financial controls. For a more detailed description of SKF's work to meet the last mentioned requirements, see below the Board's report on internal control over financial reporting for the financial year 2006.

The Board of Directors had one meeting with the auditor in 2006 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with three Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

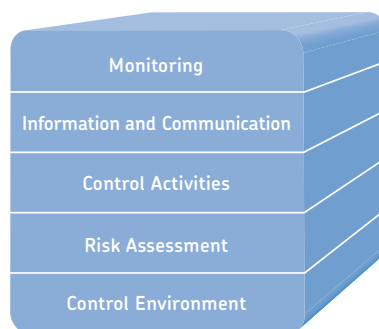
The Board's report on internal control over financial reporting for the financial year 2006

According to the Swedish Companies Act and the Swedish Code of Corporate Governance (the "Code"), the Board of Directors is responsible for the internal control. This report on the internal control over financial reporting has been prepared in accordance with part 3.7.2 of the Code and the instructions for the application of the Code rules regarding internal control issued by the Swedish Corporate Governance Board in September 2006.

Organization of the internal control over financial reporting

SKF is registered with the Securities & Exchange Commission (SEC) in the USA and is thereby required to adhere, in relevant parts, to the Sarbanes-Oxley Act of 2002 (SOX). Section 404 of the SOX requires an SEC registrant to include in its annual report a report of management and an accompanying auditor's report on the internal control over financial reporting. SOX also requires management to evaluate the effectiveness of

the internal control over financial reporting at the end of each financial year. SKF's management intends to make its first SOX 404 report in the filing for the financial year ending on 31 December 2006. In order to fulfil the requirements of SOX 404, an SEC registrant must, for example, implement a recognized internal control framework. SKF applies the Internal Control - Integrated Framework launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In the area of IT security, SKF applies a subset of the CobiT standard. 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 main subsidiary companies, covering more than 70% of the Group's net sales and total assets. For smaller subsidiary companies, corresponding to an additional 20% of net sales and total assets, SKF has mapped and evaluated the adherence to the COSO components. The documentation standards require an extensive risk assessment at Group and subsidiary company level of risks 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 on-line real-time follow-up and monitoring of SKF's financial internal control system.

The COSO internal control framework was implemented in 2005. This work consisted primarily of adapting the process and control descriptions to a common framework, as required by COSO and SOX, and putting in place a comprehensive system for management testing of the controls. In 2006, all controls assessed as being critical to ensure the effective control over financial reporting were tested. The 2006 test programme involved the design and operational testing of more than 5,000 controls covering all the COSO components.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by performing 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.

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Consolidated income statements

<i>Millions of Swedish kronor except earnings per share</i>	<i>Note</i>	Years ended 31 December		
		2006	2005	2004
Net sales	2	53,101	49,285	44,826
Cost of goods sold	5, 6	-39,493	-36,931	-33,766
Gross profit		13,608	12,354	11,060
Selling expenses	6	-7,104	-6,874	-6,367
Administrative expenses	6	-513	-410	-328
Other operating income		316	388	305
Other operating expense		-338	-303	-233
Profit/loss from jointly controlled and associated companies	11	738	172	-3
Operating profit		6,707	5,327	4,434
Financial income	7	69	701	142
Financial expense	7	-389	-775	-489
Profit before taxes		6,387	5,253	4,087
Taxes	8	-1,955	-1,646	-1,111
Net profit		4,432	3,607	2,976
Net profit attributable to:				
Shareholders of AB SKF		4,317	3,521	2,926
Minority interests		115	86	50
Basic earnings per share (SEK)	20	9.48	7.73	6.42
Diluted earnings per share (SEK)	20	9.45	7.70	6.42

Values by quarter

<i>Millions of Swedish kronor except earnings per share</i>	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2006
Net sales	13,289	13,373	12,544	13,895	53,101
Operating profit	1,609	1,702	1,538	1,858	6,707
Profit before taxes	1,599	1,520	1,422	1,846	6,387
Basic earnings per share (SEK)	2.45	2.30	2.06	2.67	9.48
Diluted earnings per share (SEK)	2.44	2.30	2.05	2.66	9.45

Amounts in millions of Swedish kronor.

Amounts in parentheses refer to comparable figures for 2005 and 2004, respectively.

Net sales

Net sales amounted to 53,101 (49,285 and 44,826). The 7.7% increase in net sales compared to 2005 was attributable to structure by 0.1%, to exchange rate effects by 0.2%, to price and mix¹⁾ by 2.1%, and to volume by 5.3%. Net sales, recorded in local currencies, were 7.5% higher in 2006 compared to 2005. Qualifying hedging instruments affected net sales by 135.

Operating profit

The operating profit in 2006 amounted to 6,707 (5,327 and 4,434) resulting in an operating margin of 12.6% (10.8 and 9.9). This included income from the jointly controlled entity, Oy Ovako Ab, of 725, representing both results from operations as well as the gain on the sale of Oy Ovako Ab's operating subsidiaries. During December, a number of restructuring and cost improvement activities were announced and initiated whereby a cost of approximately 400 was charged to the income statement. This included 264 related to impairments and write-offs and the remainder to restructuring charges. Out of the 400, 100 was recorded as selling expenses and the remainder as cost of goods sold.

Compared to 2005, exchange rates for the full year 2006, including translation effects and flows from transactions, had a positive effect on operating profit of approximately 250.

2005 included 190 related to a restructuring plan to close two factories in the USA, as well as 200 for other restructurings and impairments, primarily due to rationalisations in France.

2004 included a net effect of approximately -100 for implementing the restructuring programme announced 2003. As part of business activities in 2004, 80 was expensed due to impairment of fixed assets and due to measures to reduce future costs.

Cost of goods sold, selling and administrative expenses 2006 amounted to 47,110. The costs were divided into 33% salaries, wages and social charges, 4% depreciation, amortisation and impairment and 63% mainly purchased goods and services.

Other operating income and other operating expense 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, gains and losses on sales of companies and operations as well as rental revenues. The exchange gains and losses on trade receivables and trade payables in 2006 amounted to -58 (24 and 25).

In 2005, other operating income included a gain of 52 from the sale of Flex Link AB and a minor gain from the sale of Ovako La Foulurie S.A.

In 2004, other operating income included a gain on sale of the associated company Momentum Industrial Maintenance Supply AB.

Profit before taxes

Profit before taxes 2006 amounted to 6,387 (5,253 and 4,087).

In 2006 the financial income and expense, net, amounted to -320 (-74 and -347) and was negatively affected by increased borrowings and positively affected by unrealised and realised gains from share swap agreements. Interest cost on post-employment benefits have affected the financial net negatively by 210. The financial exchange gains and losses, net amounted to -70. A negative effect of -253 (50) from qualifying hedging activities was included in financial income and expense.

Net profit

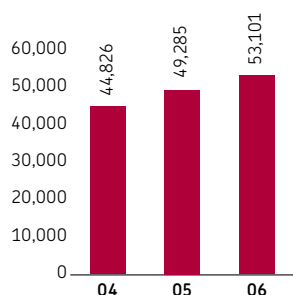
Net profit in 2006 amounted to 4,432 (3,607 and 2,976). The actual tax rate in 2006 was 31% (31 and 27).

Diluted earnings per share

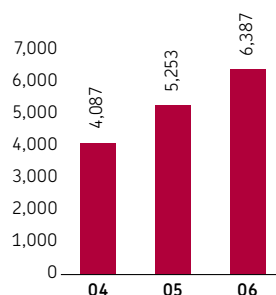
Diluted earnings per share are calculated in Note 20.

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

Net sales



Profit before taxes



Consolidated balance sheets

Millions of Swedish kronor	Note	As of 31 December		
		2006	2005	2004
ASSETS				
Non-current assets				
Intangible assets	9	2,586	1,583	1,079
Property, plant and equipment	10	11,388	11,119	11,012
Investment in jointly controlled and associated companies	11	54	1,174	26
Investments in equity securities	12	291	270	281
Deferred tax assets	8	948	862	718
Financial and other assets	13	1,084	819	496
		16,351	15,827	13,612
Current assets				
Inventories	14	9,939	9,931	8,985
Assets classified as held for sale	18	335	–	–
Trade receivables	15	8,845	7,948	7,406
Tax receivables		108	71	119
Other assets	16	1,682	1,686	1,327
Investment in jointly controlled company	11	48	–	–
Financial investments	17	1,688	2,507	489
Cash and cash equivalents	17	7,242	2,379	3,076
		29,887	24,522	21,402
Total assets		46,238	40,349	35,014
EQUITY AND LIABILITIES				
Equity attributable to shareholders of AB SKF				
Share capital	19	1,138	1,138	1,423
Share premium		564	564	564
Share options reserve	29	–	–	27
Investment revaluation reserve	12	35	12	–
Hedging reserve	32	39	–4	–
Translation reserve		–955	248	–1,295
Retained earnings		18,152	15,671	16,022
Equity attributable to minority interests		634	604	504
		19,607	18,233	17,245
Non-current liabilities				
Loans	23	7,006	4,145	904
Provisions for post-employment benefits	21	4,731	4,916	4,655
Deferred tax provisions	8	1,243	1,092	1,091
Other provisions	22	1,464	1,418	1,266
Other liabilities		142	100	56
		14,586	11,671	7,972
Current liabilities				
Loans	25	1,047	151	212
Trade payables		4,529	3,821	3,898
Tax payables		620	459	487
Other provisions	22	455	792	661
Other liabilities	26	5,335	5,222	4,539
Liabilities related to assets classified as held for sale	18	59	–	–
		12,045	10,445	9,797
Total equity and liabilities		46,238	40,349	35,014

Amounts in millions of Swedish kronor.

Amounts in parentheses refer to comparable figures for 2005 and 2004, respectively.

Assets and liabilities

Inventories at 31 December amounted to 9,939 (9,931 and 8,985).

The production volume for 2006 was 8% above the volume for 2005. Inventories as a percentage of annual sales totalled 18.7% (20.1 and 20.0). The target for the Group is to reach 18% in 2007.

Trade receivables at 31 December amounted to 8,845 (7,948 and 7,406). The average days of outstanding trade receivables in 2006 was 60 days. The Group aims to reach 57 days. Trade receivables as a percentage of annual net sales totalled 16.7% (16.1 and 16.5).

During 2006 the net book value of property, plant and equipment in Swedish kronor decreased by 660 due to translation effects caused by a stronger Swedish krona. The value of total assets decreased in 2006 by approximately 8% compared with 2005 due to a stronger Swedish krona.

The Group's equity/assets 2006 were 42.4% (45.2 and 49.3), which is above the average target of 35%. Gearing in 2006 was 39.1%

(33.2 and 24.9). From 2007 the target for gearing will be to operate around 50%. This will give the Group the flexibility to manage its capital structure in line with opportunities to strengthen its business, while maintaining a strong credit rating.

Shareholders' equity decreased by 1,203 (1,543 and -414) due to translation effects caused by a stronger Swedish krona.

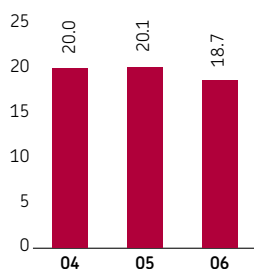
In 2006, 1,821 (1,366 and 1,138) was distributed to the shareholders of AB SKF from shareholders' equity. For further details, see Consolidated statements of changes in shareholders' equity.

Financing

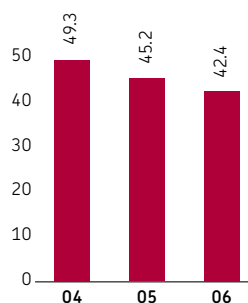
At year-end, total interest-bearing loans amounted to 8,053 (4,296 and 1,116). In 2006 the Group issued a MEUR 500 seven-year note in the European bond market.

Post-employment benefits, net amounted to 4,540 (4,779 and 4,607). At the same time, financial assets totalled 10,014 (5,705 and 4,061) of which 8,930 (4,886 and 3,565) consisted of current financial assets. Changes in net interest-bearing liabilities 2006 are disclosed in the Group's consolidated statement of cash flow.

Inventories, %
of annual net sales



Equity/Assets ratio, %



Consolidated statements of cash flow

		Years ended 31 December		
		2006	2005	2004
Millions of Swedish kronor	Note		as restated ⁽¹⁾	as restated ⁽¹⁾
Operating activities				
Profit before taxes		6,387	5,253	4,087
<i>Adjustments for</i>				
Depreciation, amortisation and impairment	6	1,834	1,752	1,733
Net gain (-) on sales of property, plant and equipment		-13	-29	-17
Net gain (-) on sales of equity securities		-2	-52	-
Net gain (-) on sales of equity securities associated companies		-	-63	-
Net gain (-) on sales of businesses		-	-10	-21
Other non cash items		-434	26	159
Income taxes paid		-1,947	-1,618	-858
Contributions to and payments under post-employment defined benefit plans		-413	-417	-3,636
Jointly controlled and associated companies		186	57	-2
<i>Changes in working capital</i>				
Inventories		-250	-671	-648
Trade receivables		-831	-142	-907
Trade payables		442	-156	755
Other operating assets and liabilities, net		68	443	441
Net cash flow from operating activities		5,027	4,373	1,086
Investing activities				
Purchase of intangible assets	9	-78	-171	-111
Sales of intangible assets		-	-	1
Purchase of property, plant and equipment	10	-1,933	-1,623	-1,401
Sales of property, plant and equipment		52	93	59
Acquisitions of businesses, net of cash and cash equivalents	3	-2,129	-419	-644
Sales of businesses, net of cash and cash equivalents	4	-	57	93
Pre-liquidation proceeds from Oy Ovako Ab	11	1,217	-	-
Investments in financial and other assets and equity securities		-2,173	-5,430	-2,479
Sales of financial and other assets and equity securities		3,020	3,549	5,296
Net cash flow used in investing activities		-2,024	-3,944	814
Net cash flow after investments before financing		3,003	429	1,900
Financing activities				
Proceeds from medium- and non-current loans		4,676	3,249	123
Repayment of medium- and non-current loans		-740	-321	-624
Change in current loans		-55	7	-31
Payment of finance lease liabilities		-5	-3	-13
Cash dividends to AB SKF shareholders		-1,821	-1,366	-1,138
Cash dividends to minority shareholders		-47	-33	-39
Redemption of shares		-	-2,846	-
Net cash flow used in financing activities		2,008	-1,313	-1,722
Increase(+)/decrease(-) in cash and cash equivalents		5,011	-884	178
Cash and cash equivalents at 1 January		2,379	3,076	2,976
Cash effect excluding acquired companies		4,514	-911	115
Cash effect of businesses acquired	3	497	27	63
Cash effect of exchange transactions	11	-	-32	-
Translation effect on cash held		-148	219	-78
Cash and cash equivalents at 31 December		7,242	2,379	3,076

¹⁾ See Note 1 Accounting policies.

Amounts in millions of Swedish kronor.

Amounts in parentheses refer to comparable figures for 2005 and 2004, respectively.

Cash flow from operating activities

The consolidated statements of cash flow have been adjusted for changes in exchange rates as translation effects arising from changes in foreign currency exchange rates, do not represent cash flow.

Gross cash flow, defined as operating profit plus depreciation, amortisation and impairment, amounted to 8,541 (7,079 and 6,167). The gross cash flow was 16.1% (14.4 and 13.8) of annual net sales.

A continued good operating profit, which in 2006 amounted to 6,707 (5,327 and 4,434), contributed to the strong cash flow.

Cash flow from investing activities

The Group's capital expenditures for property, plant and equipment amounted to 1,933 (1,623 and 1,401). Of the Group's total purchase

of property, plant and equipment, approximately 105 (89 and 72) was invested in measures to improve the environment, both internally and externally.

In 2006, the Group's cash outflow from acquisitions was 2,129 (419 and 644), see Note 3.

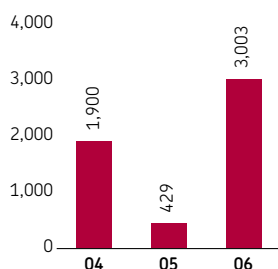
Cash flow from financing activities

Interest-bearing loans totalled 8,053 at year-end (4,296 and 1,116). In December 2006, SKF issued a MEUR 500 seven-year bond in order to finance repayment of old loans, future acquisitions, investments and the share redemption programme. Post-employment benefits, net, amounted to 4,540 (4,779 and 4,607). Interest payments amounted to 328 (222 and 196) and interest received to 363 (201 and 234).

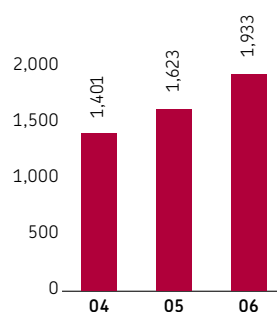
The change in cash and cash equivalents was 4,863 (-697 and 100). In 2006, changes in exchange rates affected cash and cash equivalents by -148 (219 and -78) owing mainly to USD and EUR. Other financial assets totalled 2,425 at year-end (2,999 and 937).

<i>Change in net interest-bearing liabilities</i>	Opening balance 2006	Cash flow change in loans/assets	Businesses acquired	Other non cash changes	Translation effect	Closing balance 2006
Loans, non-current and current	4,296	3,881	262	-130	-256	8,053
Post-employment benefits, net	4,779	-413	75	433	-334	4,540
Financial assets, other	-2,999	845	-4	-330	63	-2,425
Cash and cash equivalents	-2,379	-4,514	-497	–	148	-7,242
Net interest-bearing liabilities	3,697	-201	-164	-27	-379	2,926

Net cash flow after
investment, before financing



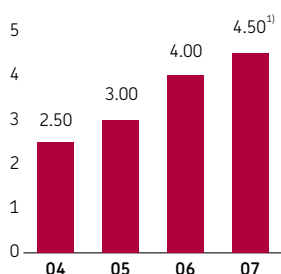
Purchase of property,
plant and equipment



Consolidated statements of changes in shareholders' equity

Millions of Swedish kronor	Share capital	Share premium	Share options reserve	Investment revaluation reserve	Hedging reserve	Translation reserve	Retained earnings	Minority interest	Total
Opening balance 1/1/2004	1,423	564	13	–	–	-881	14,234	499	15,852
Exchange differences arising on the translation of foreign operations	–	–	–	–	–	-414	–	-39	-453
Income and expense recognised directly in equity	–	–	–	–	–	-414	–	-39	-453
Profit for the year	–	–	–	–	–	–	2,926	50	2,976
Total recognised income and expense	–	–	–	–	–	-414	2,926	11	2,523
Recognition of share-based payments	–	–	14	–	–	–	–	–	14
Other transactions with minority owners	–	–	–	–	–	–	–	33	33
Dividends	–	–	–	–	–	–	-1,138	-39	-1,177
Closing balance 31/12/2004	1,423	564	27	–	–	-1,295	16,022	504	17,245
Effect of adopting IAS 39	–	–	–	31	84	–	85	–	200
Opening balance 1/1/2005	1,423	564	27	31	84	-1,295	16,107	504	17,445
Exchange differences arising on the translation of foreign operations	–	–	–	–	–	1,543	-19	101	1,625
Change in fair value of investments in equity securities and cash flow hedges	–	–	–	-8	-167	–	–	–	-175
Income and expense recognised directly in equity	–	–	–	-8	-167	1,543	-19	101	1,450
Release on disposal of investments in equity securities and cash flow hedges	–	–	–	-11	79	–	–	–	68
Profit for the year	–	–	–	–	–	–	3,521	86	3,607
Total recognised income and expense	–	–	–	-19	-88	1,543	3,502	187	5,125
Recognition of share-based payments	–	–	1	–	–	–	–	–	1
Exercise of share options	–	–	-28	–	–	–	-11	–	-39
Other transactions with minority owners	–	–	–	–	–	–	–	-54	-54
Redemption of shares	-285	–	–	–	–	–	-2,561	–	-2,846
Dividends	–	–	–	–	–	–	-1,366	-33	-1,399
Closing balance 31/12/2005	1,138	564	–	12	-4	248	15,671	604	18,233
Exchange differences arising on the translation of foreign operations	–	–	–	–	–	-1,203	9	-68	-1,262
Change in fair value of investments in equity securities and cash flow hedges	–	–	–	23	112	–	–	–	135
Income and expense recognised directly in equity	–	–	–	23	112	-1,203	9	-68	-1,127
Release of cash flow hedges	–	–	–	–	-69	–	–	–	-69
Profit for the year	–	–	–	–	–	–	4,317	115	4,432
Total recognised income and expense	–	–	–	23	43	-1,203	4,326	47	3,236
Exercise of share options	–	–	–	–	–	–	-24	–	-24
Other transactions with minority owners	–	–	–	–	–	–	–	30	30
Dividends	–	–	–	–	–	–	-1,821	-47	-1,868
Closing balance 31/12/2006	1,138	564	–	35	39	-955	18,152	634	19,607

Paid dividend per A and B share, SEK



¹⁾ Dividend according to the Board of Directors' proposed distribution of surplus for the year 2006.

Share options reserve

This reserve arises on the grant of share options to employees under the employee share option plan 2003. Further information about share-based payments to employees is set out in Note 1.

Investment revaluation reserve

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss.

Hedging reserve

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Translation reserve

Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated to 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.

Notes to the consolidated financial statements

Amounts in millions of Swedish kronor unless otherwise stated. Amounts in parentheses refer to comparable figures for 2005 and 2004, respectively.

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), which includes interpretations from the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the Group is in compliance with requirements from the Swedish Financial Accounting Standards Council RR30:05, "Additional Accounting Rules for Group Accounts" as well as relevant interpretations (URA) issued by the Council's Emerging Issues Task Force. The consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below. Certain prior period amounts have been reclassified to conform to the current period presentation.

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 shareholders' equity includes the Parent Company's equity and the part of the equity in subsidiaries, which has arisen after the subsidiary's acquisition.

Minority interest is shown as a separate category within equity, with the minority share of net profit being specified after the net profit.

Intercompany accounts, transactions and unrealised 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, 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 independently appraised, or internally appraised using applicable consumer price indexes and useful lives. Financial assets and liabilities (including post-employment benefits), as well as inventories, are valued using references to available market information. The fair values of significant intangible assets are derived either with the assistance of independent valuation experts, or developed internally using appropriate valuation techniques generally based on forecasted future cash flows.

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognised as goodwill. Any deficiency of the cost of acquisition below such fair values is credited to profit and loss in the period of acquisition.

Goodwill is not amortised but is reviewed at least annually for impairment. Any impairment loss is recognised in profit and loss and is not subsequently reversed.

Investments in jointly controlled and associated companies

Companies, in which the Group has a significant influence, are referred to as associated companies. Significant influence is usually achieved when the Group owns 20 to 50% of the voting rights. Investments in associated companies are reported in accordance with the equity method.

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

Under the equity method, the carrying value of the investment is equal to the Group's share of shareholders' equity in these companies, determined in accordance with the accounting policies of the Group as well as any goodwill arising upon acquisition. 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 other assets and liabilities are recovered or settled later. 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's primary segments are based on customer segments representing groups of related industrial and automotive products, and which agree to the Group's operational structure. The secondary segment information is based on geographical location of the customer to whom the sale is made, as well as the geographical location of subsidiaries' assets and capital expenditures. Sales between operating units are based on market conditions. Segment results represent the contribution of the segments to the profit of the Group, and include some allocated corporate expenses. Unallocated items consist mainly of remaining corporate expenses, including some research and development activities, net costs relating to prior organisation or disposed operations, profit from certain associated companies.

Segment assets include all operating assets used by a segment and consist principally of property, plant and equipment, external trade receivables, inventories, other receivables, prepayments and accrued income. Segment liabilities include all operating liabilities used by a segment and consist principally of external trade payables, other provisions, accrued expenses and deferred income.

Unallocated assets and liabilities include all tax items and items of a financial, interest-bearing nature, including post-employment benefit assets and provisions. Additionally, unallocated items include items related to central corporate activities, including research and develop-

1 Accounting policies (cont.)

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 rate			Year-end rate		
			2006	2005	2004	2006	2005	2004
China	1	CNY	0.93	0.91	0.89	0.88	0.99	0.80
EMU-countries	1	EUR	9.27	9.28	9.12	9.05	9.43	9.00
India	100	INR	16.22	16.90	16.21	15.53	17.65	15.11
Japan	100	JPY	6.36	6.76	6.82	5.78	6.78	6.36
United Kingdom	1	GBP	13.58	13.54	13.40	13.48	13.74	12.70
USA	1	USD	7.37	7.45	7.35	6.88	7.95	6.60

ment, as well as items related to previously mentioned unallocated result items included in results of operations.

Inter-segment receivables and payables arising from the sales between Group companies, are not considered segment assets and liabilities 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

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 have been translated to SEK based on the year-end exchange rates. Income statement items are translated at average exchange rates. The resulting translation adjustments that have arisen since 1 January 2003, the date of transition to IFRS, are presented as a separate component of shareholders' equity. Such translation differences are recognized in profit and loss 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.

Trade receivables and trade payables and other receivables and payables denominated in foreign currency have been translated at the exchange rates prevailing at the balance sheet date. Such exchange gains and losses are included in other operating income and other operating expense. Other foreign currency items have been included in financial income and financial expense.

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 products 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 recognised 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 are assessed based on the payment terms associated with the transaction. Collectibility is assessed based primarily on the creditworthiness of the customer as determined by credit limit control and approval procedures, as well as the customer's payment history. Approval procedures include approval of new customers by management.

Revenues from service and/or maintenance contracts where the service is delivered to the customer at a fixed price is accounted for on a straight-line basis over the duration of the contract or under the percentage-of completion method based on the ratio of actual costs incurred to total estimated costs expected to be incurred. Any anticipated losses on contracts are recognised 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 for continuing use or sales of goods or services or for administrative purposes are stated in the balance sheet at cost or deemed cost, less accumulated depreciation and impairment losses. Deemed cost is the carrying amount of property, plant and equipment at the transition to IFRS, which included revaluations made under previous Swedish GAAP. The Group does not capitalise borrowing costs as part of the cost of constructing property, plant and equipment, rather these are expensed as incurred.

SKF applies a component approach to depreciation. 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 historical 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 based to a large extent on historical experience of usage and technological development. The useful lives are:

- 33 years for buildings and installations;
- 10-20 years for machinery and supply systems;
- 10 years for control systems within machinery and supply systems;
- 4-5 years for tools, office equipment and vehicles.

Depreciation is included in cost of goods sold, selling or administrative expenses depending on where the assets have been used.

Assets classified as held for sale

Assets and disposal groups are classified as held for sale, when they are available for immediate sale in their present condition and management is committed to the sale. The sale must be highly probable such that it is expected to be completed within one year. Management considers a signed letter of intent as strong evidence that these criteria are met.

Assets and disposal groups classified as held for sale are valued at the lower of carrying amount and fair value less cost to sell. Property, plant and equipment classified as held for sale are not depreciated as they will be recovered principally through a sales transaction rather than through continuing use.

Intangible assets other than goodwill

Intangible assets other than goodwill are stated at initial cost less accumulated amortisation and impairment losses. Amortisation is made on a straight-line basis over their 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 ranging from 6 to 11 years;
- Capitalised software normally 4 years;
- Capitalised customer relationships up to 25 years;
- Capitalised development expenditures up to 25 years;
- Other intangible assets normally from 3 to 5 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 amortisation is made. Amortisation is included in cost of goods sold, selling or administrative expenses depending on where the assets have been used.

Capitalisation of software

The Group capitalises software for internal use if it is probable that the future economic benefits that are attributable to it will flow to the company and the cost can be reliably measured. In evaluating capitalisation, management considers new functionality and/or increased standard of performance to be significant evidence that future economic benefits will be achieved.

Research and development

Research expenditures as well as development expenditures not meeting the capitalisation criteria described below, are charged to cost of goods sold in the consolidated income statement when incurred.

Expenditures during the development phase are capitalised as intangible assets when, according to management's judgment, it is probable with a high degree of certainty, that they will result in future economic benefits for the Group. Stringent criteria must be met before a development project results in the recording of an intangible asset. Such criteria include the ability to complete the project, proof of technical feasibility and market existence, as well as intention and ability to use or sell the asset and the ability to reliably measure the expenditures during the development phase. Management considers the existence of a customer order as significant evidence of technological and economic feasibility.

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.

Finance leases are depreciated in a manner consistent with the Group's normal 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 recognised 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 realisable value). Raw materials and purchased finished goods are valued at purchase cost. Work in process and manufactured finished goods are valued at production cost. Production cost includes direct production cost such as material and labour, as well as manufacturing overhead as appropriate.

Net realisable value is defined as selling price less costs to complete and costs to sell. As actual selling prices and selling costs are not known, management's best estimate, based on current price and cost levels are used. Net realisable value includes write-downs for both technical and commercial obsolescence made on an individual subsidiary basis. Such obsolescence is assessed by reference to the rate of turnover for each inventory item.

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.

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 programs, anniversary bonuses, long-stay and jubilee payments. All such programs are calculated using the projected credit unit method and appropriate assumptions, as described under post-employment benefits, except that all actuarial gains and losses are recognised immediately.

Hedging as of 1 January 2005

Cash flow hedges

Hedge accounting has been applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted net sales. Forward exchange and currency option contracts were used as hedging instruments.

Changes in the fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for hedging future cash flows were recognised on the balance sheets and directly in equity, for their effective share. In the same period during which the forecasted net sales affects the income statement, the cumulative gain or loss recognised in equity is recycled to the income statement and recognised on the sales line.

When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is removed from equity and recognised in the income statement under financial items when the committed or forecast transaction is recognised in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement under financial items.

1 Accounting policies (cont.)

Fair value hedges

Hedge accounting has been applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. The currency and interest risk exposure has been 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 on the balance sheet and in the income statement under financial items. The carrying amount of the hedged item is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognised in the income statement under financial items.

Economic hedges

Derivatives which provide effective economic hedges but for which hedge accounting as defined by IAS 39 does not apply are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognised in the income statement under financial items.

Hedging under previous Swedish GAAP prior to 2005

Under previous Swedish GAAP, changes in the fair value of derivatives hedging anticipated transactions did not need to be recognised on the balance sheet until the hedged item was recognised. Received and paid premiums for options hedging currency flows were reported as financial income or expense during the contract period.

Financial assets and liabilities in foreign currency hedged by individual companies were, if applicable, valued at the spot rate of the underlying forward exchange contracts and discounts and premiums were reported as financial income or expense over the contract period. When the currency of investments and borrowings denominated in another currency than reporting currency was changed by currency swap contracts, these swap contracts were taken into account when translating the investments and borrowings to Swedish kronor. For interest rate swaps hedging loans, accrued interest was reflected per closing date as financial income or financial expense. Interest rate swaps hedging financial assets classified as current financial assets were valued at market rate and resulting gains and/or losses were reflected as financial income or expense.

Share-based payments

The fair value at grant date of option programme 2003, which vested in February 2005, was initially recognised directly in equity and amortised as an operating expense over the vesting period. The fair value was determined using the Black & Scholes options valuation model. The terms and conditions upon which the options were granted were taken into account when applying the valuation method. The amount recognised as an expense was adjusted to reflect the actual number of share options that vested. The exercise of options under this programme is recognised directly in equity and no additional expense is recognised in earnings.

The option programmes granted in 2001 and 2002, which vested in February 2003 and 2004, respectively, were not required to be valued and recorded in accordance with IFRS 2 on transition to IFRS and therefore the cost at exercise of these two programmes is recorded in earnings in accordance with previously applied Swedish GAAP.

A provision calculated on the estimated fair value of the options on the reporting date is recorded for social charges to be paid by the

employer when the options are exercised. The fair value of the options is calculated as the difference in the exercise price of the options and the market price of the SKF B share.

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 incurred is recognised 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 recognised in profit and loss for the period.

Critical accounting policies involving significant management judgment

The following critical accounting policies involve management judgments that are considered to have the most significant effect on the consolidated financial statements.

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 recognised in the income statement, except to the extent that they relate to items directly taken to equity, in which case they are recognised in equity.

Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax liabilities and assets. The process involves estimating the current tax exposure 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 consolidated financial statements for estimated taxes on earnings of subsidiaries expected to be remitted in the following year, but not for tax liabilities, 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 utilises a balance sheet approach for measuring deferred taxes, which requires deferred tax assets and liabilities to be 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, and 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 that sufficient future taxable income will be available to allow the recognition of such benefits.

Other taxes

Other taxes refer to taxes other than income taxes, which should not be included elsewhere in the income statement.

Financial instruments as of 1 January 2005

Financial assets and financial liabilities are recognised on the Group's balance sheets when the Group becomes a party to the contractual provisions of the instrument. Settlement day recognition is applied for financial assets and liabilities other than derivatives, which are recognised at trade date. Financial instruments are recorded initially at cost, which usually equals fair value at the time of acquisition. Transaction costs are included in the initial measurement of financial assets and liabilities that are not measured at fair value through profit and loss. Subsequent measurement depends on the designation of the instrument, as determined by management, as follows:

Available for sale

Investments in equity securities (other than interests in jointly controlled and associated companies) and certain debt securities are classified as available for sale. Changes in the fair value of these financial instruments are recognised directly in equity, except for impairment losses which are recognised in the income statement. When the investments are derecognised, the cumulative gain or loss recognised in equity is removed from equity and recognised in the income statement. The fair values of quoted equity securities are based on the last price paid for the securities. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques based on observable market prices for comparable securities in order to arrive at a realistic estimate of the fair value.

Loans and receivables

Financial assets classified 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 deposits for which substantially all initial investment is expected to be recovered, comprising principally of funds held with landlords and other service providers, trade receivables, loans granted and funds held with banks. Loans and receivables are measured at amortised cost using the effective interest method. Impairment losses are recognised where there is objective evidence of impairment. For disclosure, fair values have been calculated using valuation techniques based mainly on discounted cash flow analyses.

Financial assets at fair value through profit and loss

Financial assets other than those designated as available for sale or loans and receivables are designated as financial assets at fair value through profit and loss. This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial instruments are designated at fair value through profit and loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorised as held for trading unless designated as hedges. The fair value of assets in this category is based on quoted market prices.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method. Liabilities that are hedged against changes in fair value, however, are recorded at fair value.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flow have expired or been transferred together with substantially all risks and rewards. Financial liabilities are derecognised when they are extinguished.

Financial instruments under previous Swedish GAAP prior to 2005

Under previous Swedish GAAP, debt securities classified as held to maturity were recorded at acquisition value. Debt securities which represented highly liquid assets and which were bought and held principally for selling them in the near term were classified as current financial assets and were recorded at fair value with gains and losses recorded as financial income or financial expense. Fair value was determined on the basis of market prices at the balance sheet date.

Under Swedish GAAP, loans and other financial liabilities were measured at cost and related fees, transaction costs and premiums and discounts were amortised over the period until maturity on a straight-line basis.

Under Swedish GAAP, derivative instruments used for trading purposes were recognised at fair value in the income statement. Derivatives hedging forecasted transactions did not need to be recognised on the balance sheet until the hedged item was recognised. Embedded derivatives were neither required to be recognised nor separately accounted for.

Critical accounting policies involving key sources of estimation uncertainty

The following critical accounting policies involve key assumptions and /or estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of long-lived assets and assets with indefinite lives

Long-lived assets

Intangible assets 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 performed at the cash generating unit (CGU) 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 analysed to further confirm the nature and extent of the indication. When an indication is confirmed, an impairment loss is recognised to the extent that the carrying amount of the affected CGU exceeds its recoverable amount.

Assets with indefinite lives

Goodwill and other intangibles with indefinite lives are tested annually for impairment at the CGU level where an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

1 Accounting policies (cont.)

Calculating the impairment loss

The recoverable amount is the greater of the estimated net selling price and value in use. For those CGUs acquired during the year, the net selling price, being the purchase price, is used as the recoverable amount. Such net selling price has been developed with reference to discounted cash flows and observable market prices and therefore, without evidence to the contrary, it is assumed to be the greater value. For other CGUs the recoverable amount has been determined on the basis of value in use.

In assessing value in use, a discounted future cash flow model (DCF) is used. The DCF model involves a number of significant assumptions and estimates in the forecasting of future operating cash flows, including terminal values, the number of years on which to base the cash flow projections, market growth rates, revenue volumes, production costs, and working capital requirements. Forecasts of future operating cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. Terminal values are based on the Gordon Growth model, which includes a growth factor representing inflation expected in the country in which the assets operate.

Forecasts for operating cash flow are adjusted by an appropriate discount rate derived from our costs of capital plus reasonable risk premiums, including market risk and small company premium, 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.

Predicting these key variables involves uncertainty about future events and market conditions and therefore actual outcomes may be significantly different. However, the assumptions, which have been reviewed by management, are consistent with internal forecasts.

Provisions

In general, a provision is recognised 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. As the estimates may involve uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

When a provision does not meet the criteria for recognition it is 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 include also existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

Restructuring provisions including termination benefits

Restructuring provisions for programs that materially change the manner in which the SKF Group operates are recognised when a detailed formal plan has been established and a public announcement of the plan has occurred, creating a valid expectation that the plan will be carried out. Restructuring provisions often include termination benefits, which can be either voluntary or involuntary. Termination benefits are recognised 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 litigation

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

Warranty provisions involve estimates of the outcome of warranty claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers or to the customers of these customers and potential liability for consequential damage. Assumptions are required for determining both the likelihood of favourable 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 externally 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 unrecognised actuarial gains and losses and past service costs.

Under externally funded defined benefit plans, the assets of the plans are held separately from those of the Group, in independently administered funds. 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 unrecognised actuarial gains or losses and past service cost. However, an asset is recognised 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 recognised, 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 annually for the most significant plans and on a regular basis 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 every year-end. However, the actual costs and obligations that in fact arise under the plans may be materially different from the estimates based on the assumptions due to changing market and economic conditions.

The most sensitive assumptions are related to the discount rate, expected return on assets, future compensation increases and health care cost rates. The selection of the discount rate is based on rates of return on high-quality, fixed-income investments (high quality corporate bonds and, in countries where there is no deep market for such bonds, government bonds) that, if invested at the valuation date, would provide the necessary future cash flows to pay the benefits when due. The expected return on assets is based on the market expectations (at the beginning of each period) for returns over the entire life of the related obligation. In developing the long term rate of return, management considers the historical returns and the future expected return based on current market developments for each asset class as well as the target allocations of the portfolio. The salary growth assumptions reflect the non-current actual experience, the near term outlook and assumed inflation. Health care cost trend rates are developed based on historical cost data, the near term outlook, and an assessment of likely non-current trends.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognised in the income statement, over the remaining service lives of the employees, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of the plan assets at the end of the previous year.

For all defined benefits plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets (only funded plans) and past service cost as well as any amortised actuarial gains and losses. The past service cost for changes in pension benefits is recognised when such benefits vest, or amortised 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 recognised 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.

Restatement of Statements of cash flows

SKF Group has reclassified some items in previously reported statements of cash flow for the years 2005 and 2004. Certain items have been moved from financing to operating activities and to investing activities as described in the tables and notes below. The reclassification has no impact on the Group's income statements, balance sheets or the change in cash and cash equivalents for the years noted.

2005	As previously published	As restated
Contributions to and payments under post-employment defined benefit plans ^(a)	-364	-417
Net cash flow from operating activities	4,426	4,373
Investments in financial and other assets and equity securities ^(b)	-55	-5,430
Sales of financial and other assets and equity securities ^(b)	122	3,549
Net cash flow used in investing activities	-1,996	-3,944
Net cash flow after investments before financing	2,430	429
Change in marketable securities and other liquid assets ^(b)	-1,948	—
Contributions to post-employment benefit plans ^(a)	-53	—
Net cash flow used in financing activities	-3,314	-1,313
Increase (+)/(decrease)(-) in cash and cash equivalents	-884	-884

2004	As previously published	As restated
Contributions to and payments under post-employment defined benefit plans ^(a)	-525	-3,636
Net cash flow from operating activities	4,197	1,086
Investments in financial and other assets and equity securities ^(b)	-101	-2,479
Sales of financial and other assets and equity securities ^(b)	60	5,296
Net cash flow used in investing activities	-2,044	814
Net cash flow after investments before financing	2,153	1,900
Change in marketable securities and other liquid assets ^(b)	2,858	—
Contributions to post-employment benefit plans ^(a)	-3,111	—
Net cash flow used in financing activities	-1,975	-1,722
Increase (+)/(decrease)(-) in cash and cash equivalents	178	178

(a) Cash outflows related to contributions to pension plans are considered as operating activities. Previously, the Group had classified contributions to post-employment defined benefit plans as part of the financing activities as the decision to fund these plans was made in the context of financing the Group's overall obligations.

(b) Cash flows relating to marketable securities and other liquid assets are considered as investing activities. Further, since the original maturities of these investments are greater than three months, it is preferable to present them on a gross basis. Previously, SKF Group had classified these activities as part of financing activities as the investments are part of the overall financing program at SKF Group.

1 Accounting policies (cont.)

Change in accounting principles 1 January 2006

As from 1 January 2006, the SKF Group adopted the following new or amended accounting standards and interpretations, which had no material impact on the Group's financial statements:

- Amendment IAS 19 (December 2004) "Actuarial gains and losses, group plans and disclosures" and consequential amendment to IAS 1 which allows an option to immediately recognise in equity actuarial gains and losses arising from post-employment defined benefit calculations. The Group has chosen not to apply this option and continues to defer such actuarial gains and losses. Further, the amendment requires additional disclosures related to post employment defined benefit plans, which are provided in Note 21;
- Amendment IAS 39 (April 2005) "Cash flow hedges of intra-Group transactions" was adopted and applied only to intra-group sales in USD where the onward external sales is also made in USD. Gains or losses recognised in equity are reclassified to profit or loss when the onward external sales occur in USD;
- Amendment IAS 39 (June 2005) "Fair value option";
- Amendment IAS 39 (August 2005) "Financial guarantee contracts";
- Amendment IAS 21 (December 2005) "Net investment in a foreign entity";
- IFRS 6 "Exploration for and evaluation of mineral resources" and Amendment IAS 1 and IFRS 6 (June 2005);
- IFRIC 4 "Determining whether an arrangement contains a lease";
- IFRIC 5 "Rights to interests from decommissioning restoration and environmental rehabilitation funds";
- Amendment RR30:06 "Additional reporting requirements for group accounts" which required additional disclosures related to employee benefits.

IFRS issued but not effective

Numerous new or amended accounting standards and interpretations have been issued but are not yet effective. Those effective 1 January 2007 having no material impact on the Group's financial statements are:

- Amendment IAS 1 (August 2005) "Presentation of Financial Statements" which requires only additional disclosures about an entity's capital;
- IFRS 7 "Financial Instruments: Disclosures" requires additional disclosures about financial instruments, including risks;
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 9 "Reassessment of Embedded Derivatives";
- IFRIC 10 "Interim Financial Reporting and Impairment" which has not been endorsed by the European Commission (EC).

Those effective 1 January 2008 and 2009 where the impact on the Group has not been determined are:

- IFRS 8 "Operating Segments" for years beginning January 2009 which has not been endorsed by the EC;
- IFRIC 11 "Interim Financial Reporting and Impairment" for years beginning January 2008 which has not been endorsed by the EC;
- IFRIC 12 "Service Concession Arrangements" for years beginning January 2008 which has not been endorsed by the EC.

Definitions of key figures

The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. The key figures presented in the Annual Report have been calculated using average values based on these reports. Consequently, the calculation of these key figures using the year-end values presented may give slightly different results.

1. *Portion of risk-bearing capital*
Shareholders' equity and provisions for deferred taxes, as a percentage of total assets at year-end.
2. *Equity/assets ratio*
Shareholders' equity as a percentage of total assets at year-end.
3. *Gearing*
Short- plus non-current loans plus provisions for post-employment benefits, net as a percentage of the sum of short- plus non-current loans, provisions for post-employment benefits, net and shareholders' equity, all at year-end.
4. *Return on total assets*
Operating profit/loss plus interest income, as a percentage of twelve months average of total assets.
5. *Return on capital employed*
Operating profit/loss plus interest income, as a percentage of twelve months average of total assets less the average of non-interest bearing liabilities.
6. *Return on shareholders' equity*
Profit/loss after taxes as a percentage of twelve months average of shareholders' equity.
7. *Operating margin*
Operating profit/loss, as a percentage of net sales.
8. *Turnover of total assets*
Net sales in relation to twelve months average of total assets.
9. *Basic earnings/loss per share in SEK*
Profit/loss after taxes less minority interests divided by the number of shares.
10. *Yield*
Dividend as a percentage of share price at year-end.
11. *P/E ratio*
Share price at year-end divided by basic earnings per share.
12. *Average number of employees*
Total number of working hours of all employees, divided by the normal total working time during the year.

2 Segment information

Primary segment

The SKF Group is divided into three divisions, each focusing on specific customer groups worldwide. Previously published amounts have been reclassified to conform to the current Group structure in 2006.

The Industrial Division is responsible for sales to industrial OEM customers and for the product development and production of a wide range of bearings (in particular spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and high precision bearings), lubrication systems, linear motion products, by-wire systems and couplings. The division has four specialised business areas: Aerospace, Railways, Lubrication systems and Actuation & Motion Control.

The Service Division is primarily responsible for sales to the industrial aftermarket, mainly via a network of some 7,000 distributor locations. The division also supports customers with knowledge-based products and service solutions to optimise plant asset efficiency

through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. The division also deals with logistics and distribution for both the SKF Group and external customers.

The Automotive Division is responsible for sales to the producers of cars, light trucks, heavy trucks, buses, two-wheelers, household appliances, power tools and electric motors and also for sales to the vehicle service market. The division develops and produces bearings, seals and related products and service solutions. The products include wheel hub bearing units, taper roller bearings, small deep groove ball bearings, seals, special automotive products and complete repair kits for the vehicle service market.

Other operations generally include business that have been disposed of in the comparative years as well as other minor operations. See Note 11 for a description of the Ovako exchange transaction.

	Net sales			Sales including intra-Group sales		
	2006	2005	2004	2006	2005	2004
Industrial Division	17,083	14,750	12,527	26,600	23,616	20,635
Service Division	17,678	16,115	14,216	19,344	17,653	15,655
Automotive Division	18,255	17,423	15,972	21,919	20,990	19,387
Other operations	85	997	2,111	126	1,704	3,555
Eliminations	–	–	–	-14,888	-14,678	-14,406
	53,101	49,285	44,826	53,101	49,285	44,826

Net sales and sales including intra-Group sales for Other operations for 2004 and for the period through April 2005 included the Ovako Group.

	Operating profit			Depreciation, amortisation and impairments		
	2006	2005	2004	2006	2005	2004
Industrial Division	3,008	2,354	1,807	814	664	690
Service Division	2,316	2,072	1,701	99	115	95
Automotive Division	999	560	797	881	946	840
Other operations	758	299	78	8	32	144
Eliminations and unallocated items	-374	42	51	32	-5	-36
	6,707	5,327	4,434	1,834	1,752	1,733

Operating profit for Other operations in 2006 and 2005 includes primarily the SKF Group's income from the jointly controlled company, Oy Ovako Ab.

Of the SKF Group's total income from jointly controlled and associated companies, 738 (175 and 0) was included in Other Operations, -2 (-5 and -4) in Automotive Division, 1 (1 and 1) in

Service Division and -1 (- and -) in Industrial Division. The remainder was reported as unallocated.

The operating profit and depreciation, amortisation and impairments for 2004 and for the period through April 2005 includes the Ovako Group.

	Assets			Liabilities		
	2006	2005	2004	2006	2005	2004
Industrial Division	15,388	13,363	11,573	3,853	3,293	2,924
Service Division	5,021	4,889	4,375	1,608	1,573	1,319
Automotive Division	13,343	12,476	11,214	3,531	3,674	3,483
Other operations	104	999	1,822	107	113	642
Eliminations and unallocated items	12,382	8,622	6,030	17,532	13,463	9,401
	46,238	40,349	35,014	26,631	22,116	17,769

Assets in 2006 and 2005 for Other operations includes primarily the SKF Group's investment in the jointly controlled company, Oy Ovako Ab. Assets and liabilities for Other operations for 2004 included the Ovako Group.

2 Segment information (cont.)

	Additions to property, plant, equipment and intangible assets		
	2006	2005	2004
Industrial Division	957	854	687
Service Division	83	80	108
Automotive Division	1,185	828	695
Other operations	9	18	45
Eliminations and unallocated items	-223	14	-23
	2,011	1,794	1,512

Additions to property, plant, equipment and intangible assets for Other operations for 2004 and for the period through April 2005 includes the Ovako Group.

Geographical segments

The SKF Group has more than 100 factories in approximately 20 countries. Roller bearings, bearing units and seals for the automotive and industrial OEM producers and for the aftermarket are produced in Europe, North America and Asia. Linear motion products and machine tools are made in Europe and Asia.

The SKF Group has some two million customers worldwide. Products for the industrial and automotive aftermarket are sold

through a network of distributors and dealers in some 15,000 locations in more than 130 countries. Mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts comprise a relatively small but growing business with customers worldwide.

	Net sales by customer location		
	2006	2005	2004
North America	10,611	9,930	9,152
Europe	28,656	27,671	25,717
Asia-Pacific	9,622	8,381	6,659
Other	4,212	3,303	3,298
	53,101	49,285	44,826

	Assets			Additions to property, plant, equipment and intangible assets		
	2006	2005	2004	2006	2005	2004
North America	5,579	6,255	5,179	161	173	106
Europe	33,098	27,743	25,014	1,125	1,222	1,298
Asia-Pacific	6,436	5,606	4,396	808	345	99
Other	2,372	2,254	1,643	157	113	57
Eliminations	-1,247	-1,509	-1,218	-240	-59	-48
	46,238	40,349	35,014	2,011	1,794	1,512

3 Acquisitions

	2006	2005	2004
Fair value of net assets acquired			
Intangible assets	586	36	163
Property, plant and equipment	804	52	337
Financial assets	6	4	2
Purchase of remaining minority holdings	8	40	5
Minority interest	-42	-	-
Financial liabilities	-262	-17	-112
Deferred taxes and provisions	-353	-27	-186
Net working capital and current taxes	664	50	286
Cash and cash equivalents	497	27	63
	1,908	165	558
Goodwill	755	301	149
Total consideration	2,663	466	707
Less:			
Cash and cash equivalents acquired	-497	-27	-63
Consideration payable	-37	-20	-
Cash outflow on acquisitions	2,129	419	644

In 2006, the SKF Group acquired businesses amounting to 2,663:

Industrial Division

- SNFA S.A.S, France, a leading manufacturer of bearings for aerospace and machine tool applications;
- John Crane's lubrication systems business, Finland;

Automotive Division

- Economos Austria GmbH, an Austrian industrial seals company manufacturing hydraulic and pneumatic seals for the oil and gas, food and beverage, pulp and paper, mining and steel industries;
- 51% of Macrotech Polyseal Inc., USA, a leader in fluid power seals for the industrial customers in the USA market;
- The remaining 40% minority of Shanghai Bearing Co., Ltd., manufacturing deep groove ball bearings for the Chinese domestic market. The SKF Group's 60 % investment was made in 2001;

Service Division

- Precision Balancing & Analyzing Co., USA, specialising in the repair and upgrading of machine tool spindle mechanisms;
- Monitek, an Australian predictive maintenance service business. The Monitek business is a supplier of high quality vibration monitoring and wear debris analysis in the mining industry;
- The remaining 50% minority of RC DEI Norge AS, Norway. The RC DEI business mainly consists of services for condition-based maintenance principally servicing the oil and gas industry on the continental shelf of the North Sea. 50% of the company was acquired in 1999.

Pro forma income statement information

The pro forma financial information presents net sales and net income as if all of the above acquisitions had been completed on 1 January 2006. The total SKF Group net sales for the year would have been 54,148

and net profit for the year would have been 4,453. These pro forma results include the historical result of the companies, adjusted for the estimated effects relating to fair value adjustments for the period in 2006 prior to acquisition. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the result of operations which actually would have resulted had the acquisitions been in effect during the year or of future results.

SNFA Group

The most significant acquisition in 2006 occurred in the Industrial Division, when the SKF Group acquired 100% of the issued share capital in the French company SNFA S.A.S. The company is headquartered in Paris, France, and has manufacturing facilities in France, Italy and the UK. The acquisition was completed 4 July 2006, for a total consideration of 1,761.

The SNFA goodwill, amounting to 368, is due to SNFA's well known innovative products and strong application engineering. Within aerospace, SNFA has a complementary range of products to the existing SKF Aerospace offerings in engine, gearbox, helicopter and airframe bearings. Within the machine tool business, the combination of SKF and SNFA will create a full assortment supplier of high precision angular contact ball bearings and high precision cylindrical roller bearings.

As a result of the acquisition 290 of intangible assets other than goodwill was recorded. The most significant of these intangibles was 120 assigned to customer relationships and 111 assigned to developed technology. These intangibles are being amortised over estimated useful lives of 10-25 years.

The SNFA Group contributed 451 of net sales and 5 of net loss for the period between the date of acquisition and 31 December. This net loss includes a negative effect relating to fair value adjustments of 57.

	Book value	Fair value adjustments	Fair value
SNFA Group			
Net assets acquired			
Intangible assets	20	270	290
Property, plant and equipment	242	176	418
Financial liabilities	-43	-	-43
Deferred taxes and provisions	-89	-185	-274
Net working capital and current taxes	444	78	522
Cash and cash equivalents	480	-	480
	1,054	339	1,393
Goodwill			368
Total consideration			1,761
Less:			
Cash and cash equivalents acquired			-480
Cash outflow on acquisition			1,281
Total consideration satisfied by:			
Cash			1,746
Directly attributable costs			15
Total consideration			1,761

Economos Group

In 2006, the SKF Group acquired 100% of the issued share capital in the Austrian company Economos Austria GmbH. The company is headquartered in Judenburg, Austria, and has manufacturing facilities in Austria. The acquisition was completed 2 October 2006, for a total consideration of 435.

Goodwill amounted to 155 and arises from additional market shares and synergies. The acquisition brings new technologies to the SKF Group and a complementary product range to the Group's existing seals range. This, together with Economos market channels and

presence in key segments, will create strong synergies and strengthen the SKF Group's market position in industrial seals and in creating value propositions for these segments.

As a result of the acquisition, 121 of intangible assets other than goodwill was acquired. The most significant of these intangibles was 85 assigned to customer relationships which are being amortised over estimated useful lives of 3-15 years.

Economos Group contributed 126 of net sales and 4 of net loss for the period between the date of acquisition and 31 December. This net loss includes a negative effect relating to fair value adjustments of 11.

3 Acquisitions (cont.)

<i>Economos Group</i>	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	23	98	121
Property, plant and equipment	174	94	268
Financial assets	18	-13	5
Financial liabilities	-177	–	-177
Deferred taxes and provisions	-21	-14	-35
Net working capital and current taxes	153	-73	80
Cash and cash equivalents	18	–	18
	188	92	280
Goodwill			155
Total consideration			435
Less:			
Cash and cash equivalents acquired			-18
Cash outflow on acquisition			417
Total consideration satisfied by:			
Cash			430
Directly attributable costs			5
Total consideration			435

John Crane's lubrication systems business

In 2006 the SKF Group acquired 100% of John Crane's lubrication systems business. The business is headquartered and has its manufacturing operations in Muurame, Finland, and in addition has sales offices in Sweden, Germany, USA and Brazil. The acquisition was completed 16 August 2006, for a total consideration of 220.

Goodwill amounted to 100 and consists of assembled work force, future market shares and synergies. The acquired business is expected to be a very good complementary business to the SKF Group's existing lubrication systems, through its product and segment focus as well as geographical presence.

As a result of the acquisition 88 of intangible assets other than goodwill was recorded. The most significant of these newly acquired intangibles was 58 assigned to customer relationships which are being amortised over estimated useful life of 15 years.

John Crane's lubrication systems business contributed 73 of net sales and 5 of net loss for the period between the date of acquisition and 31 December. This net loss includes a negative effect relating to fair value adjustments of 4.

<i>John Crane's lubrication systems business</i>	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	1	87	88
Property, plant and equipment	26	–	26
Net working capital and current taxes	6	–	6
	33	87	120
Goodwill			100
Total consideration and cash outflow on acquisition			220
Total consideration satisfied by:			
Cash			216
Directly attributable costs			4
Total consideration			220

Macrotech Polyseal Inc.

In 2006 the SKF Group acquired 51% of the issued share capital in the US company Macrotech Polyseal Inc. The company is headquartered in Salt Lake City, Utah, USA, and has manufacturing facilities in USA. The acquisition was completed 6 April 2006, for a total consideration of 141.

Goodwill amounted to 97 and consists of assembled work force, future market shares and synergies. This acquisition strengthens the SKF Group's position in industrial seals by bringing to the Group new products and new technologies. Geographically, SKF Group's

global organisation will also be able to bring Macrotech's products to markets outside North America.

As a result of the acquisition, 66 of intangible assets other than goodwill was recorded. The most significant of these intangibles was 64 assigned to customer relationships which are being amortised over estimated useful lives of 5-12 years.

Macrotech Polyseal Inc., contributed 199 of net sales and 8 of net profit for the period between the date of acquisition and 31 December. This net profit includes a negative effect relating to fair value adjustments of 5.

<i>Macrotech Polyseal Inc.</i>	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	–	66	66
Property, plant and equipment	58	30	88
Minority interest	-13	-29	-42
Financial liabilities	-49	–	-49
Deferred taxes and provisions	–	-40	-40
Net working capital and current taxes	18	3	21
	14	30	44
Goodwill			97
Total consideration and cash outflow on acquisition			141
Total consideration satisfied by:			
Cash			131
Directly attributable costs			10
Total consideration			141

In 2005, the Group acquired businesses amounting to 466, primarily:

- Jaeger Industrial Ltd., Taiwan, a leading manufacturer of electromechanical actuators, electronic control units and complete actuation systems;
- Sommers Industrieteknik AB, a distributor of Vogel lubrication systems located in Linköping, Sweden;
- The remaining 25% minority of Aeroengine Bearings UK, Ltd. The company designs, manufactures and sells bearings for main shafts and gearboxes for jet engines. 75% of the company was acquired in 2002;
- The remaining 30% minority of the Dutch service company Machine Support BV. Machine Support specialises in precision geometric alignment and rotating machine alignment. 70% of the company was acquired in 2000.

In connection with business acquisitions in 2005, the Group acquired 36 of intangible assets other than goodwill. The most significant of those newly acquired intangible assets was 26, assigned to customer relationships which is being amortised over estimated useful lives of 8-15 years.

Jaeger Group

The most significant acquisition in 2005 occurred in the Industrial Division, when the SKF Group acquired 100% of the issued share capital in the Taiwanese company Jaeger Industrial Ltd. The company is headquartered in Taipei, Taiwan and has manufacturing facilities in Taiwan and in China. The acquisition was completed 1 June 2005, for a total consideration of 379.

Goodwill consists of assembled work force, market shares and synergies. With the addition of the Jaeger Group's product range, the SKF Group was reinforcing its position in the fast growing market for electromechanical actuators, linear drives and actuation systems. The acquisition was in line with the SKF Group's strategy to grow in the area of mechatronics and to develop products and processes with higher added value to improve customers' competitiveness.

<i>Jaeger Group</i>	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	4	28	32
Property, plant and equipment	34	15	49
Financial assets	6	-1	5
Financial liabilities	-17	–	-17
Deferred taxes and provisions	-2	-23	-25
Net working capital and current taxes	59	-1	58
Cash and cash equivalents	23	–	23
	107	18	125
Goodwill			254
Total consideration			379
Less:			
Cash and cash equivalents acquired			-23
Consideration payable			-20
Cash outflow on acquisition			336
Total consideration satisfied by:			
Cash			376
Directly attributable costs			3
Total consideration			379

3 Acquisitions (cont.)

In 2004, the Group acquired businesses amounting to 707, primarily:

- Willy Vogel AG, a German-based group in the field of lubrication systems;
- Vibration Engineers and Consultants Pvt. Ltd., an India-based condition-monitoring service provider;
- The remaining 40% of Anhui Cr Seals Co. Ltd, China, a producer of seals. 60% of the company was acquired in 1997.

In connection with business acquisitions in 2004, the Group acquired 163 of intangible assets other than goodwill. The most significant of those newly acquired intangible assets included 77, assigned to customer relationships and amortised over an estimated useful life of 15 years and 40, assigned to acquired capitalised software and amortised over an estimated useful life of 3-10 years. Additional 37 of acquired intangible assets have been assigned to trade name and are not subject to amortisation.

Vogel Group

The most significant acquisition 2004 occurred in the Industrial Division, when the SKF Group acquired 100% of the issued share capital in the German based company Willy Vogel AG, one of the world leaders in the field of lubrication systems. The Vogel Group has two

manufacturing units in Germany, one in France, one in the USA and one in Japan. Vogel has also sales operations in these countries as well as in Belgium, Hungary, Italy, the Netherlands and Spain.

The acquisition was completed on 8 July 2004, for a total consideration of 678 paid in cash, whereof acquisition related expenses amounted to 11. Cash acquired was 63, giving a net cash outflow arising on acquisition of 615.

Consideration price for the equity	678
Less:	
Book value of net assets	325
Fair value adjustments of net assets	324
Deferred taxes from valuation	-116
Fair value of net assets acquired	533
Goodwill	145

Fair value of net assets consists primarily of trade name, software, customer relationships and property, plant and equipment. Goodwill consist of assembled work force and synergies, since the acquisition has a very strong fit with SKF products, customers and technologies and will enable the SKF Group to develop and deliver more advanced solutions and increase offered customer values.

4 Divestments

	2006	2005	2004
Net assets disposed of			
Property, plant and equipment	–	56	–
Financial assets	–	3	72
Deferred taxes and provisions	–	-18	–
Net working capital and current taxes	–	6	–
	–	47	72
Profit	–	10	21
Total consideration and cash inflow	–	57	93

Divestments in 2006

No divestments were made during 2006.

Divestments in 2005

On 1 January 2005, the SKF Group sold Ovako La Foulterie S.A, its factory for hot rolled rings in Carignan, France, to the Italian steel company Fomas S.p.A.

Divestments in 2004

Sale of businesses related mainly to the divestment of the SKF Group's shares in the associated company Momentum Industrial Maintenance Supply AB.

5 Research and development

Research and development expenditures totalled 875 (837 and 784). 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 8 (8 and 10).

6 Depreciation, amortisation and impairments

Depreciation, amortisation and impairments were accounted for as

	2006	Depreciation	Amortisation	Impairments	2005	2004
Cost of goods sold	1,562	1,362	87	113	1,556	1,571
Selling expenses	250	109	35	106	182	149
Administrative expenses	22	5	17	–	14	13
	1,834	1,476	139	219	1,752	1,733

7 Financial income and financial expense

	2006	2005	2004
Financial income			
Dividends	5	8	7
Gain on sale of equity securities	–	63	–
Share swaps	35	150	–
Interest income and similar items	311	215	198
Financial exchange gains and losses, net, on financial assets	-282	265	-63
	69	701	142
Financial expense			
Interest on post-employment benefits	-210	-235	-290
Interest expense and similar items	-391	-244	-242
Financial exchange gains and losses, net, on financial liabilities	212	-296	43
	-389	-775	-489

8 Taxes

<i>Taxes on profit before taxes</i>	2006	2005	2004
Current taxes	-2,093	-1,609	-1,034
Deferred taxes	231	-5	-49
Other taxes	-93	-32	-28
	-1,955	-1,646	-1,111

Deferred taxes for 2006 included a tax benefit of 65 (72 and 148) related to the net change in previously unrecognised deferred tax assets. Of this income, 31 (94 and 83) represented an adjustment of the opening balance of the unrecognised deferred tax assets. The adjustment related to a change in circumstances where profitability

improved, which affected the judgment on the realisability of the related deferred tax asset in future years. Changes in tax rates used to calculate deferred tax had an impact of -2 (-10 and 6). In 2006, 1 (4 and -) of current taxes were related to items charged directly to equity.

<i>Net deferred taxes per type</i>	2006	Acquisitions	Charged to income statement	Charged to equity	Translation effects	2005	2004
Property, plant and equipment	1,236	107	-198	–	-79	1,406	1,479
Inventories	123	18	-61	–	-50	216	128
Provisions for post-employment benefits	-814	-2	57	–	95	-964	-948
Other	-99	149	70	–	40	-358	-206
Tax loss carry-forwards	-163	-15	-78	–	10	-80	-80
Fair value of investments in equity securities and derivative hedging instruments	12	–	-21	23	–	10	–
	295	257	-231	23	16	230	373

Shown on the balance sheet as

Assets	-948	-18	-118	–	50	-862	-718
Liabilities	1,243	275	-113	23	-34	1,092	1,091
	295	257	-231	23	16	230	373

Unrecognised deferred tax assets

At the balance sheet date the SKF Group had unrecognised deferred tax assets of 184 (234 and 262) related to tax loss carry-forwards and 96 (111 and 155) related to other deductible temporary differences. These were not recognised due to the uncertainty of future profit streams. Of these unrecognised deferred tax assets 53 were related to tax losses which will expire during the period 2007 to 2011. The remaining unrecognised assets will expire after 2012 and/or may be carried forward indefinitely.

Corporate income tax

The corporate statutory income tax rate in Sweden was 28% in 2006, 2005 and 2004. The actual tax rate on profit before taxes was 31% (31 and 27).

<i>Reconciliation of the statutory tax in Sweden to the actual tax</i>	2006	2005	2004
Tax calculated on statutory tax rate in Sweden	-1,788	-1,471	-1,144
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	-176	-251	-105
Other taxes	-93	-32	-28
Permanent differences	12	89	-62
Tax loss carry-forwards, net of changes in unrecognised deferred tax assets	34	28	1
Current tax referring to previous years	-51	-52	100
Other	107	43	127
Actual tax	-1,955	-1,646	-1,111

Gross value of tax loss carry-forwards

At 31 December 2006, certain subsidiaries had tax loss carry-forwards amounting to 1,412 (1,146 and 1,135), which are available for offset against future profits. Such tax loss carry-forwards expire as follows:

2007	29
2008	160
2009	105
2010	105
2011	165
2012 and thereafter	848

9 Intangible assets

	2006	Additions	Businesses acquired	Disposals	Impairments	Other	Translation effects	2005
<i>Acquisition cost</i>								
Goodwill	1,799	–	755	–	–	-24	-127	1,195
Patents, trademarks and similar rights	208	2	97	–	–	-4	-8	121
Capitalised software	567	25	10	-156	–	1	-7	694
Capitalised customer relationships	462	–	338	–	–	-3	-15	142
Leaseholds	36	6	0	-1	–	0	-3	34
Capitalised development	179	28	112	–	–	–	-7	46
Other intangible assets	118	17	29	–	–	10	-8	70
	3,369	78	1,341	-157	–	-20	-175	2,302

	2006	Amortisation	Businesses acquired	Disposals	Impairments	Other	Translation effects	2005
<i>Accumulated amortisation and impairments</i>								
Goodwill	227	–	–	–	128	-24	-15	138
Patents, trademarks and similar rights	44	13	–	–	–	-4	0	35
Capitalised software	362	66	–	-156	–	6	0	446
Capitalised customer relationships	57	25	–	–	–	-3	-3	38
Leaseholds	14	3	–	–	–	0	-2	13
Capitalised development	36	9	–	–	7	–	-3	23
Other intangible assets	43	23	–	–	–	-1	-5	26
	783	139	–	-156	135	-26	-28	719

Net book value	2,586	-61	1,341	-1	-135	6	-147	1,583
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	2005	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2004
<i>Acquisition cost</i>								
Goodwill	1,195	–	301	–	–	6	98	790
Patents, trademarks and similar rights	121	1	8	–	–	–	7	105
Capitalised software	694	118	–	-14	–	3	10	577
Capitalised customer relationships	142	–	26	–	–	–	10	106
Leaseholds	34	2	–	–	–	-1	4	29
Capitalised development	46	12	2	–	–	–	4	28
Other intangible assets	70	38	–	–	–	-1	2	31
	2,302	171	337	-14	–	7	135	1,666

	2005	Amortisation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2004
<i>Accumulated amortisation and impairments</i>								
Goodwill	138	–	–	–	24	3	4	107
Patents, trademarks and similar rights	35	9	–	–	7	-2	2	19
Capitalised software	446	39	–	-14	11	3	2	405
Capitalised customer relationships	38	8	–	–	–	–	5	25
Leaseholds	13	2	–	–	–	–	1	10
Capitalised development	23	9	–	–	2	–	2	10
Other intangible assets	26	9	–	–	4	-1	3	11
	719	76	–	-14	48	3	19	587
Net book value	1,583	95	337	–	-48	4	116	1,079

	2004	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2004 Opening balances
<i>Acquisition cost</i>								
Goodwill	790	–	149	–	–	-5	-57	703
Patents, trademarks and similar rights	105	26	42	–	–	-3	-2	42
Capitalised software	577	71	40	–	–	-15	-4	485
Capitalised customer relationships	106	–	77	–	–	–	-2	31
Leaseholds	29	–	–	-1	–	–	-1	31
Capitalised development	28	12	3	–	–	15	-2	0
Other intangible assets	31	2	1	–	–	-1	-3	32
	1,666	111	312	-1	–	-9	-71	1,324

	2004	Amortisation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2004 Opening balances
<i>Accumulated amortization and impairments</i>								
Goodwill	107	–	–	–	21	–	-19	105
Patents, trademarks and similar rights	19	3	–	–	–	-3	–	19
Capitalised software	405	73	–	–	49	-4	-1	288
Capitalised customer relationships	25	5	–	–	–	–	-2	22
Leaseholds	10	1	–	–	–	–	–	9
Capitalised development	10	6	–	–	1	4	-1	0
Other intangible assets	11	5	–	–	–	–	-1	7
	587	93	–	–	71	-3	-24	450
Net book value	1,079	18	312	-1	-71	-6	-47	874

9 Intangible assets (cont.)

Impairment losses related to intangible assets for 2006 totalled 135. The most significant was 66 which related to the write-down of goodwill in the Industrial Division's bearing reconditioning operations in North America, which experienced a significant loss of market share after a consolidation of competitors. This impairment was based on a value in use using a discount rate of 19%. The previous value in use

calculation used 21%. The other impairments were minor and related primarily to goodwill in the Automotive Division's DGBB production in China, Service Division's railroad bearing reconditioning operations in Australia, and Industrial Division's mechatronics operations in Taiwan. Impairment losses for 2005 and 2004 resulted from weakening market conditions in some minor businesses in Europe and North America.

Cash generating units (CGUs) containing significant intangible assets with indefinite useful lives

CGU 2006	Goodwill	Carrying amount of Trade name with indefinite life	Basis for recoverable amount	Discount rate
SNFA Group (acquired 2006)	362	–	Net selling price	–
Economos Group (acquired 2006)	150	–	Net selling price	–
Jaeger Group (acquired 2005)	214	–	Value in use	14
Vogel Group (acquired 2004)	149	37	Value in use	16
SKF Sealing Solutions North America (acquired 1990)	255	–	Value in use	21
CGU 2005				
Jaeger Group (acquired 2005)	261	–	Net selling price	–
Vogel Group (acquired 2004)	155	39	Value in use	18
SKF Sealing Solutions North America (acquired 1990)	294	–	Value in use	19
CGU 2004				
Vogel Group (acquired 2004)	145	37	Net selling price	–
SKF Sealing Solutions North America (acquired 1990)	245	–	Value in use	19

The trade name Vogel is considered to have an indefinite life due to it being a well established name in the field of lubrication systems.

The goodwill included in the above CGUs are individual intangible assets that are material to the Group. A minor impairment of 15 was taken on the Jaeger Group goodwill in 2006, such that the value in use is now equal to the carrying amount. This value in use calculation

is based on a discounted cash flow model based on management's assumptions, and is highly sensitive to the discount rate which was 14%. Assuming all other assumptions remain constant, an increase in the discount rate of 1% would cause the value in use to be less than the current carrying amount by approximately 35.

10 Property, plant and equipment

	2006	Additions	Businesses acquired	Disposals	Impairments	Other ¹⁾	Translation effects	2005
<i>Acquisition cost</i>								
Buildings	4,981	97	198	-93	–	-12	-289	5,080
Land and land improvements	765	6	48	-10	–	-11	-41	773
Machinery and supply systems	20,071	455	488	-1,026	–	188	-1,347	21,313
Machine toolings, factory fittings, etc	2,768	155	66	-131	–	50	-184	2,812
Construction in process including advances	1,116	1,220	4	-20	–	-942	-68	922
	29,701	1,933	804	-1,280	–	-727	-1,929	30,900
	2006	Depreciation	Businesses acquired	Disposals	Impairments	Other	Translation effects	2005
<i>Accumulated depreciation and impairments</i>								
Buildings	2,553	194	–	-79	34	-254	-150	2,808
Land improvements	181	4	–	-7	2	-1	-9	192
Machinery and supply systems	13,372	1,056	–	-1,030	47	-234	-961	14,494
Machine toolings, factory fittings, etc	2,207	222	–	-125	1	-29	-149	2,287
	18,313	1,476	–	-1,241	84	-518	-1,269	19,781
Net book value	11,388	457	804	-39	-84	-209	-660	11,119

¹⁾ Assets classified as held for sale are reflected under "Other", see Note 18.

	2005	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2004
<i>Acquisition cost</i>								
Buildings	5,080	185	3	-171	–	-373	388	5,048
Land and land improvements	773	67	14	-11	–	-39	47	695
Machinery and supply systems	21,313	842	12	-661	–	-1,989	1,772	21,337
Machine toolings, factory fittings, etc	2,812	189	13	-215	–	-362	246	2,941
Construction in process including advances	922	340	10	-10	–	-348	57	873
	30,900	1,623	52	-1,068	–	-3,111	2,510	30,894
<i>Accumulated depreciation and impairments</i>								
Buildings	2,808	207	–	-137	81	-330	188	2,799
Land improvements	192	5	–	-5	8	-28	9	203
Machinery and supply systems	14,494	1,069	–	-644	50	-1,728	1,249	14,498
Machine toolings, factory fittings, etc	2,287	204	–	-218	4	-284	199	2,382
	19,781	1,485	–	-1,004	143	-2,370	1,645	19,882
Net book value	11,119	138	52	-64	-143	-741	865	11,012

¹⁾ The Ovako Steel exchange transaction is reflected under "Other", see Note 11.

	2004	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2004 Opening balances
<i>Acquisition cost</i>								
Buildings	5,048	143	109	-45	–	214	-114	4,741
Land and land improvements	695	4	67	-11	–	-22	-11	668
Machinery and supply systems	21,337	867	134	-604	–	-109	-581	21,630
Machine toolings, factory fittings, etc	2,941	203	24	-110	–	-19	-75	2,918
Construction in process including advances	873	184	3	-2	–	-142	-13	843
	30,894	1,401	337	-772	–	-78	-794	30,800
<i>Accumulated depreciation and impairments</i>								
Buildings	2,799	145	–	-35	7	19	-58	2,721
Land improvements	203	8	–	-5	–	4	-2	198
Machinery and supply systems	14,498	1,171	–	-579	5	-80	-421	14,402
Machine toolings, factory fittings, etc	2,382	227	–	-111	6	-22	-59	2,341
	19,882	1,551	–	-730	18	-79	-540	19,662
Net book value	11,012	-150	337	-42	-18	1	-254	11,138

Impairment losses related to property, plant and equipment in 2006 amounted to 84, including the effect of a reversal of 9. The most significant was 67 related to the write-down of building and equipment in the Automotive Division's forging and ring production facilities in Eastern Europe which is experiencing problems with volumes. This impairment was based on value in use using a discount rate of 12% and was made at a lower CGU level than in previous years so as to be in line with the current internal divisional structure which changed as of 1 January 2006.

The other impairments were minor and related to individual assets used in the Industrial Division's operations in Africa, as well as certain assets held for sale in the Industrial Division's spindle operations in Italy. The reversal of impairments related to an impairment of the Aiken operations made in 2005.

Impairment losses 2005 for property, plant and equipment amounted to 143 and are mainly related to the closure of two factories in the USA, the bearing factory in Aiken, South Carolina, and the seals factory in Springfield, South Dakota. These factories were mainly manufacturing products for the automotive industry. The recoverable amount of the relevant assets has been determined on the basis of the fair value less costs to sell, where basis to determine fair value has been the market price for the similar assets on the active market. The impairment losses include a reversal of impairment amounting to 17. The reversal of impairment refers to an impairment in a minor operation which did not materialize.

Impairment losses 2004 results from the SKF Group's initiatives to optimise manufacturing performance on a regional and global basis.

No individual impairments during 2004 were deemed significant.

10 Property, plant and equipment (cont.)

<i>Finance leases included in property, plant and equipment consisted of the following</i>	2006	2005	2004
<i>Acquisition value</i>			
Buildings	72	27	40
Land and land improvements	11	–	–
Machinery and supply systems	7	2	2
Machine toolings, factory fittings, etc	2	1	57
	92	30	99
<i>Accumulated depreciation</i>			
Buildings	24	26	35
Machinery and supply systems	2	2	1
Machine toolings, factory fittings, etc	1	1	44
	27	29	80
Net book value	65	1	19
<i>Tax value of Swedish real estate</i>			
Land and land improvements	103	102	137
Buildings	295	297	529
	398	399	666

11 Jointly controlled and associated companies

<i>Investments in jointly controlled and associated companies</i>	2006	2005	2004
Investments in jointly controlled companies	86	964	17
Investments in associated companies	16	10	9
Subordinated debt to Oy Ovako Ab	–	200	–
	102	1,174	26
<i>Income from jointly controlled and associated companies (before taxes)</i>			
Jointly controlled companies	735	170	-4
Associated companies	3	2	1
	738	172	-3

2006

In November 2006, the jointly controlled entity, Oy Ovako Ab, sold all its operations to a third party and recognised a substantial gain on the transaction. Consequently, the SKF Group recorded its 26.5% share of this gain amounting to 433 as income from jointly controlled companies. In December 2006, the joint owners initiated the liquidation process of the remaining Ovako holding companies, which is expected to be completed in August 2007. Pre-liquidation proceeds were, however, distributed to AB SKF, Wärtsilä Corporation and Rautaruukki Corporation, the joint owners, in December 2006, where AB SKF's share amounted to 1,217.

2005

In May 2005, AB SKF, Wärtsilä Corporation and Rautaruukki Corporation merged their long steel businesses into a newly created jointly controlled entity, Oy Ovako Ab. The SKF Group received a 26.5% ownership in Oy Ovako Ab in exchange for their contribution of the Ovako Steel business, consisting of non-current assets amounting to 712, current assets of 1,488, non-current liabilities of 792 and current liabilities of 644. In connection with the exchange transaction all joint owners issued subordinated debt which for the SKF Group amounted to 200. This was subsequently repaid in 2006.

Specification of investments in jointly controlled and associated companies	Holding in per cent	Number of shares	Cur- rency	Nom. value in local currency, millions	2006		2005		2004	
					Book value		Book value		Book value	
					Parent Company	Consolidated accounts	Parent Company	Consolidated accounts	Parent Company	Consolidated accounts
Held by parent company:										
Jointly controlled companies										
Oy Ovako Ab, Finland	26.5	2,650	EUR	3	39	48	39	931	–	–
Associated companies										
Endorsia.com International AB, Göteborg, Sweden	20	34,000	SEK	3	5	9	5	6	4	4
AEC Japan Co. Ltd., Japan	50	400	JPY	20	1	1	1	1	1	1
					45	58	45	938	5	

<i>Specification of investments in jointly controlled and associated companies</i>	Holding in percent	Number of shares	Currency	2006 Book value in the consolidated accounts	2005 Book value in the consolidated accounts	2004 Book value in the consolidated accounts
<i>Held by subsidiaries:</i>						
<i>Jointly controlled companies</i>						
International Component Supply, Ltda, Brazil	50	22,014	BRL	38	33	17
<i>Associated companies</i>						
CoLinX LLC, USA	20	1	USD	2	3	3
Mongolia: Seal Jet Mongolia Ltd., Mongolia	30	3,000	USD	1	–	–
Economos Singapore Pte Ltd., Singapore	50	50,000	SGD	1	–	–
Other				2	0	1
Total investments in jointly controlled and associated companies				102	974	26
<i>Aggregated financial statements of jointly controlled and associated companies</i>						
				2006	2005	2004
Non-current assets				123	2,773	408
Current assets				392	5,363	126
Total assets				515	8,136	534
Equity				342	3,680	287
Non-current liabilities				30	2,442	54
Current liabilities				143	2,014	193
Total equity and liabilities				515	8,136	534
Net sales				11,485	8,808	486
Profit before taxes				2,898	498	11

12 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value
<i>Held by Parent Company</i>					
Wafangdian Bearing Company Limited, China	19.7	65,000,000	CNY	65	183
NN, Inc., USA	4.5	700,000	USD	7	60
S2M, France	11.9	153,093	EUR	0	11
Other shares and securities					10
					264
<i>Held by subsidiaries</i>					
GKS Gemeinschaftskraftwerk Schweinfurt GmbH, Germany	10.3	1	EUR	2	23
Other					4
					27
					291

13 Non-current financial and other assets

<i>Non-current financial assets</i>	2006	2005	2004
Non-current financial receivables	663	382	322
Debt securities	18	20	19
Derivatives	156	191	–
	837	593	341

Non-current financial assets above are classified as follows:

Loans and receivables	414	130	–
Available-for-sale	18	20	–
Financial assets at fair value through profit and loss	249	252	–
Derivatives	156	191	–
	837	593	–

Other non-current assets

Defined benefit assets	191	138	48
Other non-current receivables	56	88	107
	247	226	155
	1,084	819	496

The major part of non-current financial assets were denominated in EUR and USD. The fair values of loans and receivables are not materially different from their carrying amounts.

Derivatives are non-current share swaps, see Note 32 for further information.

On 1 January 2005 the SKF Group implemented IAS 39, "Financial Instruments, Measurement and recognition" and chose not to restate comparable 2004 financial information as allowed by the transitional rules.

14 Inventories

	2006	2005	2004
Raw materials and supplies	2,318	2,144	2,145
Work in process	1,852	1,582	1,528
Finished goods	5,769	6,205	5,312
	9,939	9,931	8,985

Inventory values are stated net of a provision for net realisable value of 802 (681 and 671). The amount charged to expense for net

realisable provisions during the year was 86 (78 and 78). Reversals of net realisable provisions during the year were 45 (52 and 25).

15 Trade receivables

	2006	2005	2004
Trade receivables	8,351	7,481	6,987
Trade notes receivable	679	679	614
Allowance for doubtful accounts	-185	-212	-195
	8,845	7,948	7,406

The change in allowance for doubtful accounts charged against profit amounted to 22 (33 and 23).

16 Other assets

	2006	2005	2004
Other current receivables	904	791	827
Jointly controlled and associated companies	1	194	13
Prepaid expenses	402	277	205
Accrued income	199	160	241
Advances to suppliers	103	78	41
Derivatives ¹⁾	73	186	–
	1,682	1,686	1,327

¹⁾ See Note 32 for information on derivatives.

17 Financial investments and cash and cash equivalents

<i>Current financial assets with maturity > 3 months</i>	2006	2005	2004
Debt securities	1,448	2,354	190
Deposits	240	153	299
	1,688	2,507	489

<i>Cash and cash equivalents</i>			
Debt securities	5,056	611	1,496
Deposits	770	707	686
Cash and bank accounts	1,416	1,061	894
	7,242	2,379	3,076

Financial investments and cash and cash equivalents are classified as follows:

Loans and receivables	1,017	885	–
Available-for-sale	10	6	–
Financial assets at fair value through profit and loss	6,487	2,934	–
Cash and bank accounts	1,416	1,061	–
	8,930	4,886	–

Debt securities are denominated in SEK and have an average effective interest rate of 3.01%.

The fair value of loans and receivables has been assumed to approximate book value.

On 1 January 2005 the SKF Group implemented IAS 39, "Financial Instruments, Measurement and recognition" and chose not to restate comparable 2004 financial information as allowed by the transitional rules.

18 Assets classified as held for sale

<i>Assets classified as held for sale</i>	2006	2005	2004
Property, plant and equipment	191	–	–
Inventories	144	–	–
	335	–	–

Liabilities related to assets classified as held for sale

Provisions for post-employment benefits	44	–	–
Other provisions	6	–	–
Other liabilities	9	–	–
	59	–	–

The majority of assets classified as held for sale relates to Automotive Division's forging business at the Luchow plant in Germany. The letter of intent was signed in May 2006. The sale is expected to be finalised

in the spring 2007. Also included is the disposal group representing the spindle manufacturing business in Italy as well as individual assets from the Aiken plant in the USA, which was closed down.

19 Share capital and dividends

<i>The share capital at 31 December 2006 consisted of the following shares (quota value SEK 2.50 per share)</i>	Number of shares authorised and outstanding	Aggregate quota value
A shares	50,735,858	126
B shares	404,615,210	1,012
Opening balance 1/1/2006	455,351,068	1,138
Converted A shares	-1,202,828	-3
Converted B shares	1,202,828	3
A shares	49,533,030	123
B shares	405,818,038	1,015
Closing balance 31/12/2006	455,351,068	1,138

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 177,403,717 A shares have been converted to B shares.

Dividends

In view of the company's strong performance, cash generating capacity and outlook, the Board of Directors proposes an increase in dividend by 12.5% to SEK 4.50 per share to be paid to the shareholders on 3 May 2007. The proposed dividend for 2006 is payable to all shareholders on the VPC AB's public share register as of 27 April 2007. The total estimated dividend to be paid is 2,049.

On 4 May 2006, a dividend of SEK 4.00 (3.00 and 2.50) per share was paid to shareholders.

The Board of Directors also proposes a share split 2:1 combined with an automatic redemption procedure. Through this procedure the shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 10.00. The proposed record day for the share split is 18 May 2007 and payment of the redemption amount is proposed to be made on 15 June 2007.

The proposal means that 4,554 will be distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders in 2007 will be 6,603.

The dividend, the split and the redemption is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

20 Earnings per share

	2006	2005
Net profit attributable to shareholders	4,317	3,521
Weighted number of ordinary shares in issue	455,351,068	455,351,068
Basic earnings per share (SEK)	9.48	7.73
Adjustment for dilutive potential ordinary share	1,493,950	1,795,941
Weighted average diluted number of shares	456,845,018	457,147,009
Diluted earnings per share (SEK)	9.45	7.70

Stock options allocated in 2001, 2002 and 2003 are as from 2005 accounted for as equity instruments and no liability is recorded for the difference in market price of the SKF B share and the exercise price of outstanding options. A diluted earnings per share is calculated considering the effects of dilutive potential ordinary shares, i.e. options that may entitle its holder to ordinary shares.

Under Swedish GAAP applied in 2004 for financial instruments, unrealised gains in share swaps offsetting the unrealised cost for options not yet exercised were kept off-balance. For that reason no dilutive effect has been calculated for 2004.

Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary equity of the Parent Company by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding in 2006, 2005 and 2004 was 455,351,068.

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all dilutive potential ordinary shares. The average market price of the SKF B share for the reporting period is used.

21 Provisions for post-employment benefits

<i>Amount recognised in the consolidated balance sheet</i>	2006			2005			2004		
	Pensions	Other	Total	Pensions	Other	Total	Pensions	Other	Total
Present value of unfunded defined benefit obligations	795	2,084	2,879	979	2,255	3,234	1,071	2,039	3,110
Present value of funded defined benefit obligations	11,893	245	12,138	12,435	250	12,685	10,170	241	10,411
Less: Fair value of plan assets	-10,575	-69	-10,644	-10,729	-68	-10,797	-8,720	-62	-8,782
Deficit	2,113	2,260	4,373	2,685	2,437	5,122	2,521	2,218	4,739
Asset limitation	2	-	2	-	-	-	-	-	-
Unrecognised past service costs	9	11	20	10	25	35	23	26	49
Unrecognised actuarial gains/losses(-)	215	-26	189	-349	-29	-378	-134	-47	-181
Net post-employment benefit liabilities	2,339	2,245	4,584	2,346	2,433	4,779	2,410	2,197	4,607
<i>Reflected as</i>									
Assets	-191	-	-191	-137	-	-137	-48	-	-48
Liabilities related to assets classified as held for sale	44	-	44	-	-	-	-	-	-
Provisions	2,486	2,245	4,731	2,483	2,433	4,916	2,458	2,197	4,655
Net post-employment benefit liabilities	2,339	2,245	4,584	2,346	2,433	4,779	2,410	2,197	4,607

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 organisations. 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 post-retirement health care plans cover most salaried and hourly employees in the USA. These plans provide certain health care and life insurance benefits for eligible retired employees. The subsidiaries in Italy sponsor termination indemnities, TFR, in accordance with Italian law, which are paid out as a lump sum amount to all employees immediately upon termination, for any reason. 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.

21 Provisions for post-employment benefits (cont.)

<i>Components of total post-employment benefit expense</i>	2006	2005	2004
<i>Defined benefit expense</i>			
Current service cost	392	336	306
Interest cost	723	722	666
Expected return on assets	-690	-645	-492
Amortisation of unrecognised losses	11	3	–
Curtailments	–	–	26
Past service cost	-1	7	-3
Other	20	-18	16
Post-employment defined benefit expense	455	405	519
Post-employment defined contribution expense	199	206	287
Total post-employment benefit expense	654	611	806
<i>Whereof</i>			
Amounts charged to operating profit	444	376	516
Amounts charged to financial expense	210	235	290
Total post-employment benefit expense	654	611	806
<i>Geographical distribution of total defined benefit obligations</i>			
Europe	9,153	9,333	8,236
Americas	5,686	6,399	5,134
Rest of the world	178	187	151
	15,017	15,919	13,521
<i>Geographical distribution of total plan assets</i>			
Europe	5,441	5,447	4,540
Americas	5,102	5,247	4,151
Rest of the world	101	103	91
	10,644	10,797	8,782
<i>Specification of total plan assets</i>			
Government bonds	2,369	2,464	2,003
Corporate bonds	796	919	765
Equity instruments	5,605	5,872	4,522
Real estate	1,064	957	428
Other, primarily cash and other financial receivables	810	585	1,064
	10,644	10,797	8,782

<i>Changes in the present value of the defined benefit obligation:</i>	2006			2005			2004		
	Pensions	Other	Total	Pensions	Other	Total	Pensions	Other	Total
Opening balance	13,414	2,505	15,919	11,241	2,280	13,521	11,018	2,280	13,298
Interest cost	616	107	723	616	106	722	565	101	666
Current service cost	294	100	394	250	86	336	210	96	306
Contributions by plan participants	26	12	38	–	12	12	9	–	9
Benefits paid	-660	-212	-872	-645	-210	-855	-569	-216	-785
Actuarial (gains)/losses	-128	-8	-136	855	-21	834	425	122	547
Acquisitions/divestments	121	39	160	14	-12	2	32	6	38
Curtailments	-3	1	-2	–	–	–	–	–	–
Settlements	-10	–	-10	10	-9	1	8	18	26
Other (including reclassifications)	25	1	26	-65	-21	-86	49	-27	22
Translation differences	-1,007	-216	-1,223	1,138	294	1,432	-506	-100	-606
Closing balance	12,688	2,329	15,017	13,414	2,505	15,919	11,241	2,280	13,521

<i>Changes in the fair value of plan assets:</i>	2006			2005			2004		
	Pensions	Other	Total	Pensions	Other	Total	Pensions	Other	Total
Opening balance	10,729	68	10,797	8,720	62	8,782	5,566	70	5,636
Expected return on assets	687	3	690	642	3	645	488	4	492
Actuarial gains/(losses)	472	–	472	540	–	540	217	-11	206
Contributions by employer	64	1	65	78	–	78	3,111	–	3,111
Contributions by plan participants	18	–	18	–	–	–	–	–	–
Benefits paid	-523	–	-523	-492	–	-492	-260	–	-260
Acquisitions/divestments	85	–	85	–	–	–	–	–	–
Settlements	-12	–	-12	–	–	–	–	–	–
Other (including reclassifications)	-1	–	-1	172	–	172	23	–	23
Translation differences	-944	-3	-947	1,069	3	1,072	-425	-1	-426
Closing balance	10,575	69	10,644	10,729	68	10,797	8,720	62	8,782

Actual return on plan assets	1,162	1,185	698
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Expected cash outflows

Expected cash outflows for 2007 are 374, which includes 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 amounted to 18 (18 and 22). Alecta's profit in the form of the so-called collective consolidation level amounted to 143 (129 and 128). 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.

21 Provisions for post-employment benefits (cont.)

<i>Principal weighted-average assumptions</i>	2006	2005	2004
<i>Discount rate</i>			
Europe	4.6	4.4	4.9
Americas	5.7	5.7	6.0
Rest of the world	5.3	4.8	4.8
<i>Expected return on plan assets</i>			
Europe	4.9	4.8	5.3
Americas	8.9	8.9	8.9
Rest of the world	5.6	5.2	5.6
<i>Rate of salary increase</i>			
Europe	3.1	2.9	3.0
Americas	5.0	5.0	4.9
Rest of the world	4.4	4.3	4.2
<i>Medical cost trend rate</i>			
USA	10.0	9.0	10.0
<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	4
Effect on the defined benefit obligation	62	65	62
<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	-3
Effect on the defined benefit obligation	-54	-57	-55
<i>Experience adjustments on plan liabilities (gains)/losses</i>			
Pensions	-149		
Other	-71		
<i>Experience adjustments on plan assets gains / (losses)</i>			
Pensions	472		

The assumed medical care cost trend rate at the end of 2006 was 10.0%, and is projected to decline by 0.4% to 1.0% to an ultimate rate of 5.0% beginning in 2014.

22 Other provisions

	2006	Provi- sions for the year	Utilised amounts	Reversal unutilised amounts	Other	Trans- lation effect	2005	2004
Restructuring provisions	273	158	-197	-49	-18	-24	403	359
Environmental provisions	162	9	-30	-5	4	-12	196	193
Warranty provisions	249	89	-82	-82	2	-29	351	358
Long-term employee benefits	561	121	-93	-2	8	-21	548	415
Other	674	196	-98	-98	-3	-35	712	602
	1,919	573	-500	-236	-7	-121	2,210	1,927

Restructuring activities include, among other things, plant closures and relocations, as well as significant changes in organisational structure. Provisions for 2006 include costs for closing of the factory in South Africa and other activities to reduce the number of employees in China, South Africa and Italy, among other countries.

Restructuring provisions for 2005 include termination benefits and other exit costs related to the decision to close the Aiken and Springfield factories in the USA, as well as termination benefits resulting from rationalisation measures in Fontenay, France. Restructuring provisions for 2004 relate to a number of minor personnel reduction programmes.

Environmental and warranty provisions cover obligations not settled at year-end. During the year, a reversal of earlier made warranty provisions of approximately 50 has been made due to a settlement of customer claims. 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. Other provisions primarily include litigation, insurance and anti-dumping duties.

23 Non-current loans

	2006			2005	2004
	Effective interest rate	Maturity	Amount	Amount	Amount
Bonds and debentures					
MEUR 28	3.97	2008	257	940	–
MEUR 250	3.14	2010	2,152	2,294	–
MEUR 500	4.32	2013	4,428	–	–
MUSD 97	–	2007	–	769	786
Other loans	–	2008-2013	169	142	118
			7,006	4,145	904

The MEUR 28 note has a floating 3 months' interest rate.

The MEUR 250 and 500 bonds have been hedged by cross currency interest rate swaps. The fixed EUR interest rates have been swapped into floating 3 months' SEK interest rates. At 31 December 2006

the floating 3 months' SEK rate was 3.42%. These bonds, which are subject to fair value hedging, are carried at fair value. The fair value hedge is further described in Note 32.

24 Leases

<i>Future minimum lease payments at 31 December 2006</i>	Finance Leases	Operating leases
2007	10	300
2008	10	245
2009	9	181
2010	8	127
2011	7	87
2012 and thereafter	41	360
Total	85	1,300
Less: Interest and executory costs	-18	
Present value of minimum lease payments under finance leases	67	
Less: Current portion	-7	
Non-current portion	60	

Net rental expense primarily related to operating leases was 331 (244 and 216). The more significant leases involve the use of buildings, other office locations as well as machineries in USA,

Germany, Belgium and in other countries. Contingent rentals, sub-lease revenues and future minimum lease payments for finance leases were not significant in any of the years presented.

25 Current loans

<i>Loans with maturity > 3 months</i>	2006	2005	2004
Bank loans	95	25	96
Other current loans	37	3	3
Current portion of non-current loans	668	7	28
	800	35	127
<i>Loans with maturity =< 3 months</i>			
Bank loans	202	72	43
Other current loans	45	44	42
	247	116	85
	1,047	151	212

The current portion of non-current loans is mainly a MUSD 97 bond with an effective interest rate of 7.44%. The book value amounted to 665 and the fair value to 695.

The book value of loans with a maturity of 3 months or less has been assumed to approximate fair value.

26 Other liabilities

	2006	2005	2004
Accrued salaries	995	743	731
Vacation pay	675	619	641
Social charges	402	552	489
Jointly controlled and associated companies	-	297	-
Other current liabilities	1,408	1,099	1,075
Accrued expenses and deferred income	1,684	1,814	1,603
Derivatives ¹⁾	171	98	-
	5,335	5,222	4,539

¹⁾ See Note 32 for information on derivatives.

27 Assets pledged and contingent liabilities

<i>Assets that have been pledged to secure loans and other obligations</i>	2006	2005	2004
Mortgages on real estate	50	46	40
Chattel mortgages	–	69	78
	50	115	118

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of 41 (33 and 39) at 31 December.

<i>Contingent liabilities (at nominal values)</i>	2006	2005	2004
Guarantees	210	288	212
Other contingent liabilities	2	32	50
	212	320	262

Guarantees were made in respect of leases and loans, minor disposed operation and supplier guarantees. Guarantees on behalf of the ICS joint venture amounted to 26 (63 and 47).

Other commitments

SKF Group has a right and obligation to purchase the remaining 49% of Macrotech Polyseal Inc., first in 2009, according to a pre-agreed result based formula.

In connection with Oy Ovako Ab's sale of its operations to a third party, the joint partners AB SKF, Wärtsilä Corporation, and Rautaruukki Corporation were required to provide indemnifications to the buyer customary for such transactions. Any claims under such indemnifications are regulated by an agreement between the joint venture owners. Pre-liquidation proceeds were distributed to the joint owners, AB SKF, Wärtsilä Corporation, and Rautaruukki Corporation in December 2006, as a result of the joint owners providing a first demand guarantee relating to claims by creditors.

28 Related parties

<i>The SKF Group's transactions with related parties</i>	2006		2005		2004	
	Associated companies	Jointly controlled companies	Associated companies	Jointly controlled companies	Associated companies	Jointly controlled companies
Sales of goods and services	–	27	2	24	2	10
Purchases of goods and services	100	1,643	12	1,459	11	57
Interest income	–	–	–	5	–	–
Interest expense	–	–	–	14	–	–
Receivables as of 31 December	–	0	0	394	13	0
Liabilities as of 31 December	0	0	0	297	0	0

Oy Ovako Ab became a related party to the SKF Group when the company began its operations in May 2005. Oy Ovako Ab transactions constituted 69% and 85% (40 and 97) of the total sales and purchases, respectively of related party transactions in 2006. Oy Ovako Ab had no (99 and 100) receivables and liabilities, respectively as of 31 December 2006.

Knut och Alice Wallenbergs Stiftelse is the major shareholder of the Parent Company and had 29.0% (28.6 and 28.7) and 10.0% (9.8 and 9.8) of the voting rights and share capital. SKF Group has had no indication that Knut och Alice Wallenbergs Stiftelse has obtained its ownership interest in SKF for other than investment purposes.

According to its statutes, Knut och Alice Wallenbergs Stiftelse shall promote scientific research and educational activities, which benefit Sweden. The foundation is not involved in the development or manufacture of bearings. Knut och Alice Wallenbergs Stiftelse is known to have substantial investments in a number of diverse Swedish companies without seeking to exercise day-to-day control over each particular company. No significant transactions have been identified between the parties with the exception of dividend paid during the year.

For related party transactions involving key management, see Note 29.

29 Employee benefits and remuneration to Key Management

<i>Employee benefits</i>	2006	2005	2004
Salaries, wages and other remunerations	11,851	11,301	10,928
Equity compensation plan	46	47	23
Total post-employment benefits expense	654	611	806
Termination and other employee separation benefits	114	210	44
Other long-term employment benefits	119	209	127
Social charges	3,192	3,189	2,952
	15,976	15,567	14,880

Salaries and other remunerations for SKF Board of Directors, Chief Executive Officer and Group Management

Principles in year 2006

In April 2006 the Annual General Meeting adopted principles for remuneration of Group Management. These principles are summarised in the Corporate Governance Report, section "Principles for Remuneration of Group Management".

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 held in 2006 it was decided that the Board be entitled to a fixed allotment of SEK 2,725,000 to be distributed with SEK 800,000 to the Chairman of the Board, with SEK 550,000 to the Deputy Chairman of the Board and with SEK 275,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company. It was further decided that an allotment corresponding to the value of 3,200 SKF B shares be received by the Chairman, an allotment corresponding to the value of 2,400 SKF B shares be received by the Deputy Chairman and an allotment corresponding to the value of 1,200 SKF B shares be received by each of the other Board members elected by the Annual General Meeting and not employed by the company. When deciding upon the amount of the allotment, the value of a share of Series B shall be determined at the average latest payment rate according to the quotations on the OMX Stockholm Stock Exchange during the five trading days after publication of the company's press release for the financial year 2006.

Finally it was decided that an allotment of SEK 500,000 for committee work shall be divided according to the decision of the Board among the Board members that are part of a committee established by the Board.

Chief Executive Officer

Tom Johnstone, Chief Executive Officer and President of AB SKF received from the company in year 2006 as salary and other remunerations a total of SEK 9,664,467, of which SEK 3,450,000 was

variable salary for 2005 performance. Tom Johnstone's fixed annual salary 2007 will amount to SEK 7,500,000. The variable salary for 2005 and paid in 2006 was according to a performance based programme divided into two parts, a short term and a long term part, both based on the financial performance of the SKF Group established according to the SKF management model which is a simplified economic value-added model called Total Value Added; TVA (see "Financial Objectives and Dividend Policy" for description). The variable salary for 2005 and paid in 2006 only considered the short-term part. The variable salary for 2005 including both the short-term and the long-term part could amount to a maximum of 80% of the fixed annual salary for year 2005.

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 37% of SEK 3,084,540 corresponding to SEK 1,141,279 per year. The amount SEK 3,084,540 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the law (1998:674) on income based retirement pension). 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 30% 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 contribution amounts as from 2007 to 35%. This part of Tom Johnstone's pension is a defined contribution pension and vested. The 2006 cost for Tom Johnstone's pension benefits was recorded in the amount of SEK 2,868,767. The remuneration to the Chief Executive Officer did not include any stock option entitlements. Tom Johnstone held in the beginning of 2006, from earlier allocations according to the AB SKF Stock Option Programme, described below, stock options allowing him to acquire 110,969 existing SKF B shares. Tom Johnstone has during the year exercised stock options corresponding to 26,128 existing SKF B shares and holds at the end of the year stock options allowing him to acquire 84,841 existing SKF B shares. In the event of termination at the request of AB SKF, Tom Johnstone will receive severance payments amounting to maximum two years' salary.

Group Management

SKF's Group Management (exclusive of the Chief Executive Officer), at the end of the year consisting of 12 people, received in 2006 salary and other remunerations amounting to a total of SEK 51,499,651, of which SEK 32,284,143 was fixed annual salary and SEK 12,967,260 was variable salary for 2005 performance. The fixed salary is for the managers that have joined or left Group Management during the year, accounted in relation to the period that each individual has been a member of Group Management.

The variable salary for Group Management was according to a performance based program divided into two parts, a short-term and a long-term part, primarily based on the financial performance of the SKF Group established according to the SKF management model which is a simplified economic value-added model called Total Value Added; TVA (see "Financial Objectives and Dividend Policy" for description).

The variable salary for 2005 and paid in 2006 only considered the short-term part. The variable salary for 2005 including both the short-term and the long-term part could amount to a maximum percentage of the fixed annual salary for year 2005. The percentage is linked to the position. The remuneration to Group Management did not include any stock option entitlements. Group Management held in the beginning of 2006, from earlier allocations according to the AB SKF Stock Option Programme, stock options allowing them to acquire 349,875 existing SKF B shares. Group Management has during the year exercised stock options corresponding to 40,125 existing SKF B shares and holds at the end of the year stock options allowing them to acquire 308,750 existing SKF B shares. In the event of termination of employment at the request of AB SKF of a person

in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

The SKF Group's Swedish defined-benefit pension plan for senior managers has a normal retirement age of 62 years. The Chief Executive Officer is not covered by this pension plan. The plan entitles the senior managers covered to receive an additional pension over and above the ordinary ITP-plan. This additional pension amounts to a yearly compensation from the retirement age of up to 32.5% of the pensionable salary above 20 basic amounts, provided the senior manager has been employed by the SKF Group for at least 30 years. The pension benefit is thereafter not conditioned upon future employment.

During 2003 the Board decided to introduce a premium based Swedish supplementary pension plan for senior managers of the Swedish companies within the SKF Group. The normal retirement age is 62 years. The Chief Executive Officer is not covered by this pension plan. The plan covers, at the end of 2006, five senior managers and entitles them to an additional pension over and above the pension covered by the ITP-plan. The senior managers in question are not covered by the defined benefit pension plan described in the previous paragraph. The company pays for the senior managers covered by the premium based plan contributions based on each individual's pensionable salary (i.e. the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. This pension is a defined contribution pension and vested.

The cost for these additional pension benefits in year 2006 amounted to 9,046,582. For additional pension a provision was recorded in the amount of 36,144,062 as at 31 December 2006.

Salaries and other remunerations received 2006

<i>All amounts in SEK</i>	Fixed salary/ fixed Board remuneration	Variable salary	Board remuneration based on value of SKF B share ¹⁾	Remuneration for committee work	Other benefits	Pension benefits cost
Chairman of the Board	750,000		344,960	469,960		
CEO/ President						
Tom Johnstone	6,000,000	3,450,000			214,467	2,868,767
Group Management	32,284,143 ²⁾	12,967,260			6,247,714	9,046,582
Total	39,034,143	16,417,260	344,960	469,960	6,462,181	11,915,349

¹⁾ The remuneration was decided in year 2005, but paid in year 2006. The value of the SKF B share has been determined to SEK 107.80 based on the average latest payment rate according to the quotations on the Stockholm Stock Exchanges during the five trading days after publication of the company's press release for the financial year 2005.

²⁾ The fixed salary is for the managers that have joined or left Group Management during the year, accounted in relation to the period that each individual has been a member of Group Management.

AB SKF's Stock Option Programme

The Stock Option Programme started in 2000 and grants were made from 2001 until 2003. Since 2004, the remuneration to the SKF Group managers does not include any allocations of stock options. Accordingly, SKF Group managers did not receive any stock options in relation to the 2006 performance.

The allocation of options under the Stock Option Programme was based on financial performance defined as the Group's management

model TVA and varied from year to year depending on whether the financial targets were totally or partly reached. The options under the Stock Option Programme, which were granted free of charge, are not assignable or transferable and are linked to employment with the SKF Group. The options are exercisable during a period of six years starting two years from the date of grant, provided the option holder is still employed with the SKF Group.

29 Employee benefits (cont.)

To fulfil its obligations under the Stock Option Programmes with the employees, SKF entered into a service agreement with a financial institution to purchase its shares on the open market upon exercise of options and to deliver them to its employees. The difference between exercise price and market price is then settled in cash between SKF and the financial institution. There are no holdings of SKF shares by AB SKF and there is no issuance of new shares. The service contract with the financial institution is considered an executory contract for which no provision is recorded since both parties will perform to an equal extent under the contract.

Costs and exercise of the Stock Option Programme

In 2006, the costs at exercise of options allocated in 2001 and 2002 under the Stock Option Programme, excluding social charges, amounted to 46 (46 and 9) of which 6 related to key management.

A positive effect of 61 (24 and 10) from termination of share swap agreements hedging the Stock Option Programmes offset this cost, see Note 32.

At the end of 2006, exercisable stock options granted in 2001 and 2002 entitling the holders to acquire 943,459 existing SKF B shares had not yet been utilised. Based on the share price for the SKF B share at 31 December 2006, SEK 126.50, and the exercise prices of the underlying shares the unrealised cost for the SKF Group, excluding social charges, could be estimated to 69. The cost was not recognised in the income statement of the Group. The future actual cost for the Group will, however, be determined by the price of the SKF B share at exercise date.

The initial fair value at grant date of the Stock Option Programme allocated in 2003 was expensed during the vesting period, which ended in February 2005, see Note 1. The expense for 2005 and 2004 amounted to 1 and 14, respectively. As the financial institution's

acquisitions of SKF B-shares represent, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the difference in exercise price and share price is recorded as a decrease in equity when these options are exercised. The decrease amounted in 2006 to 25 (43) of which 2 related to key management.

At the end of 2006, exercisable stock options granted in 2003 entitling the holders to acquire 1,445,344 existing SKF B shares had not yet been utilised. Based on the share price for the SKF B share at 31 December 2006, SEK 126.50, and the exercise price for the underlying shares, the unrealised fair value was estimated to 105, excluding social charges. The amount was not recognised as a decrease of equity in 2006. The future actual fair value will be determined by the price of the SKF B share at exercise date.

A provision amounting to 24 (29 and 14) has been recorded for social charges payable by the employer when stock options are exercised and the expense recognised in 2006 amounted to 1 (24 and 3). The social charges have been calculated for all outstanding options at 31 December 2006. The costs recognised for administration and consultancy fees were 1 (1 and 3).

Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF were granted an allotment corresponding to 11,600 SKF B shares by the Annual General Meeting of Shareholders in April 2006. The value of the SKF B share will be set at the average latest payment rate quoted on the OMX Stockholm Stock Exchange during the five trading days following the publication of SKF's press release for the financial year. The liability incurred is recognised over the vesting period and amounted to 2, including social charges, based on the price of the SKF B share on 31 December 2006, SEK 126.50.

Specification of AB SKF's Stock Option Programme

	No. of options allocated	No. of people	Exercise price SEK	Theoretical value at allocation SEK	Exercise period	Out- standing options ¹⁾ 1 Jan.	Forfeited total (of which during the year)	Exercised during the year	Average price SEK	Outstanding options ¹⁾ 31 Dec.	SKF B share Closing price 31 Dec.
Grant 2001											
2006	1,750,549	183	39.96	10.50	2003-07	412,923	97,803 (2)	264,843	120.00	148,078	126.50
2005	1,750,549	183	39.96	10.50	2003-07	788,013	97,801 (2,000)	373,090	82.80	412,923	111.50
2004	1,750,549	183	39.96	10.50	2003-07	1,154,343	95,801 (34,837)	331,493	70.50	788,013	74.00
Grant 2002											
2006	2,568,996	271	56.49	11.50	2004-08	1,211,624	160,672 (0)	416,243	117.00	795,381	126.50
2005	2,568,996	271	56.49	11.50	2004-08	2,269,321	160,672 (8,261)	1,049,436	82.70	1,211,624	111.50
2004	2,568,996	271	56.49	11.50	2004-08	2,465,714	152,411 (49,564)	146,829	70.50	2,269,321	74.00
Grant 2003											
2006	3,531,581	330	53.51	9.25	2005-09	1,836,920	191,604 (0)	391,576	120.50	1,445,344	126.50
2005	3,531,581	330	53.51	9.25	2005-09	3,357,397	191,604 (17,420)	1,503,057	82.80	1,836,920	111.50
2004	3,531,581	330	53.51	9.25	2005-09	3,461,907	174,184 (104,510)	–	–	3,357,397	74.00

¹⁾ Options mean the number of existing SKF B shares that the stock options entitle the holders to acquire.

30 Fees to the auditors

<i>Fees to SKF Group statutory auditors were split as follows</i>	2006	2005	2004
Audit fees	46	25	24
Audit related fees	0	2	5
Tax fees	2	1	2
Other fees to auditors	2	0	8
	50	28	39
<i>The Parent Company's share</i>			
Audit fees	9	1	1
Audit related fees	0	2	3
Tax fees	0	0	1
Other fees to auditors	0	0	0
	9	3	5

At the Annual General Meeting of Shareholders in 2005, KPMG Bohlins AB was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2009. The fees for 2005 and 2006 refer to KPMG Bohlins AB, whereas the fees for 2004 refer to Arthur Andersen AB. As of 1 June 2002 Arthur Andersen AB and Arthur Andersen KB com-

pleted an asset purchase transaction with Deloitte & Touche ATR AB, whereby certain partners and employees joined the latter firm. As a consequence of this, Deloitte & Touche undertook to perform the audit on behalf of Arthur Andersen AB according to a special arrangement.

31 Average number of employees

	2006		2005		2004	
	Number of employees	Whereof men	Number of employees	Whereof men	Number of employees	Whereof men
Parent Company in Sweden	169	56%	150	59%	136	60%
Subsidiaries in Sweden	2,910	83%	2,782	84%	4,550	82%
Subsidiaries abroad	36,701	80%	34,522	80%	33,816	79%
	39,780	80%	37,454	80%	38,502	79%

32 Risk management and hedging activities

The SKF Group's operations are exposed to various types of financial risk. The Group's financial policy includes 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 minimise 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 centralised at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorised for use in the management of financial risks. Financial derivative instruments are used primarily to hedge 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.

The Group also has a policy for the management of financial risks involved in the stock options allocated in 2001-2003. The Stock Option Programme (see Note 29) has been partially hedged by share swap arrangements.

During 2006, forward exchange contracts, cross-currency swaps and currency options were the derivative financial instruments used by the Group to hedge foreign currency rate exposure. Cross-currency and interest rate swaps were used to manage the interest rate exposure on foreign currency borrowing by swapping fixed interest rates in EUR to floating interest rates in SEK and on investments by swapping fixed interest rates to floating interest rates. Share swaps were used to reduce the costs related to the Stock Option Programme of the SKF Group.

32 Risk management and hedging activities (cont.)

In 2006, the change in fair value of all derivatives, except for those qualifying for cash flow hedge accounting as defined by IAS 39, was recognised in the balance sheets as assets or liabilities and in the income statements as financial income or expense. On 31 December the unrealised gain of all derivatives amounted to 170 net. In the balance sheet, 274 was included in assets and 104 in liabilities. Market quotes were obtained for all financial derivative instruments.

Forward exchange contracts and currency swaps are valued at the forward rate. For currency options, the Black & Scholes option pricing model is used. The future cash flows of interest rate swaps are discounted to present value using market interest rates for the relevant interest period.

All forward exchange contracts and currency options will mature in 2007. Interest rate swaps will mature in 2008. For cross-currency interest rate swaps the maturity dates vary from 2009 to 2013. The share swaps used partially to hedge the SKF Stock Option Programme will expire in 2007, 2008 and 2009.

Certain business contracts may include embedded derivatives, which should be accounted for separately. Starting from 2005, such embedded derivatives are valued at fair value and recognised as either assets or liabilities in the balance sheet in order to correctly reflect the Group's financial position.

At 31 December the fair value of such embedded derivatives amounted to -4 (1 and 23). The table below summarises the notional amounts of the Group's outstanding contracts with embedded derivatives.

Embedded derivatives			
Type of contract	2006	2005	2004
Exchange risk insurance contracts	-	-	92
Sales/purchases in third-party currency	562	280	282
	562	280	374

Foreign currency exchange rate management

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 currency, i.e. transaction exposure. The Group's accounts are also affected by the effect of translating the results and net assets of foreign subsidiaries to SEK, i.e. translation exposure.

A sensitivity analysis based on year-end figures and on the assumption that everything else is equal shows that a weakening/strengthening of 10% in the SEK against the USD has a positive/negative effect from net currency flows on profit before taxes of approximately 400, excluding any effects by hedging transactions. For the commercial flows the SKF Group is primarily exposed to USD and USD-related currencies. In addition, as the major part of the profit is made outside Sweden, the Group is also exposed to translational risks of all the main currencies. A weakening/strengthening of 5% in the SEK versus all the major currencies has a positive/negative effect of the translation of profits into SEK of approximately 200-250.

Transaction exposure

Transaction exposure mainly arises when manufacturing SKF companies sell their products to SKF companies situated in other countries to be sold to end-customers on that local market. Sales to end-customers are normally made in 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. Internal invoicing during a quarter was made at fixed forward rates based on external market rates. Currency exposure and risk is primarily and to a large extent reduced by netting internal transactions. In some countries, transaction exposure may arise from sales to external customers in a currency different from local currency.

The currency flows between SKF companies managed by SKF Treasury Centre in 2006 were reduced through netting from 49,300 to 4,990. This amount represented the Group's main transaction exposure in 2006.

Net currency flows in 2006	Flows, MSEK	Average rate
USD	3,970	7.59
CAD	400	6.69
EUR	-200	9.37
Other ¹⁾	820	
SEK	-4,990	

¹⁾ Other is a sum comprising some 10 different currencies.

The Group's policy has been to hedge the currency flows for three to twelve months on average. As from 1 January 2006, when the Amendment to IAS 39, "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" was implemented, hedge accounting as defined by the amended IAS 39 has been limited to USD only, which represents the main transaction exposure of the Group.

On 1 January 2005, when the SKF Group changed its accounting policy, an amount of 203 representing the gross fair value of derivatives not previously recognised was recorded in equity in accordance with the transitional provisions allowed under IFRS 1 for financial instruments recognised and measured under IAS 39. Of this amount, 119 qualified for cash flow hedge accounting as defined by IAS 39 and was separately recognised in a hedging reserve in equity.

As of 31 December 2006, the Group had outstanding cash flow hedging contracts as defined by IAS 39 of 344 (2,815) maturing in 2007 and a cumulative change in fair value of 198 (-231) recognised in the hedging reserve in equity. In 2006, an exchange gain of 146 (loss of 107) related to cash flow hedges was reclassified into the operating profit. An exchange loss of 51 was reclassified and recognised as a financial expense because the hedge designation was revoked.

Hedges of forecasted transactions complying with the Group's risk management policy but not qualifying for hedge accounting have been classified as economic hedges and accounted for as trading instruments, see Note 1.

Group policy states that financial assets and liabilities should be invested or raised internally within the Group. All currency risk exposure related to the internal bank activities was hedged by forward contracts.

The table below summarises the gross contractual amounts of the Group's derivative financial instruments as of 31 December:

<i>Type of instruments</i>	2006	2005	2004
Forward exchange contracts	18,929	13,304	18,866
Currency options	74,666	22,619	2,468
Cross-currency and interest rate swaps	14,630	12,222	918
Share swaps	242	309	337
	108,467	48,454	22,589

The table below summarises the gross contractual amounts of the Group's derivative financial instruments by purpose:

<i>Purpose</i>	2006	2005	2004
Hedging of			
- firm commitments	4,345	3,109	4,108
- anticipated transactions	815	4,407	2,871
- other internal bank activities	20,957	16,644	9,563
Share swaps	242	309	337
Trading	82,108	23,985	5,710
	108,467	48,454	22,589

The table below summarises the change in fair value of the Group's financial derivative instruments and the amounts recognised as of 31 December:

<i>Type of instruments</i>	2006	2005	2004	
	Book and fair value	Book and fair value	Book value	Fair value
Forward exchange contracts	26	11	-5	57
Currency options	61	44	1	32
Cross-currency and interest rate swaps	-81	69	0	0
Share swaps	164	191	-	87
	170	315	-4	176

32 Risk management and hedging activities (cont.)

The following tables summarise information on financial derivative instruments and transactions that are sensitive to fluctuations in foreign currency exchange rates, including forward exchange

contracts, currency options, firmly committed sales transactions and anticipated sales transactions, internal bank activities, as well as trading activities.

	Nominal value Contract amount Gross	Net exposure long/short(-) currency position	Average price	Fair value long/short(-)
<i>Forward exchange contracts</i>				
<i>Hedging of firm commitments</i>				
USD	1,873	-766	6.87	-749
EUR	1,316	1,078	9.03	1,070
SGD	160	-134	4.46	-135
BRL	141	-141	3.22	-143
Other	855	-322	-	-320
	4,345	-285		-277
<i>Hedging of internal bank activities</i>				
EUR	2,246	-1,138	9.09	-1,139
USD	2,332	-267	7.09	-260
GBP	932	904	13.4	911
KRW	216	-216	7.39	-219
IDR	120	-120	0.76	-126
Other	481	-153	-	-134
	6,327	-990		-967
<i>Hedging of anticipated transactions</i>				
USD	619	-488	7.00	-480
Other	196	-16	-	-20
	815	-504		-500
<i>Trading</i>				
JPY	3,458	2,175	57.83	2,177
USD	1,184	-239	6.88	-235
NOK	752	-389	1.09	-390
EUR	633	-240	9.05	-236
AUD	479	-16	5.44	-16
GBP	178	-179	13.48	-178
NZD	168	-133	4.86	-136
THB	142	0	0.19	0
Other	448	13	-	-3
	7,442	992		983
Total MSEK	18,929	-787		-761

Fair value represents settlement value at 31 December 2006. Fair value of currency forward contracts is specified per currency and therefore gain in one currency may be offset by loss in another

currency. Internal bank activities include transactions related to currency management for funding of operations within the Group.

Currency Options		Contract Currency	Contract amount	Strike Price	Fair value Gain/Loss (-)
Trading					
Written options	Call EUR/Put USD	EUR	1,504	1.2730	-8
		USD	1,504		
	Call EUR/Put JPY	EUR	2,099	147.7870	-3
		JPY	2,099		
	Call GBP/Put USD	GBP	351	0.5295	0
		USD	351		
	Call JPY/Put NOK	JPY	4,002	0.0571	-56
		NOK	4,002		
	Call USD/Put JPY	USD	1,119	108.8071	-1
		JPY	1,119		
			18,150		-68
	Call AUD/Put SEK	AUD	2,230	5.3840	-24
		EUR	1,176		
	Call EUR/Put SEK	EUR	1,176	9.2310	0
		JPY	6,150		
	Call JPY/Put SEK	JPY	6,150	0.0645	-99
		NOK	876		
	Call NOK/Put SEK	NOK	876	1.1435	-24
		NZD	2,306		
	Call NZD/Put SEK	NZD	2,306	4.5720	-14
		USD	481		
	Call USD/Put SEK	USD	481	7.3135	-16
		SEK	13,220		
			26,439		-177
Purchased options	Put EUR/Call USD	EUR	996	1.2770	13
		USD	996		
	Put EUR/Call JPY	EUR	1,228	158.2330	5
		JPY	1,228		
	Put GBP/Call USD	GBP	351	0.5295	6
		USD	351		
	Put JPY/Call NOK	JPY	2,662	0.0549	54
		NOK	2,662		
	Put USD/Call JPY	USD	859	116.1211	7
		JPY	859		
			12,192		85
	Put AUD/Call SEK	AUD	2,121	5.5230	27
		JPY	3,497		
	Put JPY/Call SEK	JPY	3,497	0.0629	141
		NOK	876		
	Put NOK/Call SEK	NOK	876	1.1441	24
		NZD	1,990		
	Put NZD/Call SEK	NZD	1,990	4.6310	16
		USD	413		
	PUT USD/Call SEK	USD	413	7.5797	13
		SEK	8,897		
			17,794		221
	Put/Call Various currencies		45		
			46		
			91		0
Total MSEK			74,666		61

32 Risk management and hedging activities (cont.)

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 Swedish kronor. In accordance with Group policy, these translation effects on the Group's accounts are not hedged.

Interest rate risk management

Interest rate exposure is defined as the Group's exposure to the effects of future changes in the prevailing level of interest rates.

Liquidity and borrowing is concentrated at SKF Treasury Centre. By matching investments made by subsidiaries with borrowings of other subsidiaries, the interest rate exposure of the Group can be reduced.

The exposure to currency and interest rate risk in foreign borrowing has been managed by cross-currency interest rate swaps.

EUR loans with fixed interest rates have been swapped into SEK loans with floating 3 months' interest rates. As of 31 December the hedged loans amounted to MEUR 750. The floating 3 months' SEK rate was 3.42% for these loans.

The SKF Group policy states that the average interest period for investments must not exceed 12 months. As of 31 December 2006, the average interest period for the Group's investments was 2 months and for loans 3 months taking into account of cross-currency and interest rate swaps. Interest rate swaps were also used for trading purposes in 2006.

As of 31 December the Group had net current financial assets (current financial assets less total loans) of 877 (590 and 2,449).

A change of one percentage point in interest rates influences profit before taxes by approximately 3.

The tables below summarise as of 31 December 2006, the cross-currency and interest rate swaps of the Group. These derivatives were used to manage currency and interest rate exposure, as well as

for trading purposes. Notional amounts, weighted interest rates by contractual maturity dates and future cash flows are presented.

Cross-currency and interest rate swaps used to manage currency and interest exposure

Fair value hedging of loans

	Contract amount	Average fixed interest rate	Average floating interest rate	Maturity
MEUR 250	2,287	3.00	3.51	2010
MEUR 500	4,521	4.25	3.32	2013

Hedging of assets

MSEK 205	205	3.21	3.58	2008
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Interest rate swaps for trading

MEUR 33	302		3.45	2009
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Cash flow of cross-currency and interest rate swaps - interest received/paid (-)

Fair value hedging of loans

	Contract amount gross	2007	2008	2009	2010	2011	2012	2013	Total
Total at fixed rates	6,808	260	260	260	260	192	192	192	1,616
Total at floating rates	6,808	-231	-231	-231	-191	-150	-150	-150	-1,334

Hedging of assets

Total at fixed rates	205	7	3						10
Total at floating rates	205	-7	-7						-14

Trading

Total at fixed rates	302	12	12	6					30
Total at floating rates	302	-11	-11	-5					-27

Total	14,630	30	26	30	69	42	42	42	281
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Risk management – Stock Option Programme

In 2000, a Stock Option Programme on SKF B shares already issued was introduced. The purpose of the SKF Stock Option Programme and the allocation model on which the grant of options is based are described in detail in Note 29.

To reduce the cost to the Group that could result from an increase in the market price of the SKF B share when stock options allocated under the Stock Option Programme become exercisable, share swap arrangements were made with financial institutions.

Share swaps are valued at fair value with changes in fair value recognised on the balance sheet and in the income statement. The impact of the share swap agreements on the financial result

in 2006 was 40, including changes in fair value, realised gains of terminated share swap agreements, as well as dividend received and interest paid under the share swap agreements.

As at 31 December 2006, the number of SKF B shares constituting the notional amount agreed upon under the swap agreements and the basis for the swap calculations was 2,252,000. Under the swap agreements, the SKF Group will receive from the banks an amount equivalent to the dividend per share times the number of SKF B shares under the swap agreement and every quarter the SKF Group will pay to the bank an amount equivalent to STIBOR plus a spread over the notional amount of the swap agreement.

The floating STIBOR plus spread rate at 31 December was 3.78%. The Board of AB SKF has proposed to the Annual General Meeting that a dividend of SEK 4.50 per share be paid to the shareholders. The maturity dates of the agreements are 2007, 2008 and 2009, but the SKF Group has the option to close the agreements partly or fully every quarter, provided that notice has been given 30 days in advance.

In the table below, the amounts to be received/paid by expected (contractual) maturity days are presented. The cash flow calculation is based on unchanged notional amount to maturity, 2,252,000, unchanged floating STIBOR rate including spread, 3.78%, and a dividend of SEK 4.50.

<i>Share swaps</i>	Nominal value contract amount gross	2007	2008	2009	Total
Total, amount to receive	121	10	6	–	16
Total, amount to pay	121	–5	–3	–	–8
Total MSEK	242	5	3	–	8

Liquidity risk management

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 not falling below MEUR 300. In addition to its own liquidity, the Group had committed credit facilities of MEUR 300 syndicated by 10 banks at 31 December 2006. These facilities, which are unutilised, will expire in 2012. Available liquidity as per 31 December amounted to 8,930 (4,886 and 3,565).

A good rating is important in the management of liquidity risks. The long-term rating of the Group by Standard & Poor and Moody's Investor Service is A- and A3 respectively, both with a stable outlook.

Credit risk management

Credit risk is defined as the Group's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation.

The Group only deals with well-established international financial institutions. The Group does not obtain collateral or other security to support financial derivative instruments subject to credit risk.

The Group's policy states that only well-established financial institutions are approved as counterparties. The major part of these financial institutions have signed an ISDA agreement (International Swaps and Derivatives Association, Inc.). Transactions are made within fixed limits and exposure per counterparty is continuously monitored.

For financial derivative instruments and investments, the Group's credit risk exposure related to the two counterparties with the largest concentration of risks was 1,852 and 1,828 respectively, at 31 December 2006.

The Group's concentration of credit risk related to trade receivables is limited primarily because of its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

33 Men and women in Management and Board

	2006		2005		2004	
	Number of persons	Whereof men	Number of persons	Whereof men	Number of persons	Whereof men
The Group						
Board of Directors of the Parent Company	10	80%	10	80%	10	80%
Group Management	12	83%	14	86%	16	88%
Other Management	292	92%	286	94%	204	93%
	314	92%	310	93%	230	92%
	2006		2005		2004	
	Number of persons	Whereof men	Number of persons	Whereof men	Number of persons	Whereof men
Parent Company						
Board of Directors of the Parent Company	10	80%	10	80%	10	80%
Group Management	9	78%	9	78%	10	80%
Other Management	18	61%	25	64%	19	68%
	37	70%	44	70%	39	74%

34 Events after the balance sheet date

The significant events that have occurred after 31 December 2006, until the date of the signing of this annual report on 30 January 2007, refer to:

- On 11 January 2007, the SKF Group acquired 100% of the issued share capital of Preventive Maintenance Company Inc. (PMCI), Illinois, USA for a consideration of approximately 159. PMCI is a market leader in Predictive Maintenance (PdM) services for industrial customers in the pulp & paper, metals, food, automotive and other industries. The PMCI acquisition strengthens the Group's position in reliability services, condition monitoring products and maintenance strategies. This transaction has not been included in the consolidated financial statements of 2006. The integration of PMCI into the Group has just started and no measurement of fair values has been made as yet;
- The Board of Directors proposes an increase in the dividend of 12.5%, giving a dividend of SEK 4.50 per share. The Board of Directors also proposes a share split 2:1 combined with an automatic redemption procedure. Through this procedure the shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 10.00. The proposal means that 4,554 will be distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders will be 6,603;
- The Board of Directors' proposes that the Annual General Meeting resolves to authorize the Board, until the next Annual General Meeting, to decide upon the repurchase of the company's own shares. If shares are repurchased, the Board intends to cancel such own shares through reduction of the share capital. These proposals are subject to resolutions by the Annual General Meeting in April 2007.
- The Group's income- and balance sheets, as well as the Parent Company's income- and balance sheets, are subject to adoption at the Annual General Meeting in April 2007.

35 Summary of differences between IFRS and US GAAP

The SKF Group files an annual report, Form 20-F, with the US Securities and Exchange Commission (SEC). The financial statements of the Group are prepared in accordance with IFRS, which differ, in certain respects from US GAAP, as described below.

1. Deferred income taxes

Adjustments for deferred income taxes in the reconciliation to US GAAP are attributable to the differences described below (see items 35.2 to 35.13). The adjustments in 2005 also include a reversal of a deferred tax liability amounting to 144, which was previously recorded for US GAAP purposes only on the revaluation of fixed assets in Italy. This valuation was distributed as dividend in 2005 triggering tax expense already in the IFRS books.

2. Revaluation of property, plant and equipment

Under previous GAAP, property, plant and equipment in certain countries has been revalued to an amount in excess of cost. Upon transition to IFRS, the Group elected to consider such revalued amounts as "deemed cost". US GAAP, however, does not permit the revaluation of property, plant and equipment to amounts in excess of cost. The adjustments to US GAAP include the effects, if any, upon disposal of the asset.

3. Capitalization of interest cost

As allowed by IFRS the Group has elected not to capitalize interest cost incurred in connection with the financing of construction of property, plant and equipment.

Under US GAAP interest costs are capitalized during the construction period as part of the cost of the qualifying asset. The capitalized interest is amortized over the estimated useful life of the asset as part of the depreciation charge.

4. Capitalization of development expenditures

IFRS requires expenditures during the development phase to be capitalized as intangible assets if it is probable, with a high degree of certainty, that they will result in future economic benefits for the Group.

Under US GAAP development expenditures are charged to expense when incurred.

5. Provisions for restructuring, termination benefits and impairment of property, plant and equipment

Provisions for restructuring and termination benefits for US GAAP are required to be in accordance with Statement of Financial Accounting Standard (SFAS) 146, "Accounting for costs associated with exit or disposal activities". SFAS 146 prescribes restrictive rules for when provisions for one-time involuntary termination benefits and other costs associated with such activities can be recorded. Generally, involuntary one-time termination benefits can only be recorded if there is no requirement on the part of the employee to work past a legal notification period or 60 days if no legal notification period exists. If some type of service is required past this period, the provision should be allocated over the service period required. Other associated costs can only be recorded when a liability has been incurred.

US GAAP SFAS 88 "Employers' accounting for settlements and curtailments of defined benefit pension plans and for termination benefits" allows provisions to be recorded for one-time voluntary termination benefits when the employees have accepted the offer.

IFRS allows restructuring provisions, including both voluntary and involuntary termination benefits, and other costs associated with the restructuring to be recorded when a commitment to the plan is demonstrated via a public announcement, sufficient details of the plan are available, and the amounts can be reasonably estimated. However, if there is a requirement for service in connection with

termination benefits, such benefits are regarded as “stay bonuses”, and the cost is spread over the service period.

Impairments on property, plant and equipment have been made for IFRS in connection with restructuring activities of certain operations. Differences between these impairments under IFRS and US GAAP are related to the following:

- In 2005, an impairment was reversed as allowed by IFRS. Reversals of impairments are not allowed under US GAAP;
- In 2006, an impairment was made for IFRS which was not required under US GAAP.

These differences in the carrying values of property, plant and equipment are depreciated over the remaining useful lives.

6. Gains on sales of real estate

Gains on the sale of real estate that are leased back in the form of operational leases are realized at the date of the transaction for IFRS but should be deferred and amortized over the life of the lease according to US GAAP. Gains on sales of real estate in Sweden, the Netherlands, Belgium and France have been deferred in accordance with these principles.

7. Share-based compensation for employees

The Group has employee stock option programmes and records provisions for related social costs in accordance with IFRS. However, under US GAAP, employer taxes on employee share-based compensation should not be recognized until the date of the event triggering the measurement and payment of the tax to the taxing authority, which is generally the date the option is exercised by the employee.

Under IFRS 2, the fair value at grant date of stock option program 2003, which vested in February 2005, was to be recognized directly in equity and amortized as an expense over the vesting period. The fair value was determined using the Black-Scholes valuation model. As further discussed in Note 29, the costs associated with the financial institution's acquisitions of SKF B-shares associated with the exercise of options under this program are recognized directly in equity. In 2005 and 2004, in accordance with US GAAP, the Group applied APB Opinion 25 and no initial recognition of fair value was made. Additionally, under US GAAP such costs discussed in Note 29 related to the financial institution's acquisitions of SKF B-shares associated with the exercise of options under this program are recognized in the income statement at the exercise date. As of 1 January 2006, the Group applied SFAS 123R, “Share-Based Payment”. Reference is made to the effects of the adoption of SFAS 123R in section 35.16.

8. Other employee benefits

Pensions and post-retirement benefits are considered post-employment benefits under IFRS and are accounted for by the Group in accordance with IAS 19 “Employee benefits”.

Under IFRS, defined benefit post-employment obligations and expenses are actuarially determined in the same manner as US GAAP SFAS 87 “Employers’ accounting for pensions” and SFAS 106 “Employers’ accounting for postretirement benefits other than pensions”, using the projected unit credit method. However, some significant differences exist between IFRS and US GAAP:

- IAS 19 had been implemented effective 1 January 2003. SFAS 87 was implemented in 1989 for non-US Plans and in 1987 for US Plans, and SFAS 106 was implemented in 1993. The difference in implementation dates causes a significant difference in accumulated gains and losses, where the accumulated gains and losses under

IFRS are deferred and only disclosed in the notes, whereas under US GAAP the accumulated gains and losses have been accumulating since the implementation dates noted above and are as from 2006, accumulated in other comprehensive income;

- Under IFRS, the past service cost and expense resulting from plan amendments are recognized immediately if vested or amortized until vested. Under US GAAP, prior service costs are generally recognized over the average remaining service life of the plan participants;
- Under IFRS the estimated return on assets is based on actual market values while the US GAAP allows an estimated return on assets based on market-related values;
- Under US GAAP, for the years 2005 and 2004, an additional liability was recognized and charged to other comprehensive income when the accumulated benefit obligation exceeded the sum of the fair value of plan assets and unrecognized past service cost, if any, and this excess was not covered by the liability recognized in the balance sheet. Such “minimum liability” is not required under IFRS. In 2006 this minimum liability in US GAAP was replaced by the requirement to recognize the funded status, in accordance with SFAS 158.

The adjustment in the US GAAP reconciliation represents a combination of the above differences.

9. Derivative instruments and hedging activities

Starting from 2005, all derivatives are recognized at fair value in the balance sheets and all changes in fair value are recognized in earnings unless they are designated and effective hedging instruments. The IFRS accounting policies applied to derivatives and hedging comply with US GAAP and no adjustment is therefore needed for 2005 and 2006.

The SKF Group has chosen not to restate comparable 2004 financial information for the requirements of IAS 39, “Financial Instruments: Recognition and Measurements”, as allowed under the transitional provisions of IFRS 1. The hedge accounting rules under previous Swedish GAAP applied for 2004 did not meet the hedge accounting criteria under US GAAP and therefore all outstanding financial derivative instruments are recognized at fair value in the US GAAP balance sheets and all changes in fair value are recognized in earnings.

10. Negative goodwill

Under IFRS any excess of net identifiable assets and liabilities acquired over the cost of an acquisition, after insuring that the fair values of assets are not overstated, is recognized in the income statement.

For US GAAP, any excess of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition is first used to reduce the fair values assigned to non-current assets on a pro rata basis. If any excess still exists it is recognized immediately in the income statement as an extraordinary gain. For the Group all such negative goodwill was allocated to property, plant and equipment.

Consequently the amounts increasing net profit under US GAAP as of 31 December 2004, 2005 and 2006 refer to amortization of the reduced carrying amounts of the non-current assets for US GAAP.

11. Goodwill and other intangible assets

Under IFRS, goodwill and other intangible assets are accounted for in accordance with IAS 38 “Intangible assets” which among other things requires that goodwill and other intangibles with indefinite lives

35 Summary of differences between IFRS and US GAAP (cont.)

should not be amortized but rather tested annually for impairment and more frequently if circumstances indicate a possible impairment. The impairment process for such intangibles is described in Note 1.

While the accounting for such intangibles is mainly similar under US GAAP, there are certain differences:

- SFAS 142 "Goodwill and other intangible assets" was adopted 1 January 2002 for US GAAP purposes meaning that amortization stopped in 2002 while under IFRS amortization of such intangibles stopped 2003;
- Goodwill impairment test is performed at cash generating unit (CGU) level and for US GAAP purposes is comprised of two steps. The initial step is designed to identify potential goodwill impairment by comparing an estimate of the fair value of the applicable cash generating unit to its carrying value, including goodwill. The Group's measurement of fair value is based on an evaluation of future discounted cash flows consistent with those utilized in the Group's annual planning process for impairment tests. If the carrying value exceeds fair value, a second step is performed, which compares the implied fair value of the applicable cash generating unit's goodwill with the carrying amount of that goodwill, to measure the amount of goodwill impairment, if any. Under IFRS impairments of 128 (24 and 21) were recorded as a result of the annual impairment test. For US GAAP purposes impairments totalling 128 (32 and 28) were recorded.

Changes in the carrying amount of goodwill for US GAAP purposes were as follows during each of the years ended 31 December:

	2006	2005	2004
Balance at 1 January for			
US GAAP reporting purposes	1,099	725	650
Impairments	-128	-32	-28
Goodwill arising from			
acquisitions of businesses	755	301	144
Foreign currency translation			
and other adjustments	-207	105	-41
Balance at 31 December for			
US GAAP reporting purposes	1,519	1,099	725

12. Investments in equity securities

The Group classifies investments in equity securities as available for sale. Under IFRS, these investments are carried at fair value, if reliably measurable, with changes in fair value recognized directly in equity. Quoted market prices and valuation techniques are used for estimating fair value. In accordance with the transitional provisions allowed under IFRS 1 for financial instruments recognized and measured under IAS 39, "Financial Instruments, Recognition and Measurement", the SKF Group chose not to restate comparable 2004 financial information for the requirements of IAS 39.

In accordance with US GAAP, the SKF Group applies SFAS 115, "Accounting for certain investments in debt and equity securities". SFAS 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair market values and for all debt securities. The investments classified as available for sale are reported at fair value with unrealized gains or losses included in shareholders' equity. Investments in equity securities not quoted

in an active market are reported at cost less other than temporary impairments, if any. Under Swedish GAAP applied to 2004, reversal of previously recorded impairment charges were recorded in net profit and loss.

13. Minority interests

In accordance with IFRS, minority interests are presented as an item within equity and the profit attributable to minority interests is specified below the net profit line. Under US GAAP, minority interests are shown as a separate category from equity and liabilities in the balance sheet and the share of the profit attributable to minority interests is shown as a separate line in the income statement.

14. Comprehensive income according to SFAS 130

IFRS does not require the presentation of comprehensive income in addition to net profit for the year. The comprehensive income required to be presented under US GAAP was as follows:

	2006	2005	2004
Net profit in accordance with			
US GAAP	4,288	3,589	2,750
<i>Other comprehensive income net</i>			
<i>of tax:</i>			
Translation adjustments	-1,378	1,650	-482
Minimum pension liability	-469	-4	-139
Unrealized gains on equity			
securities	-	-	48
Release on disposals of cash			
flow hedges	-69	79	-
Change in fair value of investment in			
equity securities and cash flow			
hedges	135	-151	-
Other comprehensive income	-1,781	1,574	-573
Comprehensive income in			
accordance with US GAAP	2,507	5,163	2,177

15. Diluted earnings per share

All dilutive potential shares related to the stock option programs of the Group have been considered in determining diluted earnings per share.

16. New accounting principles adopted in 2006 for US GAAP

SFAS 158 "Employers' accounting for defined benefit pension and other postretirement plans" was issued by the FASB in September 2006. Statement SFAS 158 requires an employer to recognize the funded status of pension and other postretirement benefit plans (other than a multi-employer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The adoption of SFAS 158 resulted in a charge to equity reported in accordance with US GAAP with 578. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position for fiscal years ending after 15 December 2008, with limited exceptions. The Group is in the process of evaluating its processes and the changes required to meet this requirement.

In December 2004, the FASB issued SFAS 153, "Exchanges of nonmonetary assets – an amendment of APB Opinion No. 29." SFAS 153 eliminates the exception to fair value measurement for exchanges of similar productive assets and replaces it with a general exception to fair value measurement for exchange transactions that do not have commercial substance – that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. The Group has not made any material exchanges of nonmonetary assets during 2006.

In June 2005, the EITF reached a consensus on Issue No.05-5, "Accounting for early retirement or post employment programs with specific features (such as terms specified in Altersteilzeit early retirement arrangements)". This issue provides guidance on the accounting for the German Altersteilzeit (ATZ) early retirement programs and other types of benefit arrangements with the same or similar terms. The application of EITF Issue No.05-5 should be recognized prospectively as a change in accounting estimate. The adoption of EITF Issue No 05-5 did not have a material net effect on the Group's consolidated financial position or results of operations reported in accordance with US GAAP.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-based payment", effective 1 January 2006, which required the recognition of the cost of employee services based on the fair value at grant date of the equity or liability instruments issued. The Group has applied the modified prospective application method which results in fair value expenses being recorded for the unvested shares as of 1 January 2006; however, as all options issued by the Group

were vested at 1 January 2006, no options have been recorded at fair value under SFAS 123R.

17. New accounting principles to be adopted in future periods for US GAAP

In June 2006, the FASB issued interpretation No. 48, "Accounting for uncertainty in income taxes – an interpretation of FASB Statement No. 109" (FIN48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". The effective date for the Group is 1 January 2007. The impact of the adoption of FIN48 on the Group's consolidated financial position and results of operations reported in accordance with US GAAP has not been determined.

In September 2006, the FASB issued SFAS 157, "Fair value measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 is effective prospectively for the Group in accounting for fair value measurements, starting in 2008. The impact of the adoption of SFAS 157 on the Group's consolidated financial position and results of operations reported in accordance with US GAAP has not been determined.

18. Summary

The application of US GAAP would have the following effect on consolidated net profit, shareholders' equity and earnings per share:

<i>Net profit</i>	2006	2005	2004
In accordance with IFRS			
as reported in the consolidated income statements	4,432	3,607	2,976
<i>Items increasing/decreasing net profit:</i>			
35.1 Deferred income taxes	29	194	100
35.2 Depreciation on revaluation of assets	9	17	19
35.3 Capitalization of interest cost	-8	-39	-24
35.4 Capitalization of development expenditures	-121	-5	-18
35.5 Provisions for restructuring and asset impairments	48	-96	-315
35.6 Gains on sales of real estate	23	26	29
35.7 Share-based compensation for employees	-30	21	-32
35.8 Other employee benefits	-35	-54	21
35.9 Derivative instruments and hedging activities	–	–	90
35.10 Negative goodwill	56	12	11
35.11 Amortization and impairment of goodwill and other intangible assets	0	-8	-8
35.12 Investments in equity securities	–	–	-49
35.13 Minority interests	-115	-86	-50
Net change in net profit	-144	-18	-226
Net profit in accordance with US GAAP	4,288	3,589	2,750

35 Summary of differences between IFRS and US GAAP (cont.)

<i>Shareholders' equity</i>	2006	2005	2004
In accordance with IFRS as reported in the consolidated balance sheets	19,607	18,233	17,245
<i>Items increasing/decreasing shareholders' equity:</i>			
35.1 Deferred income taxes	-59	-393	-565
35.2 Reversal of revaluation of assets	-162	-185	-184
35.3 Capitalization of interest cost	128	136	174
35.4 Capitalization of development expenditures	-143	-23	-18
35.5 Provisions for restructuring and asset impairments	55	5	101
35.6 Gains on sales of real estate	-86	-110	-136
35.7 Share-based compensation for employees	24	29	-34
35.8 Other employee benefits	273	1,193	1,026
35.9 Derivative instruments and hedging activities	-	-	210
35.10 Negative goodwill	-29	-88	-94
35.11 Amortization and impairment of goodwill and other intangible assets	-53	42	40
35.12 Investments in equity securities	-12	-13	10
35.13 Minority interests	-634	-604	-504
Net change in shareholders' equity	-698	-11	26
Shareholders' equity in accordance with US GAAP	18,909	18,222	17,271
<i>Earnings per share, in SEK</i>	2006	2005	2004
Basic earnings per share in accordance with US GAAP	9.42	7.88	6.04
Weighted average number of shares outstanding	455,351,068	455,351,068	455,351,068
Diluted earnings per share in accordance with US GAAP	9.39	7.85	6.03
Adjusted weighted average number of shares outstanding	456,845,018	457,147,009	456,361,012

Parent Company income statements

<i>Millions of Swedish kronor</i>	<i>Note</i>	Years ended 31 December		
		2006	2005	2004
Net sales	1	1,439	1,384	1,326
Cost of services provided	5, 9, 15	-1,439	-1,384	-1,326
Gross profit		0	0	0
Administrative expenses	5, 9, 15	-326	-253	-155
Other operating income		22	16	11
Other operating expenses		-9	-7	-4
Operating loss		-313	-244	-148
Financial income	2	9,191	2,481	900
Impairment loss of financial assets	2	-324	-131	-135
Financial expense	2	-365	-539	-162
Profit before provisions to untaxed reserves and taxes		8,189	1,567	455
Provisions to untaxed reserves	3	-315	-209	-89
Taxes	4	165	133	181
Net profit		8,039	1,491	547

Parent Company balance sheets

Millions of Swedish kronor	Note	As of 31 December		
		2006	2005	2004
ASSETS				
Non-current assets				
Property, plant and equipment	5	11	12	14
Investments in subsidiaries	6	9,469	10,543	9,817
Receivables from subsidiaries		7,335	4,264	817
Investments in jointly controlled and associated companies	6	45	45	5
Receivables from jointly controlled and associated companies		–	200	–
Investments in equity securities	6	264	242	262
Deferred tax assets	4	44	53	44
Other assets		313	39	54
		17,481	15,398	11,013
Current assets				
Receivables from subsidiaries		5,174	1,482	1,366
Other receivables	7	212	178	168
Financial assets	8	7	5	2
		5,393	1,665	1,536
Total assets		22,874	17,063	12,549
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES				
Shareholders' equity				
Restricted equity				
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		1,138	1,138	1,423
Statutory reserve		918	925	633
Unrestricted equity				
Retained earnings		2,558	1,739	4,681
Net profit		8,039	1,491	547
		12,653	5,293	7,284
Untaxed reserves	3	875	560	351
Provisions				
	9			
Provisions for pensions and similar commitments		122	92	82
Other provisions		–	46	38
		122	138	120
Non-current liabilities				
Loans	10	7,015	4,051	785
Liabilities to subsidiaries		817	5,528	2,532
		7,832	9,579	3,317
Current liabilities				
Loans	11	665	–	–
Trade payables		41	27	18
Liabilities to subsidiaries		321	1,249	1,291
Tax payables		140	39	31
Other liabilities	12	225	178	137
		1,392	1,493	1,477
Total shareholders' equity, provisions and liabilities		22,874	17,063	12,549
Assets pledged	13	–	4	–
Contingent liabilities	14	3	6	6

Parent Company statements of cash flow

<i>Millions of Swedish kronor</i>	Years ended 31 December		
	2006	2005	2004
Operating activities			
Profit before provisions to untaxed reserves and taxes	8,189	1,567	455
<i>Adjustments for</i>			
Depreciation, amortisation and impairment loss	351	158	210
Net gain(-) on sales of property, plant and equipment	-5	-1	-
Net loss/gain(-) on sales of equity securities	-4,671	-52	-36
Income taxes paid	-172	-162	-72
Pensions paid	-48	-34	-32
<i>Changes in working capital</i>			
Trade payables	14	9	5
Other operating assets and liabilities, net	-3,081	908	1,182
Net cash flow from operating activities	577	2,393	1,712
Investment activities			
Purchase of property, plant and equipment	0	-1	-1
Sales of property, plant and equipment	6	2	10
Investments in subsidiaries	-175	-267	-142
Sales of equity securities	5,170	79	91
Net cash flow used in investment activities	5,001	-187	-42
Net cash flow after investments before financing	5,578	2,206	1,670
Financing activities			
Proceeds from medium- and non-current loans	4,516	3,196	0
Repayment of medium- and non-current loans	-650	-174	-513
Change in current loans	0	0	-200
Change in other long-term assets and liabilities, net	-7,621	-1,013	289
Contribution to pension plan	0	0	-109
Cash dividends to shareholders	-1,821	-1,366	-1,138
Redemption of shares	-	-2,846	-
Net cash flow used in financing activities	-5,576	-2,203	-1,671
Increase(+)/decrease(-) in cash and cash equivalents	2	3	-1
Cash and cash equivalents at 1 January	5	2	3
Cash and cash equivalents at 31 December	7	5	2

	Opening balance 2006	Exchange rate effect	Change in items	Closing balance 2006
<i>Change in net interest-bearing liabilities</i>				
Loans, long and short term	4,051	-237	3,866	7,680
Provisions for pensions and similar commitments	92	-	30	122
Liabilities to subsidiaries, long and short term	6,022	-	-5,092	930
Receivables from subsidiaries, long and short term	-4,227	241	-5,748	-9,734
Non-current receivables from jointly controlled and associated companies	-200	-	200	-
Other long-term assets	-	-	-300	-300
Financial assets, short term	-5	-	-2	-7
Net interest-bearing liabilities	5,733	4	-7,046	-1,309

Interest received amounted to 199 (144 and 131). Interest payments amounted to 342 (272 and 259).

Parent Company statements of changes in shareholders' equity

<i>Millions of Swedish kronor</i>	Share capital ¹⁾	Statutory reserve	Other restricted reserves	Unrestricted equity	Total
Opening balance 1/1/2004	1,423	633	–	5,146	7,202
Dividend	–	–	–	-1,138	-1,138
Net of received and paid Group contributions	–	–	–	935	935
Tax on Group contributions, net	–	–	–	-262	-262
Net profit	–	–	–	547	547
Closing balance 31/12/2004	1,423	633	–	5,228	7,284
Dividend	–	–	–	-1,366	-1,366
Redemption of shares	-285	285	–	-2,846	-2,846
Exercise of share options	–	–	–	-39	-39
Change in fair value of investments in equity securities	–	–	7	–	7
Net of received and paid Group contributions	–	–	–	1,060	1,060
Tax on Group contributions, net	–	–	–	-298	-298
Net profit	–	–	–	1,491	1,491
Closing balance 31/12/2005	1,138	918	7	3,230	5,293
Dividend	–	–	–	-1,821	-1,821
Exercise of share options	–	–	–	-24	-24
Change in fair value of investments in equity securities	–	–	-7	29	22
Net of received and paid Group contributions	–	–	–	1,589	1,589
Tax on Group contributions, net	–	–	–	-445	-445
Net profit	–	–	–	8,039	8,039
Closing balance 31/12/2006	1,138	918	–	10,597	12,653

¹⁾ The distribution of share capital between share types is shown in Note 19 to the consolidated financial statements.

Restricted equity

Share capital, statutory reserve and other restricted reserves are not available for dividend payments.

Unrestricted equity

<i>Unrestricted equity include</i>	2006	2005	2004
Retained earnings	2,592	1,778	4,681
Investment revaluation reserve	29	–	–
Share options reserve	-63	-39	–
Net profit	8,039	1,491	547
	10,597	3,230	5,228

Retained earnings include accumulated net profits which can be distributed to shareholders.

Notes to the financial statements of the Parent Company

Amounts in millions of Swedish kronor unless otherwise stated. Amounts in parentheses refer to comparable figures for 2005 and 2004, respectively.

1 Accounting policies

The financial statements of the Parent Company are prepared in accordance with the "Annual Accounts Act" and Swedish Financial Accounting Standards Council recommendation RR 32:05, "Accounting for Legal Entities" and statements of Emerging Issues Task Force.

In accordance with RR 32:05, 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 Groups accounting policies, see Note 1 to the consolidated financial statements.

With regard to pensions, the Group applies IAS 19, "Employee Benefits", where as the Parent Company continues to apply FAR's Recommendation 4, "Accounting of Pension Liabilities and Pension Costs".

Shares in subsidiaries, jointly controlled and associated companies are recorded at acquisition cost, reduced by any impairment.

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 Financial income, impairment of financial assets and financial expense

	2006	2005	2004
Financial income			
Dividends from investments in subsidiaries	2,810	2,007	809
Other income from investments in subsidiaries	4,673	6	0
Income from investments in jointly controlled and associated companies	1,502	–	36
Income/expense from other equity securities and non-current interest investments	179	446	47
Other interest income and similar items	27	22	8
	9,191	2,481	900
Impairment loss of financial assets			
Investments in subsidiaries	-324	-131	-171
Investments in associated companies	0	0	-4
Investments in equity securities	0	0	40
	-324	-131	-135
Financial expense			
Interest expense and similar items related to subsidiaries	-179	-155	-99
Other financial expense	-186	-384	-63
	-365	-539	-162

Other income from investments in subsidiaries consists of Group-internal profits in connection with sales of shares in subsidiaries and liquidation surpluses.

Income from investments in jointly controlled and associated companies relates to pre-liquidation proceeds of Oy Ovako Ab.

3 Untaxed reserves

	2006	2005	2004
<i>Provisions to untaxed reserves</i>			
Change in other reserves	-315	-209	-89
	-315	-209	-89
<i>Untaxed reserves</i>			
Accelerated depreciation reserve	2	2	2
Other reserves	873	558	349
	875	560	351

4 Taxes

<i>Taxes on profit before taxes</i>	2006	2005	2004
Current taxes	-271	-170	-65
Tax on Group contribution	445	294	254
Deferred taxes	-9	9	-8
	165	133	181

Taxes attributable to exercise of share options, accounted for in unrestricted equity, amounted to 1 (4).

<i>Net deferred taxes per type</i>	2006	2005	2004
Provisions for pensions and other similar commitments	24	31	26
Other	20	22	18
Deferred tax assets	44	53	44

Corporate income tax

The corporate statutory income tax rate in Sweden was 28% in 2006, 2005 and 2004.

<i>Reconciliation of the statutory tax in Sweden and the actual tax</i>	2006	2005	2004
Tax calculated on statutory tax rate in Sweden	-2,205	-380	-102
Non-taxable dividends and other financial income	2,521	563	226
Changes in unrecognised deferred tax assets	0	0	-10
Current tax referring to previous years	-7	9	82
Non-deductible/taxable profit items, net	-144	-59	-15
Actual tax	165	133	181

5 Property, plant and equipment

	2006	Additions	Disposals	2005	2004
<i>Acquisition cost</i>					
Buildings	9	–	-1	10	11
Land and land improvements	2	–	0	2	3
Machine toolings, factory fittings, etc	10	0	0	10	9
	21	0	-1	22	23
<i>Accumulated depreciation</i>					
Buildings	2	0	0	2	2
Land and land improvements	0	–	0	0	0
Machine toolings, factory fittings, etc	8	0	0	8	7
	10	0	0	10	9
Net book value	11	0	-1	12	14
Depreciation is included in administrative expenses.					
<i>Tax value of real estate</i>					
Land and land improvements	2	–	–	2	3
Buildings	5	–	-3	8	9
	7	–	-3	10	12

6 Investments

Investments in subsidiaries are specified below. For a specification of investments in jointly controlled and associated companies and

investments in equity securities held by the Parent Company, see Notes 11 and 12 to the consolidated financial statements.

Investments in subsidiaries held by the Parent Company on 31 December

	2006	Additions	Impairments	Disposals and capital repayments	2005	2004
Investments in subsidiaries	9,469	363	-324	-1,113	10,543	9,817

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value
Manufacturing companies					
SKF USA Inc., Pa., USA	99.9	1,522,651	USD	76	862
SKF Österreich AG, Austria	100	200	EUR	15	176
SKF GmbH, Germany	0.1	–	EUR	0	2
SKF Española S.A., Spain	100	3,650,000	EUR	22	518
SKF Poznań S.A., Poland	100	3,353,130	PLN	67	153
SKF Bearings Bulgaria EAD, Bulgaria	100	2,376,230	BGN	2	1
Lutsk Bearing Plant, Ukraine	99.6	308,445,867	UAH	77	93
SKF Actuators AB, Göteborg, Sweden	100	1,000	SEK	1	7
SKF do Brasil Limitada, Brazil	99.9	165,486,203	BRL	165	333
SKF Argentina S.A., Argentine	89.9	497,878	ARS	0	11
SKF India Ltd., India	46.7	24,639,048	INR	246	94
SKF Sealing Solutions AB, Landskrona, Sweden	100	10,000	SEK	1	27
Scandrive Control AB, Hallstahammar, Sweden	100	5,000	SEK	1	9
SKF Automotive Components Corporation, Republic of Korea	100	3,035,350	KRW	15,177	119
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	51.0	153,320	KRW	1,533	15
PT. SKF Indonesia, Indonesia	84.2	74,930	IDR	74,930	34

Sales companies

SKF Danmark A/S, Denmark	100	5	DKK	5	0
SKF Norge A/S, Norway	100	50,000	NOK	5	0
Oy SKF Ab, Finland	100	48,400	EUR	2	12
SKF NV/SA, Belgium	100	167,587	EUR	3	97
SKF Portugal-Rolamentos, Lda., Portugal	95.0	–	EUR	0	4
SKF Ložiska, a.s., Czech Republic	100	430	CZK	43	10
SKF Svéd Golyóscsapágy Részvénytársaság, Hungary	100	3,000	HUF	1	0
SKF Canada Limited, Canada	76.9	100,000	CAD	–	0
SKF del Peru S.A., Peru	100	2,565,160	PES	3	0
SKF Chilena S.A.I.C., Chile	100	88,192	CLP	468	0
SKF Venezolana S.A., Venezuela	100	194,832	VEB	195	0
SKF South East Asia & Pacific Pte Ltd., Singapore	100	1,000,000	SGD	1	0
PT. Skefindo Primatama, Indonesia	5.0	5	IDR	5	1
SKF Pakistan Private Limited, Pakistan	100	1,781,293	PKR	18	2
SKF New Zealand Limited, New Zealand	100	375,000	NZD	1	0
SKF Lubrication Competence Center AB, Linköping, Sweden	100	1,000	SEK	0	8
SKF Eurotrade AB, Göteborg, Sweden	100	83,500	SEK	8	12
SKF Multitec AB, Helsingborg, Sweden	100	29,500	SEK	3	5
Monitoring Control Center MCC AB, Kiruna, Sweden	67.5	3,375	SEK	0	1
SKF Condition Monitoring Center (Luleå) AB, Luleå, Sweden	100	5,000	SEK	1	10

Carried forward

2,616

6 Investments (cont.)

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value
Carried forward					2,616
Other Companies					
Trelanoak Ltd., United Kingdom	20.0	6,965,000	GBP	7	120
SKF Holding Maatschappij Holland B.V., The Netherlands	100	60,002	EUR	27	5,042
SKF Engineering & Research Services B.V., The Netherlands	13.4	121	EUR	0	8
SKF Verwaltungs AG, Switzerland	100	500	CHF	0	502
SKF Holding Mexicana, S.A. de C.V., Mexico	98.0	22,687,633	MXN	2	120
SKF (China) Investment Co. Ltd., Peoples Republic of China	100	–	USD	47	342
Barseco (Pty) Ltd., South Africa	100	300	ZAR	0	62
SKF Australia (Manufacturing) Pty. Ltd., Australia	100	1,000,000	AUD	2	0
SKF Försäljning AB, in liquidation, Göteborg, Sweden	100	150,000	SEK	3	5
SKF Vehicle Parts AB, in liquidation, Göteborg, Sweden	100	115,000	SEK	12	14
SKF Service AB, in liquidation, Göteborg, Sweden	100	278,000	SEK	28	34
SKF Logistics Services AB, in liquidation, Göteborg, Sweden	100	80,000	SEK	6	10
SKF International AB, Göteborg, Sweden	100	20,000	SEK	20	320
Återförsäkringsaktiebolaget SKF, Göteborg, Sweden	100	30,000	SEK	30	80
SKF Förvaltning AB, Göteborg, Sweden	100	125,000	SEK	13	40
SKF Fondförvaltning AB, Göteborg, Sweden	100	10,000	SEK	1	1
Bagaregården 16:7 KB, Göteborg, Sweden	99.9	–	SEK	250 ¹⁾	45
Ovako Couplings Holding AB, in liquidation, Göteborg, Sweden	100	2,800,000	SEK	280	106
SKF Tube AB, in liquidation, Göteborg, Sweden	100	5,000	SEK	1	2
Other holdings					0
					9,469

¹⁾ As the nominal value, the original investment capital for the limited partnership company is disclosed.

Investments in major SKF subsidiaries held by other subsidiaries

<i>Name and location</i>	Holding in percent	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	99.9	The Netherlands
SKF Industrie S.p.A, Turin, Italy	100.0	The Netherlands
SKF France S.A., Montigny-le Bretonneux, France	100.0	France
SKF (U.K.) Ltd., Luton, U.K.	100.0	United Kingdom
SKF China Ltd., Hong Kong, China	100.0	Hong Kong
SKF India Ltd., Mumbai, India	0.4	Sweden
SKF India Ltd., Mumbai, India	6.5	United Kingdom
Officine Meccaniche di Villar Perosa S.r.l., Villar Perosa, Italy	100.0	Italy
RFT S.p.A., Turin, Italy	100.0	Italy
Willy Vogel AG, Berlin, Germany	100.0	Germany
SKF Aerospace France, Saint-Vallier-sur-Rhône, France	100.0	France
SKF Argentina S.A., Buenos Aires, Argentina	10.1	Austria
SKF de Mexico S.A. de C.V., Puebla, Pue, Mexico	99.9	Mexico
SKF Canada Ltd., Scarborough, Canada	23.1	The Netherlands
SKF Sealing Solutions GmbH, Leverkusen-Opladen, Germany	100.0	Germany
SKF Bearing Industries (Malaysia), Sdn.Bhd., Nilai, Malaysia	100.0	The Netherlands
SKF Linearsysteme GmbH, Schweinfurt, Germany	100.0	Germany
SKF (Thailand) Ltd., Bangkok, Thailand	16.3	Singapore
SKF (Thailand) Ltd., Bangkok, Thailand	32.7	Hong Kong
SKF Japan Ltd., Tokyo, Japan	100.0	The Netherlands
SKF B.V., Nieuwegein, The Netherlands	100.0	The Netherlands
SKF Bearing Services Taiwan Ltd., Taipei, Taiwan	100.0	The Netherlands
SKF Sverige AB, Göteborg, Sweden	100.0	Sweden
SKF Mekan AB, Katrineholm, Sweden	100.0	Sweden
Economos Austria GmbH, Judenburg, Austria	100.0	Austria
SNFA SA, Valenciennes, France	100.0	France
SKF Polyseal Inc., Salt Lake City, USA	51.0	USA
Jaeger Industrial Co, Ltd., Taipei, Taiwan	100.0	Taiwan
Dalian SKF Wazhou Bearings Co, Ltd, Wufangtium, Peoples Republic of China	51.0	Peoples Republic of China
Beijing Nankou SKF Railway Bearings Co, Ltd., Peking, Peoples Republic of China	51.0	Peoples Republic of China
SKF Sealing Solution (Wuho) Co. Ltd., Anhui, Peoples Republic of China	100.0	Peoples Republic of China

7 Other receivables

	2006	2005	2004
Other current receivables	166	152	147
Prepaid expenses and accrued income	46	26	21
	212	178	168

8 Financial assets

	2006	2005	2004
Financial receivables	–	4	–
Cash and bank accounts	7	1	2
	7	5	2

9 Provisions for pensions and similar commitments

<i>Amount recognised in the balance sheet</i>	2006	2005	2004
Present value of unfunded pension obligations	113	88	80
Present value of funded pension obligations	134	122	113
Less: Fair value of plan assets	-125	-118	-111
Net provisions for pensions and similar commitments	122	92	82

For description of pension benefits, see note 21 to the consolidated financial statements.

<i>Components of pension expense</i>	2006	2005	2004
Pension cost excluding interest cost	5	3	2
Interest cost	4	4	6
Return on assets	-5	-5	-5
Pension insurance premiums	44	42	43
Total pension expense	48	44	46

10 Loans

	2006		2005		2004	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Bonds and debentures	7,015	6,837	4,051	4,003	785	886

The current portion of non-current loans is included in current loans, see Note 11. Fair value has been calculated

by discounting future cash flows at the market interest rate for each maturity.

	2006		2005	2004
<i>Non-current loans outstanding at 31 December, per currency</i>	Amount	Interest rate %	Amount	Amount
USD	–		768	785
EUR	7,015	3.14-4.32	3,283	–
	7,015		4,051	785

The non-current bonds loan in USD has a fixed interest rate until maturity in 2007. Certain terms of loan agreement contain restrictions relating to further pledging of assets. The non-current bond

loans in EUR consist of 4,506 which has a fixed interest rate until maturity in 2013, 2,252 which has a fixed interest rate until maturity in 2010 and 257 which has a floating interest rate until maturity in 2008.

11 Current loans

	2006	2005	2004
Current portion of non-current loans	665	–	–

12 Other current liabilities

	2006	2005	2004
Other current liabilities	8	10	30
Accrued expenses and deferred income	217	168	107
	225	178	137

Accrued expenses and deferred income include accrued interest of 68 (64 and 28).

13 Assets pledged

	2006	2005	2004
Current financial receivables	–	4	–

14 Contingent liabilities

	2006	2005	2004
Guarantees in respect of subsidiaries' obligations	0	3	4
Other guarantees and contingent liabilities	3	3	2
	3	6	6

See note 27 to the consolidated financial statements for information on other commitments related to the jointly controlled entity Oy Ovako AB.

15 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

For the average number of employees – see Note 31 to the consolidated financial statements. For men and women in Management and on the Board – see Note 33 to the consolidated financial statements. For

information regarding other benefits to the Board and President and fees for statutory auditors – see Note 29 and 30 to the consolidated financial statements.

	2006	2005	2004
Salaries, wages and other remuneration	186	178	127
Social charges (wherof pension cost)	96 (48)	130 (44)	78 (46)
Salaries, wages and remuneration to Board and President (wherof variable salary, etc)	25 (11)	26 (14)	13 (4)

16 Absence due to illness

	2006	2005	2004
Total absence due to illness as a percentage of entire ordinary working hours	0.8%	1.1%	1.0%
– absence due to illness, men	0.3%	0.3%	0.7%
– absence due to illness, women	1.4%	2.2%	1.2%
– employed age – 29	0.2%	0.4%	0.4%
– employed age 30 – 49	0.9%	1.1%	1.0%
– employed age 50 –	0.8%	1.3%	0.9%
– long-time absence due to illness (60 days or more) as a percentage of total absence due to illness	31.7%	41.4%	28.8%

17 Events after the balance sheet date

See Note 34 to the consolidated financial statements.

18 Related parties

Information regarding sales to and costs invoiced from subsidiaries is included in the Board of Directors' report. Financial income from and financial expenses to subsidiaries and jointly controlled and associated companies is presented in Note 2. Assets and liabilities attributable

to subsidiaries and jointly controlled and associated companies is presented in the balance sheet.

For related party transactions involving key management, see Note 29 to the consolidated financial statements.

Proposed distribution of surplus

Retained earnings	SEK	2,557,923,060
Net profit for the year	SEK	8,039,320,676
Total surplus	SEK	10,597,243,736
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 4.50 per share ¹⁾	SEK	2,049,079,806 ²⁾
to be carried forward	SEK	8,548,163,930
	SEK	10,597,243,736

¹⁾ Suggested record day for right to dividend 27 April 2007.

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. Shareholders equity would have been 28,860,679 Swedish kronor lower if financial assets, which have been evaluated according to Chapter 4, 14§ a Annual Accounts Act, had been valued in accordance with lower of cost and net realizable value.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2006 are given in the income statements and in the balance sheets together with related notes.

Members of the Board and the President certify that, to the best of their knowledge, the annual report has been prepared in accordance with generally accepted accounting principles for stock market companies, information is, in all material respects, consistent with the actual conditions, and nothing of material importance has been omitted that could affect the financial position of the Company as presented in the Annual Report.

Stockholm, 30 January 2007

Anders Scharp
Eckhard Cordes
Vito H Baumgartner
Ulla Litzén

Clas Åke Hedström
Tom Johnstone
Winnie Fok
Leif Östling

Göran Johansson
Lennart Larsson
Kennet Carlsson
Jeanette Stenborg

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 30 January 2007.

KPMG Bohlins Aktiebolag

Thomas Thiel
Authorized public accountant

Auditors' report

To the annual meeting of the shareholders of AB SKF. Corporate identity number 556007-3495

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of directors and the Managing Director of AB SKF for the year 2006. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 8-89. The Board of directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for

our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member 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 our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Göteborg, 30 January 2007

KPMG Bohlins Aktiebolag

Thomas Thiel

Authorized Public Accountant

The SKF Divisions

SKF's business is divided into three divisions, each focusing on specific customer groups worldwide. The divisions are interdependent, however, in that they constitute a huge market within the SKF Group with products, services and know-how on offer to each other to enable any of the divisions to serve its final customers. To obtain a better understanding of the business concept of each division, see also page 4 – the knowledge engineering company.

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Industrial Division



Henrik Lange
President, Industrial Division

The Industrial Division is responsible for sales to industrial original equipment manufacturer (OEM) customers and for the product development and production of a wide range of bearings (in particular spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and high precision bearings), lubrication systems, linear motion products, by-wire systems and couplings. The division has four specialized business areas: Aerospace, Railways, Lubrication systems and Actuation & Motion Control.

Net sales in 2006 amounted to SEK 17,083 million (14,750). Sales including intra-Group sales totalled SEK 26,600 million (23,616). The operating profit was SEK 3,008 million (2,354), with an operating margin of 11.3% (10.0). The operating profit in the fourth quarter was affected by restructuring charges, impairments and write-offs of SEK 210 million. In 2005 the result was affected by restructuring and impairment charges in the fourth quarter of SEK 10 million.

The increase in net sales was attributable to organic growth 11.9%, structure 4.0% and currency effects -0.1%. Structure was impacted by the acquisition of SNFA SAS and John Crane's lubrication system business.

The Industrial Division serves and develops products and solutions for OEM customers,

numbering more than 10,000, in many different types of industry. Products, services and customer solutions are taken to market through direct sales and distributor channels, together with the SKF Service Division. In order to continue the sales growth development, the Industrial Division further enhanced its global account management. This enables even more focus on specific customer needs and solutions covering expertise and products from the five platforms.

Growth accelerated in the industrial market

Sales were significantly higher in Europe, North America and Asia, measured in local currencies and compared with last year. Many segments experienced strong develop-

ment; this applied particularly to the segments of energy, industrial electrical, mining, pulp & paper and medical.

The global wind energy industry experienced another year of significant growth. Sales to the wind energy industry were significantly higher compared with 2005 in Asia, North America and Europe. SKF strengthened its relationship with several of the major manufacturers of wind turbines and subsystems. Business successes were also reported within lubrication systems and in the services platform, where the SKF WindCon monitoring system was selected by REpower Systems AG as standard for its new wind turbines.

Global air traffic experienced another year of strong growth. Orders for new aircraft



The global wind energy industry experienced another year of significant growth. During the year, SKF introduced two new bearing designs and a new lubrication kit. The new bearings solve

problems caused by electrical currents passing through bearings in turbine generators and include a high-capacity cylindrical roller bearing for wind turbine gearboxes. The lubrication kit



allows turbine operators to ensure that all critical lubrication points receive the correct amount of lubrication at the right time, thereby minimizing downtime and maintenance costs.



SKF Engineering Consultancy Services (ECS) offers expertise in application know-how, advanced modelling tools and processes that contribute in the early phase of customers' product development. In 2006, ECS supplied support to customers in several industrial segments such as off-highway, food & beverage and industrial electrical. For example, the support given to Hitec Power Protection, the Netherlands, resulted in faster time to market and reduced development costs for its next generation of uninterruptible power supply (UPS) system.

were high in every segment of the market, even after an exceptional 2005. The production of fixed-wing aircraft, helicopters and jet engines was higher than in 2005, in both Europe and North America. This resulted in a significant increase in demand during the year for bearings, fly-by-wire equipment and components for the aerospace industry. Sales measured in local currencies were significantly higher in 2006 than in 2005 in both Europe and North America.

The demand for SKF lubrication systems was significantly higher compared with last year. One leading machine tool manufacturer will be equipping its machines worldwide with SKF lubrication systems. Wärtsilä Corporation, a leading developer of ship diesel engine solutions, chose SKF's lubrication system solution for its two-stroke diesel engine programme. A so-called retrofit solution, targeting end users of older engines, was also part of the contract.

Several prestigious railway orders were secured with leading railway industry manufacturers and this strengthened SKF's leading position in the railway industry. Alstom placed an order for approximately 1,500 axleboxes equipped with compact taper roller bearing units. These bearing units incorporate SKF sensors to monitor the bearing temperature, as well as speed and train positioning. In Italy, Alstom will build a new generation of 26 Pendolino tilting train sets. The new Pendolino generation is the fourth generation of trains based on tilting technology, which are equipped with SKF bear-

ing solutions. Bombardier Transportation ordered axleboxes and roller bearing units for the new Talent trains for the Austrian Federal Railways, ÖBB.

Developing value-added solutions for the industrial market

Since the beginning of 2005, more than 40 new and specific industry offers have been developed and taken to market, including 15 launches in 2006, with the objective of growing SKF's business in the target industries. This will help to produce increased operational reliability and reduce the maintenance cost of the machine or application.

Solutions launched for the wind industry:

- A range of large hybrid bearings especially for wind turbine generator applications that will solve the problems associated with the passage of electrical current through the generator bearings, causing expensive repair and downtime.
- A new high-capacity cylindrical roller bearing for wind turbine gearboxes designed to increase the load-carrying capacity, which will increase the reliability of the bearings and the wind turbine gearbox.
- A new automatic lubrication kit allowing turbine owners and wind park operators to ensure that all the critical lubrication points receive the right amount of lubricant at the right time.

Solutions for off-highway:

- Starting in 2005 and continuing in 2006, SKF launched new steer-by-wire solutions, developed together with leading off-highway manufacturers.
- In 2006, the SKF solution portfolio was extended to include steering units for so-called non-public vehicles and these units will be taken to market in 2007. SKF also designed and developed a new hub unit programme for agricultural vehicles.

In 2006, Aerospace received a development contract for a completely new by-wire solution for a side-stick unit for flight control for a new aircraft model. The SKF solution is based on an innovative design resulting in a more compact, weight-saving solution compared with the one that is currently used in today's side-stick designs. The new solution is expected to conform to several different types of aircraft model in the market.

Solutions developed for factory automation:

- Automatic spot welding equipment, replacing a pneumatic solution in welding guns for the automotive industry. The German spot welding equipment manufacturer NIMAK GmbH has selected the SKF solution, resulting in increased productivity through greater control of the production process. This substitute solution can also lower energy consumption by more than 90%. A leading European automotive manufacturer will implement this spot welding equipment in its manufacturing process in 2007.



The first phase in the construction of the factory in Dalian, China, for large size bearings was completed in the autumn. In the pictures from left: XiaoLiang Pan, YunSheng Shen, Manfred Su and Joachim Ruopp.

Acquisitions

SKF acquired SNFA SAS, a manufacturer of bearings for the aerospace industry, as well as high precision bearings, which are mainly used by the machine tool industry. SNFA's manufacturing base, technology and staff will strengthen SKF's position and product offering in the segments for small and medium-sized engines and helicopters. In the machine tool segment, this acquisition has extended not only SKF's product range but also SKF's specialist base in the most demanding high-speed spindle applications. The main focus in the process of integrating SNFA into SKF is to achieve manufacturing synergies and to increase sales of SNFA products by integrating SNFA with SKF's global sales network.

SKF Lubrication Systems were further reinforced by the acquisition of John Crane's lubrication systems business, marketed under the Safematic brand. The products, segments served and geographical presence of this business are an excellent complement to SKF's existing lubrication systems business. This acquisition will strengthen SKF's offers and enable a wider range of solutions and improved value propositions.

Excellence in product development and manufacturing

Six Sigma is used for driving operational excellence, ensuring that waste is eliminated in all processes. This way of working enabled major projects with OEM customers using the Design for Six Sigma (DfSS) methodology. Caterpillar and SKF entered into a joint Six Sigma project to further understand and optimize critical factors influencing the performance of the drive train in off-highway equipment. Many tools in DfSS methodology, such as Design of Experiments, in combination with SKF's proprietary advanced system calculation programs, were utilized. The project resulted in the identification of critical manufacturing parameters and their influence on field service life.

The official validation by Det Norske Veritas and Germanischer Lloyd of the SKF Explorer range for increased dynamic load ratings opens up potential for new product development and designs for downsizing, reduced weight and increased efficiency, for example, in several industrial applications where SKF Explorer is currently in use. They include, among others, wind turbine applications, gearboxes for plastic extruders, materials handling machinery and steel industry applications.

In its manufacturing processes, the Industrial Division continued to focus on operational excellence and ways of increasing output and flexibility with fewer assets. The focused work on operator-driven reliability and resettings produced results, including;

- Over 12% further improvement in resetting time compared to last year in the Austrian and Polish factories
- Reliability focus in one of the largest factories in Sweden giving over 10% increased efficiency in some production channels.

This operational excellence programme is now being extended to include all the factories in the Industrial Division.

Expanding manufacturing base of bearings and actuators in China

A new factory for the manufacture of large size bearings in Dalian, north-east China, and a new factory for electromechanical actuators and actuation systems in Pinghu, close to Shanghai, were opened during the year.

The new large size bearing factory, strategically located in one of the most industrialized and rapidly expanding areas of the world, will support the fast growing demand from the local market, as well as the rest of Asia. The key customer segments that will

be served by this factory are metalworking, power generation, mining and construction, pulp and paper and wind energy. The factory and production will increase stepwise until full capacity is reached, at which point the factory will employ some 240 persons.

The new factory in Pinghu, which is part of the Jaeger business acquired by SKF a year ago, will serve the rapidly expanding local demand for actuation systems. The Pinghu operation will act as an SKF Actuation & Motion Control actuation competence centre, meeting the demand for actuators for health-care and medical system applications,

mainly in Europe and the USA. When fully operational, the Pinghu plant will employ some 400 people.

Going forward

The division will continue to create and capture value in the industrial market through the launch of new market offers to existing and new customers and through an enhanced key account management structure. The aim is to continue to grow both organically and via acquisitions. In 2007, the integration of both SNFA and the lubrication system business of John Crane Safematic Oy will continue,

at the same time as new acquisitions will be targeted. In manufacturing, the drive for operational excellence will continue to further improve flexibility and reliability. Capacity will also be increased by both eliminating bottlenecks at existing factories and ramping up recently opened factories in China.

Henrik Lange

The SKF industrial market is divided into some 30 industrial customer segments. For the OEM's sales, the segments are grouped into eight main customer categories based on SKF's portfolio of platform offerings, see chart below.

General industry

Fluid power, industrial gearboxes and materials handling

Special industrial machinery

Food & beverage, machine tools, marine, medical & health care, printing & packing and textiles

Aerospace

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

Heavy industrial machinery

Metal-working (steel), mining, pulp and paper

Railway

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

Off-highway

Construction, farm & forestry, lift trucks drives (so-called non-public road vehicles)

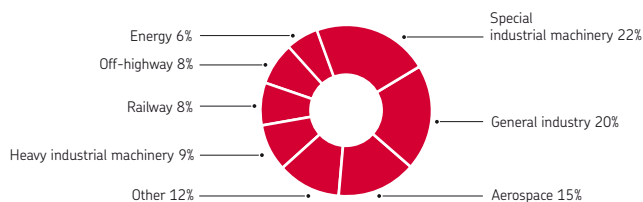
Energy

Renewable power (e.g wind energy), oil & gas and non-renewable energy industry machineries

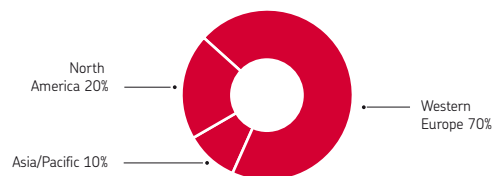
Other

Other businesses

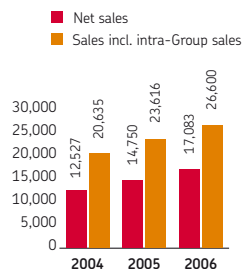
Net sales by customer segment



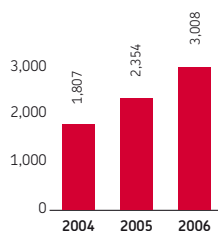
Net sales by geographical area



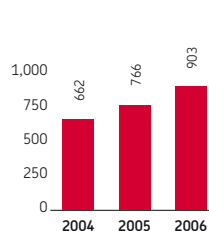
Sales, MSEK*



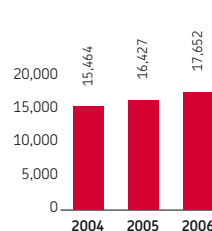
Operating profit, MSEK*



Additions to property, plant and equipment, MSEK*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2006.

Service Division



Phil Knights
President, Service Division

The Service Division is primarily responsible for sales to the industrial aftermarket, mainly via a network of some 7,000 distributor locations. The division also supports customers with knowledge-based products and service solutions to optimize plant asset efficiency through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. The division also deals with logistics and distribution for both the SKF Group and external customers.

Net sales in 2006 amounted to SEK 17,678 million (16,115). Sales including intra-Group sales totalled SEK 19,344 million (17,653). The operating profit was SEK 2,316 million (2,072), with an operating margin of 12.0% (11.7). The operating profit in the fourth quarter was affected by restructuring charges and write-offs of SEK 20 million. In 2005 the result was affected by restructuring and impairment charges in the fourth quarter of SEK 30 million.

The increase in net sales was attributable to organic growth 9.6%, structure 0.2% and currency effects -0.1%.

Sales were significantly higher in Europe, Asia, the Middle East and Africa, unchanged in North America and higher in Latin America, measured in local currencies and compared to last year.

An industry segment market approach focusing on reducing customers' total cost of ownership and increasing productivity, along with an expanded key account management team, has contributed to sales growth for both the Service and Industrial Divisions. A new market-offer process resulted in 15 product and service launches in 2006. Many of the specific developments reported below

are a direct result of this comprehensive methodology.

Industrial distribution

The implementation of the "More with SKF" programme continues to boost growth through our industrial distributors around the world, by creating differentiation with value-added solutions utilizing SKF products, services and logistics. This strategic partnership programme is helping SKF authorized distributors meet the increasing demand from end-users for more value and reduced total cost of ownership.



In August 2006, three Super Post Panamax container cranes arrived in the Port of Göteborg, delivered by the market-leading manufacturer of harbour cranes, Shanghai Zhenhua Port Machinery Co. Ltd. (ZPMC), China. SKF products and solutions are widely applied in many different positions on the crane, including gearboxes, rope pulleys and hoisting machinery. These cranes, with a height of 118 metres (boom raised state), are one of the largest version of ship-to-shore cranes.

A new addition to the SKF distributor development toolbox is the new line of SKF-branded mechanical power transmission products. Currently launched in selected markets, this comprehensive range includes V-belts, pulleys/sheaves, synchronous belts, synchronous sprockets, roller chains, sprockets, couplings, bushings and hubs, motors and conveyor components.



In 2006, the following activities strengthened the distributor programme:

- More than 2,200 SKF authorized distributor locations implemented an SKF development plan to enhance their business.
- The "SKF 360° Solution" programme combines SKF distributor and SKF values to solve end-users' specific application problems. Utilizing extensive industry knowledge and experience, the programme expanded in 2006 to include in-depth solutions for the paper, food, facilities management and petrochemical industries.
- The SKF Document Solution Program (DSP) that calculates plant savings utilizing SKF's unique solutions based on its extensive knowledge provided end-users with substantial results in 2006. This program continues to build important benchmarking data as customers seek plant maintenance improvements.
- In 2005, SKF updated its brand image. In 2006, the SKF authorized distributor identity was changed to reflect the expanded products and services provided to customers. The signage makeover included everything from outdoor and indoor signs, flags and window/counter striping to websites and stationery.

SKF Certified Maintenance Partners

The number of SKF Certified Maintenance Partners (CMP) rose to 143 in 2006, almost double the number in 2005. CMP provides an excellent opportunity for qualified dis-

tributors to offer added value to end-users with entry-level maintenance and reliability services, which are reinforced by SKF Reliability Systems' more advanced capabilities. These partnerships are expected to continue to grow as MRO (maintenance, repair and overhaul) customers favour distributors who are able to provide more value.

In 2006, Wyko Group Plc. signed the largest SKF Certified Maintenance Partner agreement to date. The agreement combines both companies' industrial skills and expertise to enable the Wyko Group to offer advanced value propositions to its customers. The initial agreement was for four service centres, with others to be added during the next few years.

New products

SKF continues to expand its product offering to end-users with new or improved bearing-related products, as well as maintenance and condition monitoring products and services. They include the following:

- A new addition to the SKF distributor offering comprises a new line of power transmission products. The comprehensive product range includes a full assortment of V-belts, pulleys/sheaves, synchronous belts, synchronous sprockets, roller chains, sprockets, couplings, bushings and hubs. These new subcontracted SKF-branded products are manufactured to the same high standards as all SKF products and are a logical extension of the complete SKF

offering. This will give customers a single source for all their bearing-, seals- and power transmission-related products, thereby reducing their transaction costs. The power transmission product line was launched in selective markets in 2006 and will expand into other markets in the coming year.

- Several new maintenance products were introduced in 2006. They include a new generation of SKF hydraulic and mechanical bearing pullers, a new bearing fitting tool kit and an improved deep groove ball bearing puller kit.
- Two new lightweight, non-contact SKF ThermoLasers were launched. They measure the temperature of an object using an infrared detector.
- A number of new condition-monitoring products were introduced in 2006. SKF Microlog CMXA 51-IS is an addition to the range of portable vibration collection and analysis devices and is approved for use in hazardous environments. This small, rugged, single-channel, hand-held SKF Microlog collects vibration, process and dynamic data and is rated intrinsically safe.
- SKF introduced a single solution for critical applications with the SKF Multilog TMU On-line system. It combines condition monitoring and crash detection in a single device to protect machine tool users' critical assets.
- A new SKF Remote Monitoring Service offers any customer with internet access a cost-effective, world-class predictive maintenance programme. The SKF



solution uses web-enabled technology and integrates SKF condition-monitoring portable and on-line collection devices, data management and decision support software and web-based results reporter software. The entire process is implemented and managed by a group of experienced SKF personnel.

Reliability services

SKF has signed a deal with the Statoil oil company to form a consortium of technology companies along with ABB, IBM and Aker Kværner to collaborate on advanced services and technology development. The consortium partner companies will work together to develop new technologies aimed at improving the operating efficiency and extraction of existing oil and gas fields and new field developments. These technologies will also help to enhance safety, while minimizing the risk of any environmental damage caused during operation.

In 2006, SKF established six Centres of Excellence, three in advanced consulting and three in condition monitoring. These Centres of Excellence will facilitate the expansion of SKF knowledge into local markets. Interest continues to focus on six industrial market segments: pulp & paper, hydrocarbon processing, power generation, mining, metalworking and food & beverage.

In 2006, SKF continued to sign major new performance-based Integrated Maintenance Solution (IMS) contracts with customers in North America and Latin America, Europe and Asia. These customers operate in the

food and beverage, pulp and paper and hydrocarbon processing industries. In addition to these new contracts, two of the earliest contracts with customers in the pulp and paper industry were renewed for a period of five years, demonstrating the sustainability of this business model. SKF also signed numerous Proactive Reliability Maintenance and Predictive Maintenance (PdM) contracts with customers worldwide.

Two notable contracts are:

- The largest order to date for the SKF condition-monitoring system for the wind industry, called SKF WindCon, was placed by Prokon Energiesysteme GmbH, a wind farm developer in Germany which offers its clients an investment in renewable energy. Prokon is offering a remote condition-monitoring service to its clients through its service contracts. By installing and utilizing the SKF WindCon system, Prokon will benefit from increased performance and uptime, as well as reduced operating and maintenance costs
- A performance-based IMS contract with Valero Energy Corporation, one of the largest downstream oil refiners in North America, for the Valero Paulsboro Refinery located in Greenwich Township, NJ. With this agreement, Valero is extending the application of performance-based contracts from mechanical seals to pumps. Valero's Paulsboro Refinery is contracting resources from SKF that will be used for reliability-related projects such as training, engineering, root cause failure analy-

sis and reliability-centred maintenance.

The scope of the contract also covers a one-time investment in condition-monitoring hardware and software technology.

Acquisitions

SKF continues to strengthen its local capabilities to provide high skill, knowledge-based services, with the acquisitions this year of Precision Balancing & Analyzing (PB&A), Mentor, Ohio, USA, and Monitek Australia, located in Brisbane, Australia. These additions complement SKF's strategy of enhancing its position within the factory reliability services market.

PB&A specializes in the repair and upgrading of machine tool spindles. Its activities complement SKF's spindle service operations and improve the geographical coverage in the US market. With this addition, SKF's global certified spindle service network will increase to 17 service centres worldwide.

Monitek, a leading Australian predictive maintenance services company, is a supplier of high-quality vibration monitoring and wear debris analysis in the mining industry. Monitek will strengthen SKF's position as a leading provider of reliability services to the mining segment to support the cost-effective production of vital raw materials.

SKF acquired the remaining 50% of the Norwegian company RC DEI Norge AS from the AGR Group in 2006. RC DEI has a turnover of approximately NOK 12 million. The RC DEI business mainly consists of services for condition-based maintenance, principally servicing the oil and gas industry



One of the world's leading power generation companies, AES, chose SKF's Asset Efficiency Optimization solution at its factory in Cartagena, Spain, in order to be able to anticipate and manage reliability and productivity problems. Sensors have been positioned on critical equipment and connected to MasCon48 units placed at strategic intervals around the factory. These units relay the data gathered by the sensors to the central computer system. Diagnoses are made by SKF Machine Analyst and SKF @ptitude Decision Support System. They are complemented by SKF Marlin System and SKF Microlog, portable data collectors and analysers with sensors attached, which maintenance technicians use to inspect the equipment at regular intervals and can thereby immediately detect problems and also make assessments of possible failure over the coming months. This results in less downtime, savings on maintenance, earlier and more efficient planning of necessary repairs and reduced running costs.

on the continental shelf of the North Sea.

In January 2007, SKF acquired Preventive Maintenance Company Inc. (PMCI) in Elk Grove Village, Illinois, USA, a market leader in Predictive Maintenance (PdM) services for industrial customers in the pulp & paper, metals, food, automotive and other industries.

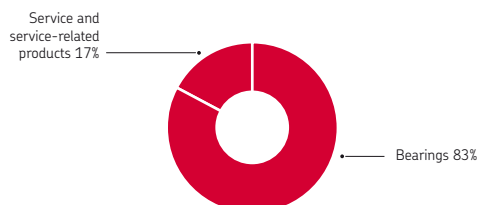
Going forward

As end-users continue to seek greater value from distributors and manufacturers, SKF will continue to expand the "More with SKF" distributor development programme. Additional Certified Maintenance Partners (CMP) will be recruited; the product offering will expand to include further penetration of the mechanical power transmission product range and additional industry solutions will

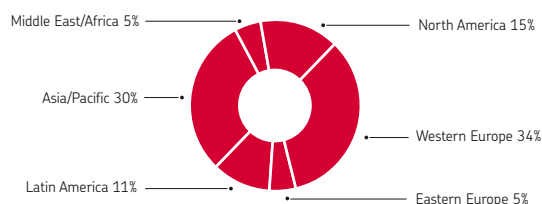
be added to the "SKF 360° Solution" programme. New acquisitions will be sought to further extend the local reliability service capabilities and additional solutions will be introduced in SKF's plant asset management offering.

Phil Knights

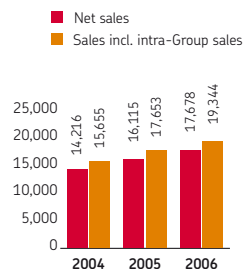
Net sales by customer segment



Net sales by geographical area



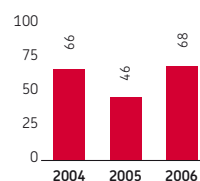
Sales, MSEK*



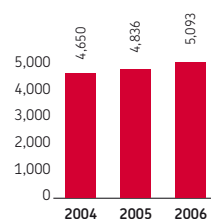
Operating profit, MSEK*



Additions to property, plant and equipment, MSEK*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2006.

Automotive Division



Trygve Sthen
President, Automotive Division

The Automotive Division is responsible for sales to the producers of cars, light trucks, heavy trucks, buses, two-wheelers, household appliances, power tools and electric motors and also for sales to the vehicle service market. The division develops and produces bearings, seals and related products and service solutions. The products include wheel hub bearing units, taper roller bearings, small deep groove ball bearings, seals, special automotive products and complete repair kits for the vehicle service market.

Net sales in 2006 amounted to SEK 18,255 million (17,423). Sales including intra-Group sales totalled SEK 21,919 million (20,990). The operating profit was SEK 999 million (560), with an operating margin of 4.6% (2.7). The operating profit in the fourth quarter was affected by restructuring charges, impairments and write-offs of SEK 170 million and also positively by SEK 50 million due to the release of earlier made provisions related to a customer claim that now has been settled. In 2005 the result was affected by restructuring and impairment charges in the second quarter of SEK 190 million and SEK 160 million in the fourth quarter.

The increase in net sales was attributable to organic growth 2.2%, structure 1.9% and currency effects 0.7%. The structure was impacted by the acquisitions of Macrotech Polyseal Inc. (now renamed SKF Polyseal Inc.) and Economos Austria GmbH.

Sales to the car and light truck industry in Europe were slightly lower, measured in local currencies and compared to last year. Sales in North America were significantly lower. Sales to the heavy truck industry in Europe and North America were higher. Sales to the vehicle service market were significantly higher. Sales to the electrical industry and to the two-wheeler industry were lower.

Car segment

SKF is combining its platform expertise to offer customized solutions. To further broaden the customers' knowledge of SKF offerings, the division organized a number of customer technology days in 2006. These one-day events present SKF's skills and capabilities through presentations and exhibitions, covering bearings, seals and mechatronics within different application areas such as wheel end, suspension, transmission and engine.

In 2006, SKF acquired significant new business from General Motors, on new crossover vehicles, where SKF supplies hub bearing units for both front and rear axles, McPherson strut bearing units for the suspension and bearings for steering and transmissions.

SKF maintained its development of increased value-added content in its sales in 2006. SKF expanded its X-Tracker product line with a taper-taper version to complete its family of X-Tracker hub units. This new version complements the company's ball unit and hybrid ball-roller unit, making SKF the only supplier to offer three different asymmetrical hub bearing solutions for the light vehicle market, where performance, safety, brake noise, vibration and harshness upgrades are needed. During the year, SKF received the prestigious American Premier Automotive Suppliers' Contribution to Excellence Award (PACE) in the product

Two companies were acquired in 2006.

Economos Austria GmbH, a seals company that manufactures hydraulic and pneumatic seals.

Macrotech Polyseal Inc. USA, now renamed SKF Polyseal Inc., a leader in fluid power seals based on polyurethane (PU) technologies and engineered plastics.



Scania and SKF worked in close co-operation on the bearing solutions for Scania's new gearbox concept, introduced during the autumn of 2006. SKF is now supplying all seven positions in the gearbox, as well as all the positions in accessories like the integrated retarder and power take-offs. In all, there are 17 different bearing types.



category for the X-Tracker ball unit, used on vehicles such as the Dodge Dakota and Cadillac STS-V.

SKF is continuously extending its range of innovative solutions that reduce friction and help save energy. SKF has renewed its product line for the transmission area with new components for the gearbox synchronization area, as well as a hybrid pinion unit system, with an integrated taper roller bearing and angular contact ball bearing, that reduces friction in the bearing arrangement by 30% compared with existing solutions.

Asia is a key region of growth for SKF. In 2006, SKF continued to strengthen its position in the market and started production for seven new car programmes, compared with four programmes in 2005. SKF was nominated for new hub unit business for both leading western car manufacturers in China and Chinese customers. To support the growing demand in Asia, a new bearing factory was established in China and a new factory for bearings and seals in Korea. They will be up and running in the first half of 2007.

SKF also enjoyed strong growth in South America and acquired new business with Fiat in Brazil. SKF expanded its operations and increased its production capacity as a result of growing demand.

The declining North-American market and restructuring programmes announced by Ford Motor Company, General Motors and DaimlerChrysler had a negative impact on volumes in the second half of 2006. To prepare for a tougher market, SKF initiated a North-American restructuring programme

already in 2005. Two factories were closed in 2006 and the full transfer will be completed in mid-2007.

Truck segment

The market has enjoyed strong economic growth, further fuelled by prebuys in North America and Europe due to new emission legislation.

SKF's wheel-end modules are gaining market share over more conventional solutions all over the world. In 2006, SKF significantly increased its business in high-value truck hub units by acquiring new business for the DaimlerChrysler Actros and the Iveco Eurocargo, as well as launching a new assembled truck-matched unit for the American trailer manufacturer Hendrickson.

As emission legislation becomes increasingly rigorous, there is a strong focus on engine applications in order to develop the best technology to attain greater efficiency and reduce fuel consumption. This gives SKF the opportunity to leverage its knowledge to provide value-added modules, such as the visco fan drive bearing unit for engine cooling fans that is now in series production for DAF Trucks.

SKF continues to leverage its platforms to obtain higher total content in each truck. SKF has significantly increased its business comprising wheel seals to Freightliner LLC and axle bearings and seals to Consolidated Metco Inc. (ConMet) in the USA. In 2006, SKF also considerably increased its gearbox bearing business with Scania AB, where SKF is the main bearings supplier, providing bearings for both rear and front wheels, central

gears, propeller shafts and engine applications, such as turbo compound and cooling fan support.

The fast-growing emerging markets are a priority area and SKF enjoys a strong position in the Indian truck market. Growth was strong during the year and new business was acquired with leading truck manufacturers, such as Tata Motors and Ashok-Leyland.

SKF is continuing its efforts to improve its competitiveness and reduce costs. The transfer of production from Aiken, USA, to Mexico was completed in 2006 and SKF also started to move channels producing small taper roller bearings in Germany to existing factories in Brazil and India. SKF has increased its component sourcing from Asia and Eastern Europe and there is an ongoing transfer of sheet metal production from Germany to Ukraine and India. The SKF factory in Ukraine is being used increasingly as a cost-competitive source of components for Western-European factories and as a manufacturing base for bearings.

Vehicle Service Market (VSM)

In Europe, the vehicle service market enjoyed very strong growth, clearly above market growth. This was driven by adding new distributors, primarily in Germany, and by adding new references to the existing kit range, thereby further increasing SKF's coverage of the European car population. SKF continued to grow its business in kits with increased value and added features, such as the new hub unit kit with an integrated brake disc for the aftermarket.



The Asian market is growing rapidly and this applies in particular to the demand for two-wheelers, such as motorcycles and scooters. Asia has around 85% of the global two-wheeler market and has an expected yearly growth of 7%. SKF already has a strong position in Asia and is the clear market leader in India and Indonesia.

SKF also enjoyed strong growth in the emerging markets of Eastern Europe and Asia Pacific. In China, SKF added several new distributors to its network and increased its coverage of the Chinese car population by extending its kit range. SKF also opened a local warehouse that enables direct imports to China, thereby supporting future expansion. In India, SKF extended its range by introducing new lubrication products, for example, in line with the platform strategy.

In North America, the range of kits was extended by adding new references and new customers were also added to the existing distributor network.

SKF is continuously striving to offer the best possible support to its customers in critical areas such as marketing, logistics and training. One example is Exponentia, a training concept driven in co-operation with other OE suppliers Valeo, Tenneco Inc. and TRW Automotive, that offers training and technical support to garages in Europe. The initiative was first launched in the UK and was expanded in 2006 to include Poland, Italy and France. This training concept strengthens the relationship between SKF and garages. In 2006, SKF received the NAPA Under Car Sales Group Supplier of the Year Award and an excellence award from NAPA Canada, among others. NAPA is the largest automotive distributor in the North-American aftermarket.

Electrical segment

The ongoing trend for manufacturers in the electrical industry to transfer production to Asia and Eastern Europe is continuing and SKF is working in line with this development. To increase its competitiveness, SKF restructured and downsized its factory in Fontenay, France, and invested in additional manufacturing capacity in Bulgaria, to support new business with leading manufacturers of home appliance equipment. In China, SKF agreed to acquire 100% of the capital in the joint venture company SKF Shanghai Bearings Co. Ltd. The strong demand and the new business in Asia have led SKF to increase its manufacturing capacity, to support increased business with several Chinese companies, including Welling Electrical Appliances Factory, a producer of electric motors for electrical appliances.

SKF continued to grow its value-added business in washing machine applications in 2006. The drum support unit business was further increased with leading household appliances manufacturer Candy Elettrodomestici S.r.l.

Two-wheeler segment

Asia is a key market with around 85% of the global two-wheeler market and continued strong growth. SKF has a good position in Asia and is the clear market leader in both India and Indonesia. In India, SKF has a

strong position with leading manufacturers Honda and Bajaj Auto Ltd., with annual growth over the last three years of approximately 20%. In 2006, SKF's support was recognized by Honda Motorcycle & Scooter India Pvt. Ltd. with an award for achieving quality and delivery targets for 2005-2006. The strong market development in India, as well as SKF's growth, continued in 2006 and new business was acquired with local customers such as Bajaj Auto Ltd. and Yamaha Motor India Pvt. Ltd. SKF is also increasingly using India as a base for export to support new business in North and Latin America, focusing on two-wheeler expertise.

In Indonesia, after a sharp decline in the first half of the year, due to increased interest rates and high fuel prices, there was a rebound in the market. New businesses were acquired with customers such as the Indonesian company Musashi Auto Parts and Dewan Motorcycles Ltd., the largest motorcycle producer in Pakistan. To support this development, manufacturing capacity at the Jakarta factory was increased significantly with the inauguration of a new building.

In line with the target of delivering value-added products, SKF is providing a complete rear hub support for a new high-performance Ducati motorcycle. The SKF unitized solution is pre-sealed and greased and reduces friction and noise compared with previously used solutions.

Forgings and Rings

SKF Forgings and Rings has SKF as its main customer, but it is continuously increasing the share of business that represents external sales. In 2006, several new external customers were added and external sales grew for the sixth consecutive year.

Restructuring activities were implemented in the Bulgarian forging shop to extract synergies with the forging operations in Villar Perosa, Italy. Bulgaria is being used increasingly as a sourcing base for Europe, both internally and also for a growing number of external customers.

Sealing solutions

The Automotive Division develops and produces sealing solutions for the automotive and industrial markets, as well as seals that are integrated into bearings.

In 2006, SKF further strengthened its position as a global player in the seals business. The most notable developments were the completion of two acquisitions which together have significantly increased SKF's presence in the industrial seals market – the US-based Macrotech Polyseal Inc., now renamed SKF Polyseal Inc., which is a leading supplier of seals for hydraulic applications,

and the Austrian company Economos Austria GmbH, which is a leader in machined seals for various industrial aftermarket applications. These two acquisitions together added revenue in industrial seals of around SEK 850 million on an annual basis. In addition, they complement and strengthen SKF's product range and technological capabilities in seals.

SKF continues to develop and launch new seal products to meet market needs. For example, within industrial seals, a new range of metric shaft seals with the outer diameter made of rubber was launched in Europe after years of development and was very well received by the market.

Support for motor racing

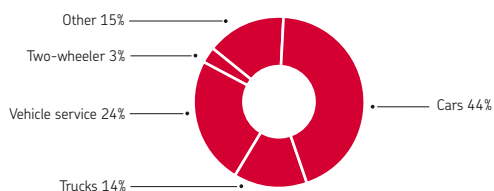
Since 1947, SKF's racing involvement has included a successful technical partnership with Formula One's Scuderia Ferrari. SKF is also involved in NASCAR in the USA. Since the start of the sponsorship and technical relationship with Richard Childress Racing (RCR) in 2005, SKF's motorsports engineering team has been assisting RCR in the development of technology. SKF's involvement in two-wheeler racing as technical sponsors continued in 2006 by supporting Ducati, Sherco and Beta.

Going forward

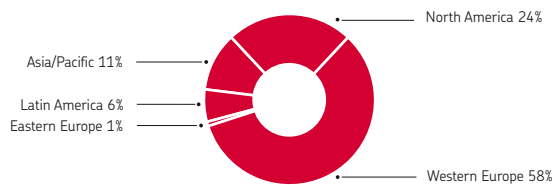
In 2007, the division will continue its efforts to increase efficiency in the North-American organization, while growing in emerging markets, in particular Asia, in order to secure the full effect of investments. Another area of focus is to grow the aftermarket business globally, including the continuous extension of the product line. Integrating SKF Polyseal Inc. and Economos Austria GmbH will also be a priority for 2007, to obtain full value from the seals acquisitions made during the year. The division is aiming to further increase SKF's sales of value-added solutions, by intensifying its work on product development and by fully leveraging its offering within the different platforms.

Tryggve Sthen

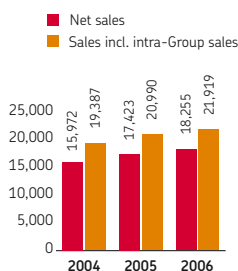
Net sales by customer segment



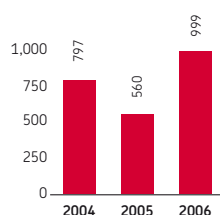
Net sales by geographical area



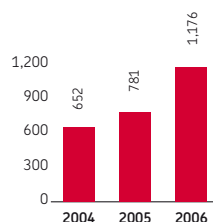
Sales, MSEK*



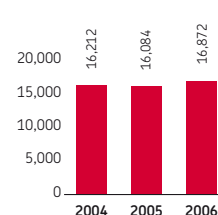
Operating profit, MSEK*



Additions to property, plant and equipment, MSEK*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2006.

Awards

The quality of SKF's products and services is highly esteemed. A list of some of the awards received by the Group in 2006 now follows.

IMTMA-Siemens Productivity Championship Award • Indian Machine Tool Manufacturers' Association (IMTMA), India
Top Five • NEI Publishing Associates, Brazil
AutoData • Novo Polo Publishers, Brazil
Qualitas • FIAT Automotive, Brazil
ABTCP-TAPPI 2006 • ABTCP - Brazilian Pulp & Paper Association, Brazil
The Bearing Manufacturer • European Power Transmission Distributors Association (EPTDA), Austria
Best Supplier Award • Nanjing High Speed & Accurate Gear Group, China
Best Supplier 2006 • Georg Rutz AG, Switzerland
American Premier Automotive Suppliers' Contribution to Excellence Award (PACE) • Automotive News magazine, Microsoft, SAP and Transportation Research Center Inc., USA
Service Excellence Award • NAPA Canada, Canada
The Joy of Creating Award • Honda Motorcycle & Scooter India Pvt Ltd, India
Quality Toyota Award • Toyota, Japan
Best Brand 2006 • AP Magazine and IF4, Portugal
NAPA 95% Club Award • NAPA USA, USA
NAPA Under Car Sales Group Supplier of the Year Award • NAPA Under Car Sales Group, USA
Automotive Communications Award (ACA) for "Best new training materials" • ACA, USA
President's Award for Web Catalog Excellence 2005-2006 • National Catalog Managers Association (NCMA), USA
Best Supplier Award • Lucas TVS, India
Operational Excellence Award • Motion Industries, USA
Zero defect supplier with excellent delivery performance • GM Holden, Australia
Dun & Bradstreet – American Express Corporate Awards 2006 • Dun & Bradstreet India, India
National recognition for the environmentally friendly production • Ministry of Environmental Protection of Ukraine, Ukraine
Best employer for safety operation condition • Government of Ukraine, Ukraine
Temp Award 2006 • Excel Interim, Belgium
Wielkopolska Prize of Quality • Institute of Quality in Wielkopolska, Poland
Voluntary Protection Program (VPP) Star Award • U.S. Occupational Safety & Health Administration, USA
Compliance to regulation on liquid waste disposal • Governor city of Jakarta, Indonesia



Sustainability Report

SKF has adopted the “Sustainability Reporting Guidelines” issued by the Global Reporting Initiative (GRI). The GRI is an international body promoting the voluntary reporting by organizations of the economic, environmental and social impact of their activities, products and services.

The GRI Guidelines were issued in 2000 and updated in 2002 and 2006. SKF adopted the Guidelines initially for its 2000 Environmental Report. Data on social performance were included in the 2001 report. This 2006 report is based on the applicable parts of the 2002 Guidelines. The sustainability data in the Annual Report 2006 have been subjected to a review in accordance with FAR SRS’ (the institute for the accountancy profession in Sweden) draft standard RevR 6 Independent limited review of voluntary separate sustainability reports and AccountAbility’s AA1000 Assurance Standard.

A table showing the GRI core indicators and where in the SKF report the corresponding further information can be found is available on the internet, see the address on the inside back cover.

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106	Organization, stakeholder involvement and communication, external principles and charters
106	Awards and recognition
107	Sharing best practice, sponsoring sustainable development
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118	AccountAbility AA1000 Assurance Standard
119	Independent Assurance Report

Sustainability at SKF

Organization

As a global company, SKF's policy on sustainability is to work to the highest standards in each country in which it operates. The execution of sustainability programmes is the responsibility of the respective SKF divisions and country management organizations and is overseen by the Corporate Sustainability Department, working within Group Human Resources and Sustainability.

In each country in which the Group has manufacturing or logistics units, there is a country co-ordinator who oversees environment, health and safety (EHS) at local SKF facilities with the EHS site co-ordinators. Country co-ordinators also provide a link with the corporate staff. A number of these EHS country co-ordinators are also members of the corporate EHS audit team, which inspects SKF units at two-yearly intervals to ensure compliance with Group standards and national legislation.

The Group's Zero Accidents health and safety initiative is overseen by a steering committee, led by the Vice President, Corporate Sustainability.

The BeyondZero initiative is overseen by a BeyondZero board made up of members from SKF Group Management.

Stakeholder involvement and communication

As with other international companies, SKF has many stakeholders that are interested in the Group's sustainability performance. They include customers, analysts, investors, shareholders, employees, suppliers, national and local authorities and communities.

SKF takes a proactive approach in communicating its sustainability initiatives and performance to its stakeholders. This is done regularly via various communication tools such as press releases, Sustainability Report (integrated in Annual Report), company website, conferences and meetings.

SKF also operates a World Works Council and a European Works Council. At the council meetings, representatives for the employees meet with Group Management to discuss matters of importance to the Group and its employees. The annual meeting of the World Works Council was held in September 2006 in Shanghai, China.



Active participation in various business organizations such as the World Business Council for Sustainable Development (WBCSD) and the Association of Swedish Engineering Industries enables SKF to engage in discussions with other multinationals on how to contribute to ecologically balanced and socially sound economic development.

Questionnaires from investment companies, financial analysts, non-profit organizations and university students are taken seriously to provide feedback on SKF's sustainability performance. SKF also enforces independent assurance of the Sustainability Report to ensure transparency and credibility for the information provided there.

External principles and charters

Global Compact

With the aim of aligning SKF's sustainability strategy to enforce human rights, labour, environmental and anti-corruption principles, SKF has been participating in the United Nations Global Compact initiative since September 2006.

The Global Compact is an international initiative which aims to realize the vision of having a more sustainable and inclusive world economy, where both the private and social sectors work together to identify and implement solutions to the challenges of globalization.

Action taken to support the ten principles outlined in the Global Compact is communicated to the stakeholders via the Annual Report, Sustainability Report, website, press

releases and other types of communication tool. This ensures and underpins SKF's commitment, as well as the integrity of sustainable development initiatives.

External charters

The Business Charter for Sustainable Development was issued by the International Charter of Commerce (ICC) more than 10 years ago and SKF was quick to endorse it. As required by the ICC Charter, SKF applies the precautionary approach to the provision of products and services. Regular assessments of environmental risks and programmes for preventive action are a feature of the Group's environmental management system.

In addition, SKF adheres to the OECD Guidelines for Multinational Companies and the ILO Declaration concerning multinational companies.

Awards and recognition

External recognition

For the seventh year running, SKF was included in the Dow Jones Sustainability Indexes. SKF is one of the industry leaders in the sector for Industrial Engineering. SKF was also included in the FTSE4Good Index Series for the sixth year running.

Furthermore, SKF was awarded the highest score of all rated companies in the environmental section of the Swedish insurance company Folksam's Index för Ansvarsfullt Företagande (Corporate Social Responsibility) 2006.

SKF was ranked as number 1 among 150 Swedish international organizations in a recent survey conducted by the Amnesty Business Group in Sweden. The Amnesty Business Rating is an annual survey of large



FTSE4Good



The City of Göteborg International Environmental Prize, which is sponsored by SKF, was awarded in 2006 to three engineers at Toyota for the development of the world's first commercial hybrid automobile, the Prius. Takehisa Yaegashi and Yuichi Fujii attended the prize ceremony in Gothenburg.

Swedish companies' performance in handling human rights issues, as well as the risks of these companies in terms of human rights violations.

Governmental and non-governmental recognition

Governmental and non-governmental awards and recognition received by SKF units throughout the world in 2006:

- SKF Ukraine was recommended for the National Recognition for Environmentally Friendly Plant by the Ministry of Environmental Protection of Ukraine. The award was presented by the President of the Ukraine Academy of Sciences, Boris Paton
- SKF Ukraine was presented with the award as the "Best Employer" for the best safety operating conditions by the Prime Minister of Ukraine, Yuriy Yekhanurov
- SKF Brussels received the award for the best company for "Temporary Employee Development" by Excel Interim, a leading secretarial recruitment consultancy in Brussels
- SKF Seneca in the USA received the "Voluntary Protection Program (VPP) Star Award" from the US Department of Labour's Occupational Safety and Health Administration (OSHA) for its outstanding achievement in occupational safety and health programmes at the plant

- SKF Jakarta obtained a "Good" performance level for its compliance with the regulation on Liquid Waste Disposal in 2005. As a result, an award was presented to the unit by the Governor City of Jakarta in December 2006

Sharing best practice

It is SKF's policy to spread "Best Practice" in sustainability throughout the Group, to maintain consistently high standards at all units. SKF also co-operates with other organizations committed to sustainability. As a member of the Ford Motor Company's "Supplier Sustainability Forum", SKF shares best practice in sustainable development with other major suppliers to automotive manufacturers.

In 2005, SKF also joined the World Business Council for Sustainable Development (WBCSD), a coalition of about 200 multinational companies with a shared commitment to sustainable development.

An SKF Supplier Conference was held in China in November 2006 for some 30 major China-based suppliers. The objective of the conference was to highlight the importance of suppliers in the SKF demand chain and to

communicate SKF's expectations in relation to their sustainability performance. All major suppliers will be audited by SKF for their quality and sustainability performance. It is a requirement from SKF that all major suppliers shall issue a set code of conduct similar to that of SKF, implement carbon dioxide emissions reduction programmes and be certified according to the ISO 14001 international standard for Environmental Management.

Sponsoring sustainable development City of Göteborg International Environmental Prize

SKF is a sponsor of the "City of Göteborg International Environmental Prize". The prize is awarded annually to individuals or organizations for their significant action and drive in contributing to sustainable development. In 2006, the award was presented to three Japanese engineers at Toyota, Takeshi Uchiyamada, Takehisa Yaegashi and Yuichi Fujii, for their outstanding, purposeful and critical contributions to the development of the Prius. The Prius is the world's first commercial hybrid automobile, of which half a million have so far been sold.



**Dow Jones
Sustainability Indexes**
Member 2006/07

Shell Eco-marathon 2006

For several years, SKF has been involved in the Shell Eco-marathon event and 2006 was no exception. SKF was the official partner, supplying the participating teams with advice and products.

SKF France set up a webpage to support all participating teams during their design phase. Specialists were online to provide advice regarding vehicle weight reduction, how to reduce friction, the correct use of lubricants and also to propose products suited to the specific needs of their vehicles.

During the race, specialists were stationed at the SKF stand to answer questions and give advice to participants on various aspects of automotive mechanical engineering.

As far as SKF is concerned, sustainable development is a matter of responsibility. It is a question of ensuring the success of our operations, for the present and for the future, while taking care to preserve the resources needed by future generations.

Policies and management systems

SKF Code of Conduct

In 2002, SKF issued a formal document relating to business ethics called the SKF Code of Conduct.

SKF's responsibilities towards its stakeholders, customers, employees, shareholders and society, are defined in this document. The SKF Code of Conduct has its roots in SKF's long tradition as an international company. It adheres to the United Nations Global Compact Principles and the OECD Guidelines for Multinational Enterprises.

During 2004, SKF introduced a procedure for the internal verification of all SKF units' compliance with the Code of Conduct. The

audit is integrated into the ISO 14001 and OHSAS 18001 audit processes. Units are inspected at two-year intervals by corporate audit teams. Compliance audits were completed in 2006 at 17 units of which 9 were in Europe, 4 in USA, 1 in Latin America and 3 in Asia. The audits revealed excellent compliance generally at these units. In one case, a discrepancy was found and corrected promptly.

SKF Environmental, Health and Safety Policy

SKF's first Environmental Policy was issued in 1989. The policy is reviewed regularly and was updated in 1994 and 1999 and revised in 2001 to increase emphasis on health and safety. This Environmental, Health and Safety Policy can be viewed at www.skf.com.

SKF's Environmental, Health and Safety Policy describes our commitment to short- and long-term contributions to protect the environment and provide a safe working place for our employees.

SKF Social Policy

In 2006, SKF issued a Social Policy to promote SKF's and its employees' involvement in worthwhile local social projects. This policy can be viewed at www.skf.com. The policy aims to support personal development for less privileged people, education and vocational training, local sports and health initiatives, as well as stimulating other voluntary work.

Management systems for the environment, health and safety

Since 1998, SKF's manufacturing units, technical and engineering centres and logistics units are certified according to ISO 14001:

the international standard for Environmental Management. These units are included in a single Group-wide certificate, which, at the end of 2006, encompassed 88 SKF units in 26 countries.

Vogel companies in Berlin (Germany), Hockenheim (Germany), Saumur (France), Newport News (USA) and Osaka (Japan) joined the Group's ISO 14001 certificate in 2006. Recent acquisitions are excluded from the Group certificate and are working towards inclusion. The schedule for ISO 14001 implementation is shown on page 116.

SKF was also certified as meeting the international standard for Occupational Health and Safety Management – OHSAS 18001 – in 2005. SKF was the first of the major bearing manufacturers to be approved according to the OHSAS standard. This single Group-wide certificate covers 86 units in 24 countries. Recent acquisitions are handled according to a separate programme, similar to that of ISO 14001.

Vogel companies in Berlin (Germany), Hockenheim (Germany), Saumur (France), Newport News (USA) and Osaka (Japan) joined the Group's OHSAS 18001 certificate in 2006. The schedule for OHSAS 18001 implementation is shown on page 116.

The objective of the OHSAS 18001 Health and Safety Management System is to assist the Group's drive towards Zero Accidents (work-related injuries and illness) at all units worldwide. The implementation of OHSAS 18001 ensures that SKF units globally have similar high standards of health and safety management. Further information on the SKF Zero Accidents programme is given on page 113.

Sustainability at SKF

In 2006, SKF took the decision to add Sustainability to its key business drivers. The drivers are Profitability, Quality, Innovation, Speed and Sustainability.

SKF is committed to realizing business objectives in such way that they minimize any negative impact, while the positive impact is enhanced. This commitment is leading us to developing and offering new environmentally sound, energy-efficient products and services, as well as introducing effective energy conservation programmes in operations. However, SKF also recognizes the opportunity to encourage employees to take individual responsibility for active contributions to sustainability, at work and in their private lives.

Furthermore, SKF is reaching out to its suppliers around the world with the same message: a positive track record for sustainability is required to be a supplier to SKF.

SKF defines sustainability as Business Care, Environment Care, Employee Care and Community Care and this report will describe how these four cornerstones of SKF's sustainability programme are being developed and implemented.

Business Care

SKF has always been dedicated to helping customers find solutions to their specific needs. Working with customers from every industry all over the world provides a unique

opportunity to accumulate knowledge. This bank of knowledge is absolutely essential when developing new solutions for customers, not least in the area of environmental performance.

By combining its expertise on bearings, seals, mechatronics, lubrication and service, SKF works as a partner to customers in all industries, developing environmentally sound solutions.

Here are some examples.

New energy-efficient bearings reducing at least 30% energy consumption

SKF has developed a new family of bearings that reduce energy consumption by at least 30% compared with standard ISO products. This new bearing family comprises the two bearing types that are the most used bearings in the world, deep groove ball bearings and taper roller bearings. With this innovation, SKF is now presenting a new technical solution that will provide the world's industry with the opportunity substantially to increase its energy savings. The demonstration of the potential of these bearings in relation to the reduction of energy consumption of machinery is supported by the European Commission's

LIFE-Environment programme 2006. This programme supports new methods and techniques for dealing with a wide range of environmental problems.

Energy-efficient taper roller bearing

This bearing will deliver energy savings of at least 30% on average and will initially target industrial segments where applications exceed 1 MW power consumption. Such applications include railway and transmissions in heavy industry, ships, wind energy, conveyors and extruders. The initial size range will be 200-600 mm outside diameter and the first applications are expected to be in wind turbines.

An example of the potential of these bearings comprises all the wind turbines operating in the world at the end of 2006. If all the bearings in the gearboxes of all these turbines could be replaced by SKF energy-efficient taper roller bearings, they would generate an estimated extra 770 million kWh per year. That is equivalent to the total energy consumption of one million Swedish households for one month.

SKF's energy-efficient bearings



Deep groove ball bearing



Taper roller bearing



SKF throttle by-wire reduces fuel consumption in business jets, by automatically controlling engine thrust.



SKF mechatronics actuator employs compact electro-mechanical design to save energy in robotic welding.

Energy-efficient deep groove ball bearing

This bearing will deliver energy savings of at least 30% in most applications. Initially, the focus will be on lightly loaded applications and the first applications will be industrial electrical motors driving machinery in many segments. Production will initially cover the smaller diameter sized series.

To exemplify the potential of these bearings, consider that the energy consumption in industrial motor-driven systems in the USA and European Union is 1.36 million million kWh per year. If these motors used SKF energy-efficient deep groove ball bearings, the estimated savings would be 2,460 million kWh per year. This is equivalent to the total energy consumption of over three million Swedish households for one month.

SKF actuators help buildings cut energy use by 30-50%

On average, the Heating, Ventilation and Air Conditioning (HVAC) system in office buildings accounts for roughly one third of the total energy use of the structure. In glass façade buildings, HVAC energy needs are even greater, as these structures readily lose heat in the winter and become heat-trapping greenhouses in the summer. With global energy demand expected to double in the next 50 years, developing and implementing solutions that reduce HVAC energy use is essential. Actuator and control units from SKF are helping to control interior temperatures by enabling an alternative HVAC solution – the secondary glass façade, allowing self-regulating blind systems to keep buildings warm in the winter and cool in the summer.

Linked to the building's HVAC system management software, SKF actuators and control units allow the blinds to automatically respond to the sun, as well as other factors such as nearby buildings and clouds. The SKF-enabled system reduces HVAC energy use by as much as 30-35% in the winter and 50% in the summer.

SKF mechatronics cut energy use by more than 90% in welding robots

The automotive industry is a heavy user of industrial robots, with an average of 300 welding robots in operation per production line. The majority of these robots use pneumatic actuation devices to grip and weld designated points on the vehicle frame. This process requires a substantial amount of energy to produce the pressurized air needed to actuate the pneumatic equipment, resulting in very high and costly levels of energy consumption.

With its extensive knowledge of the technology of mechatronics, SKF has developed a compact electro-mechanical actuator for the robotic welding process that requires only a fraction of the energy needed by the pneumatic process, reducing energy consumption by more than 90%.

Magnetic bearings reduce friction in natural gas pipeline compressors

Traditional hydrodynamic bearings used in centrifugal compressors in natural gas pipelines have high friction and require oil for lubrication. Replacing the hydrodynamic bearings with SKF magnetic bearings in pipeline compressors enables friction reduction and increases in energy efficiency.

Furthermore, the exchange also eliminates the need for lubricant oil pumps, coolers and filters, as well as the need to exchange and dispose of used oil. Leaking oil is also a potential fire hazard.

SKF is working with a leading compressor manufacturer to install magnetic bearings in a new 12 MW/12000 RPM centrifugal compressor for a natural gas storage facility in the USA. The estimated energy savings from using magnetic bearings are 700,000 kWh annually.

SKF throttle by-wire reduces fuel use by 5% in business jets

Pilots of business jets make frequent speed adjustments in response to changing conditions and new instructions from traffic controllers at the destination airport. Regardless of the degree of individual pilot experience and skill, arbitrary control of throttle speed contributes to wasted fuel during flight and often to inaccuracies in arrival times that result in unnecessary extra fuel consumption.

SKF's energy-efficient solution – auto-throttle (AT) systems, which are now being used by leading business jet manufacturers, provide business jet fleets with reductions in fuel use of as much as 5% by keeping the aircraft within its preferred thrust and speed envelopes throughout the flight.

The SKF by-wire auto-throttle works with full-time engine synchronization automatically to control engine thrust, delivering the best rate of climb and determining the optimum speed as weight is reduced due to fuel burn-off. The auto-throttle also provides automatic speed management for more accurate time of arrival.

Client Energy and Environment Analysis

Through our Reliability Systems business, SKF is now offering Client Energy and Environment Analysis – an extensive, plant-wide assessment tool that identifies high-energy consumption areas within an operation. The assessment also examines chemical treatments, lubrication use and other operating processes that could be improved to reduce environmental impact.

After conducting an SKF Client Energy and Environment Analysis at one of SKF's own bearing factories, it was possible to identify an opportunity that would enable SKF to re-use waste heat to heat the entire factory. This translated to millions of kilowatt hours' worth of savings by reducing the large amount purchased at present.

In another example, resulting from an SKF service contract, SKF was able to identify energy reduction opportunities of 4% for the client's compressors, cut lubricant consumption by 18% and increase production by 30% – simply by changing maintenance practices. Another SKF client reduced lubricant consumption to 10% of the original use at its factory within three years.

Environment Care

As a manufacturing company, SKF recognizes the inherent impact the production processes have on the environment. It is an everyday job to minimize this impact and a mission of high priority.

SKF manufacturing units, technical and engineering centres and logistics units are certified according to ISO 14001: the international standard for Environmental Management. These units are included in a single Group-wide certificate which, at the end of 2006, encompassed 88 units in 26 countries. Newly acquired companies are given a time frame to implement the management system. The ISO 14001 implementation schedule is shown on page 116.

SKF's previous target for the reduction of carbon dioxide emissions from energy consumption was 10% by 2007 (compared with 2002). This target was successfully accomplished in 2005 with a 13% reduction in CO₂ emissions, while the production volume increased by 15%. As a result, SKF set an even higher target to reduce CO₂ emissions by a minimum of 5% annually, irrespective of any production volume increases. The reduction in 2006 was 14.8% compared with 2005. It should, however, be noted that, by dis-counting the divestment of the operations in Hofors and Hällefors and adding the emissions

from the acquired operations, the emission reduction was around 5.5%.

The evident performance is demonstrated in several best practices within SKF operations worldwide in energy-efficiency programmes, as well as converting to green/renewable energy sources.

SKF Sverige in Göteborg purchases green energy

For a number of years, SKF Sverige in Göteborg has been implementing several projects designed to increase energy efficiency at its manufacturing facility. These projects include setting up frequency-controlled pumps, heat recovery from the production of compressed air, installation of new lighting in factories and warehouses and roof insulation.

More recently, SKF Sverige has installed a heat recovery system on the factory roof to recover excess heat from the exhaust air for heating the building, reducing carbon dioxide emissions by about 380 tonnes a year.

In addition to increasing productivity and energy efficiency in the manufacturing operations, SKF Sverige chose to source Good Environmental Choice-labelled electricity from its energy supplier from 1 July 2006.

This further reduces CO₂ emissions from 73 tonnes/GWh to 0.007 tonnes/GWh from electricity consumption, resulting in a total CO₂ emission reduction of 23% in 2006 in comparison with 2005.

Motor Challenge Programme in Lüchow

The Motor Challenge Programme is a European Commission initiative supported by 15 European countries' National Energy Agencies. The programme provides aid, advice and technical assistance to industrial companies to increase energy efficiency in electric motor-driven systems such as compressed air, fan and pump systems.

In its drive for energy efficiency in production operations, SKF Lüchow, Germany, is a partner in the voluntary Motor Challenge Programme. Participation requires a "Challenge Partner" to demonstrate and implement measures for energy consumption reduction, while maintaining and improving the reliability and quality performance of the electric motor-driven systems.

Within this programme, SKF Lüchow outlined several activities such as optimizing pump design, purchasing only "Eff1" motors and using the waste heat from compressors to heat the buildings. "Eff1" is the top energy-efficient motor classification in a motor

efficiency labelling scheme. The labelling scheme was established by European manufacturers of standard motors and supported by the European Commission. In the programme, SKF Lüchow reported 145,000 kWh electricity and 700,000 kWh heating energy savings in 2006 (approx. 300 tonnes in CO₂ emission reduction).

In addition, SKF Lüchow conducted several Six Sigma projects on channel controlling, focusing on material consumption reduction, compressed air consumption reduction and energy consumption reduction by installing sensors and flash memory. The potential return from these energy-efficiency action plans could save SKF Lüchow up to 400,000 kWh a year.

Energy savings at SKF Mekan

Since the 1960s, SKF Mekan in Katrineholm, Sweden, has worked continuously to find ways to reduce energy consumption in its operations. The recycling of cooling water from foundry furnaces as warm water in the facility, the recirculation of heating energy from compressor cooling water through heat exchangers to warm up incoming air and the installation of roof and glass window insulation are some examples of projects SKF Mekan has executed over the years.

More recently, the unit has completed a 10-year plan (eight implementation phases) to replace the old ventilation system with the advantage of heat recycling. This produces a saving of 4,090 MWh in energy (SEK 1,636,000) per year. Movement sensors have also been installed throughout the facility in areas such as washrooms, storage, offices and corridors, with the benefit of reducing electricity consumption by 91 MWh (SEK 40,000) annually.

Other environmental issues

Water

Water consumption in the Group in 2006 was 7.08 million cubic metres, compared with 8.35 cubic metres in 2005. A downward trend in consumption has been seen since 2001, reflecting the Group's water conservation activities.

New penetrant inspection facility in Saint Vallier reduced chemical and waste water

SKF Saint Vallier, France, installed non-destructive testing equipment, a fully automated electrostatic spray gun to replace the previous pneumatic method. This process uses a hydrocarbon chemical compound to identify defects. Hydrocarbon is classified as an irritant product and, with the new installation

equipped with aspiration, it filtered 90% of the vapour emissions and thus reduced the exposure of the operators to the chemical product.

The new facility is also equipped with a waste-water treatment unit which reduces waste water by 60 tonnes a year, a reduction of 85%. Prior to the new installation, the used water was incinerated with the other polluted water from emulsion. With the new process, used water is recycled in the process after treatment by filters.

This new process complies with the Quality Standard NADCAP (National Aerospace and Defense Contractors Accreditation Program) for Aeronautics and it was partly funded by the governmental Agency for Water.

Waste management/recycling

Practically all the scrap metal from SKF's operations, totalling about 164,000 tonnes in 2006, is recycled. The recycling percentages for the main residual products are shown in Table 5, page 117. All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons.

Landfills

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

The majority of these cases involve so-called Superfund sites in the USA. In most of these cases, SKF USA was one of the many companies contributing to the waste disposal at the landfill in the past and SKF's share is generally very low – a few per cent or less. Relevant provisions have been made to cover these costs.

Recycling

SKF Aerospace in France reduced scrap rate

SKF Aerospace in France conducted a Six Sigma project to reduce the scrap level for composite structural rods due to porosity. When moulding the composite structural rods, there was a high level of scrap, 10%, due to porosity in the composite rods. Because composite rods are neither recyclable nor biodegradable, the project to reduce the scrap level to 7.5% has led to a reduction in landfill waste and the costs associated with eliminating the waste. In addition, by improving the composite rod manufacturing process, the cost of scrap was reduced from EUR 90,000 to EUR 30,000.

Compliance

All the countries in which SKF Group operates now have similar rigorous legislation in the areas of environment, health and safety. The main difference between the countries is the extent to which this legislation is enforced. It is SKF's policy to ensure the highest standards of legal compliance, regardless of the location of a unit and the level of enforcement by EHS authorities.

A legal non-compliance concerning waste water was identified in 2005 in Karnare, Bulgaria. This issue was described in the 2005 Annual Report. A new waste-water treatment plant has now been installed to ensure compliance with legislative requirements.

Clean-up action

SKF's manufacturing operations are designed to prevent environmental pollution. Like other long-established industrial companies, SKF is involved in some remediation projects, resulting from historical activities. For ongoing remediation projects, relevant provision has been made.

Before any acquisition, an environmental due diligence assessment is conducted to determine whether a clean-up is required. Potential liabilities identified by a preliminary (Phase I) investigation may be subject to a further (Phase II) investigation. SKF also conducts similar environmental assessments before divesting property.

BeyondZero

BeyondZero was first launched as a concept in 2005. This concept aims to go beyond the traditional practice of reducing negative impact towards zero, by striving for an overall positive impact on the environment from the Group's operations.

This is a very ambitious, challenging target and, to understand the full scope of the negative and the positive impact of SKF's products and services, two research projects have been initiated, one with the Massachusetts Institute of Technology (MIT), Boston, and the other with Chalmers University of Technology, Göteborg.

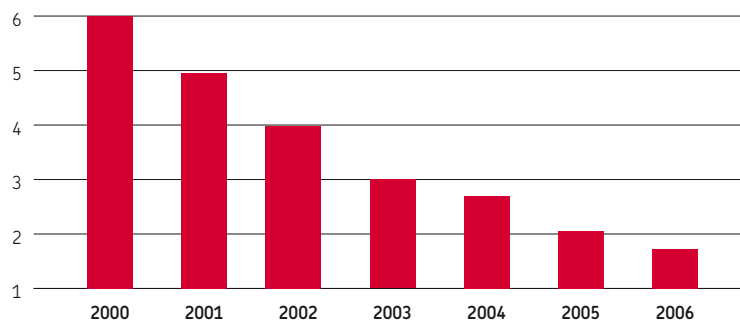
However, BeyondZero requires daily attention. By understanding its customers' need to reduce their environmental impact and consequently developing and marketing products which address those needs, while identifying and addressing improvement opportunities in its own operations, SKF is continuously moving towards BeyondZero.

Employee Care

To remain an industry leader, SKF must attract, develop and retain the best people in the industry, i.e. by being the preferred employer. The Employee Care programmes are designed to develop the pride, loyalty and dedication of employees and assist them to realize their full potential.

The percentage of employees in full-time employment was 97% in 2006, while the average retention rate of employees was 95%.

Chart 1: This graph shows the accident rate for the SKF Group since 2000, the year the Zero Accidents programme was implemented at SKF.



Note: The accident rate is the average for monitored units within the Group. Some sales and administration offices are not monitored by the Zero Accidents programme, as the safety risks are relatively low in these areas.

The accident rate for the Group is calculated using the formula:

Accident rate = $R \times 200\,000/H$
 where R = number of recordable accidents
 and H = total hours worked

This formula is provided by the US Occupational Safety and Health Administration (OSHA).



SKF South Africa "adopted" the nursery school at the St. Francis Care Centre, dedicated to helping children from two to six years of age with HIV/AIDS.

SKF is in the process of offering Sustainability Awareness Training to its employees. The purpose of the training is to give all SKF employees an opportunity to evaluate the impact of what is going on in the environment and to participate in improvement activities, be it at work or in their private lives. By reaching out to all employees, SKF has the potential to influence not only some 40,000 people but also their families and friends. Corporate Sustainability goes beyond the organizational borders and SKF strongly believes that it takes a mass movement to ensure the required positive impact.

The Sustainability Awareness Training includes a brainstorming session among the participants and many ideas have been presented, such as offering smaller, more fuel-efficient cars (hybrid, diesel) as company cars (Canada), planting trees annually to offset carbon dioxide emissions from travelling (Croatia), enforcing eco-friendly driving behaviour (Romania), donating old computers and mobile phones to students (China), recycling envelopes for internal use (UK) and many more.

Zero Accidents

Our very successful Zero Accident programme which started in 2000 is a tangible Employee Care initiative. Since then, SKF has reduced the number of accidents dramatically and, in 2006, SKF had 88 of 197 units with a record of zero recordable accidents for four quarters or more. In 2003, SKF decided to aim for certification of the entire Group according to

OHSAS 18001, the international standard for Occupational Health and Safety Management. This certification was obtained in 2005 and now covers 86 units in 24 countries. The objective of this certificate is to help drive Zero Accidents towards its goal.

SKF Seneca received "Star" award from OSHA (USA)

One of the many units that have worked very successfully with accident prevention is the SKF Seals factory in Seneca, USA. In 2006, it earned the Voluntary Protection Program (VPP) Star Award of the US Department of Labour's Occupational Safety and Health Administration's (OSHA).

The Voluntary Protection Program promotes effective work-site-based safety and health programmes and the "Star" status is the highest level of qualification.

The ceremony took place on 27 September at the Seneca factory where the award was presented to the plant manager, Keith Imholte, and his team. SKF is one of 1,600 worksites, out of a total of seven million, to receive this prestigious recognition.

There are numerous other initiatives to demonstrate SKF's commitment to its employees' well-being. For instance, at many SKF companies around the world, SKF offers an opportunity to participate in health and fitness programmes, as well as some of the activities below, selected as best practices.

HIV/AIDS awareness programmes for employees (South Africa)

One example of employee health programmes of specific importance is the HIV/AIDS awareness programme for employees at SKF South Africa. A policy was put in place in 2002, followed by a committee in 2005 to set up a coherent HIV programme for all employees in South Africa.

Voluntary awareness training was given to 305 employees (90% of the workforce) and this was intensified with extensive training for the committee on HIV/AIDS, with the aim of providing counselling to employees in 2007.

Voluntary testing and free counselling are provided once a month to employees by a third-party service provider to ensure confidentiality. This enables HIV-positive employees to receive confidential support and advice, while providing all other employees with an opportunity to discuss any concerns they might have. Counselling is also given in the event of an employee's family member or friend being infected. All employees also have access to testing on a continuous basis which allows them to determine their status.

In 2006, training was given to employees on the stigma and discrimination associated with HIV/AIDS.

In addition to helping employees, SKF South Africa also extended its HIV/AIDS programme to the local community by "adopting" the St. Francis Care Centre – dedicated to helping children with HIV/AIDS.

Employee training overseas (China)

In 2006, SKF China initiated a trainee programme in which Chinese students overseas are recruited to a two-year trainee programme in Europe. Upon completion, they will return to their home country and work for SKF China.

SKF China partnered with SKF Germany, France and Sweden to post the recruitment advertisements at various local universities.

In Sweden, one student from the Royal Institute of Technology (KTH), Stockholm, together with three students from Chalmers University of Technology, Göteborg, were selected from 45 applicants for the programme.

During the programme at SKF Sverige in Göteborg, the trainees are assigned to an individual mentor and they are provided with hands-on training in the manufacturing processes through involvement in various projects. The trainees are given the opportunity to extend their experience in their individual academic areas: process development, manufacturing management, quality assurance and sustainability.

In addition to the vocational training, trainees also receive invaluable experience of working across cultures, which is essential at SKF – an international corporate environment.

A similar programme has also been rolled out in France and Germany.

Community Care

SKF operates in hundreds of local communities around the world. The fundamental contribution SKF makes to these communities



comes from its ability to offer safe, long-term employment and from being a responsible corporate citizen. The operations must show respect for local communities and find ways to work alongside authorities and community groups, not only using financial means but also by offering our commitment through various types of involvement on the part of the company or employees.

There are many other examples of SKF's dedication to community care and a selection now follows.

Education for girls (Turkey)

Some 75% of the seven million illiterate Turkish citizens are women and there are 640,000 school-aged girls in the country that do not have primary education. The Siirt project – Haydi Kizlar Okula! (Let's Go to School, Girls!) – is a campaign established by UNICEF and the Turkish Ministry of National Education (MONE) to identify and eliminate

obstacles that are preventing education for girls in Turkey. The aim is to achieve gender parity in primary education attendance for girls and boys alike.

SKF Turkey has been supporting the campaign since 2003 in the province of Siirt, which is one of the 53 provinces selected for the campaign. SKF created a system to monitor girls who are not enrolled and do not attend schools and it has continually monitored the statistics relating to the number of girls and boys enrolled in schools, as well as the schooling ratio for girls and boys.

SKF has also worked with the religious leaders in addressing the importance of education for girls, talked to families and explained the importance of education. Scholarships are given to girls who enrol in primary schools. The number of students who receive financial support has risen from an initial 26 girls to the current 198. All SKF Turkey's stakeholders: distributors, employees, legal adviser, tax adviser, suppliers, customs broker, transportation provider, competitor sales outlet and so on have participated in the campaign for financial support. Each of these girls is also assigned to an SKF employee as a personal mentor who cares for the student and her family.

The success of the campaign in Siirt was demonstrated by the enrolment rate for girls, which rose from 57 to 90 per cent, while the rate for boys was 99 per cent. SKF Turkey was chosen as the prize winner in the Corporate Social Responsibility at EFQM European Quality Award 2004 contest.

Helping under-privileged families (Malaysia)

Agenda 21 is a global partnership adopted by more than 178 governments at the United Nations Conference on Environment Development (UNCED) held in Rio de Janeiro, Brazil, in 1992.

The main objective of Agenda 21 is to promote health and literacy, as well as eradicating poverty, to create a better, safer and more prosperous society. In supporting the implementation of Agenda 21 embraced by the Malaysian government, the SKF Nilai EHS team has created a programme called "Helping Under-privileged Families", in collaboration with the Emergency Response Team (ERT) and volunteers.

This programme has been established as part of SKF Nilai's local community service development programme, with the aim of realizing one of the objectives in Agenda 21 – combating poverty.



Helping under-privileged families is a regular community service activity at SKF Nilai, where employees volunteer to help improve the living conditions for families at Kampung Kilang Padi, a suburb of Nilai in Malaysia.



SKF is sponsoring 20 winning teams from the "Meet the World" countries to play at the 2007 Gothia Cup in Göteborg, Sweden.

The project is an ongoing programme to help under-privileged families in Kampung Kilang Padi, a suburb area of Nilai, by providing better and improved living conditions for the families. Houses have been renovated or strengthened and sanitation in the village area has also been improved by building lavatories.

SKF Comunidade (Brazil)

SKF Comunidade (SKF Community) has been established to address the needs of under-privileged children from the Cajamar region on the importance of health and education to enhance their life quality.

SKF Comunidade takes place every two months at the SKF Sports Club and children from poor communities are invited (with transportation arranged for them) to come to this magical place, where they can have fun and learn through creative activities.

Activities planned for the children during the day include:

- theatrical play on safety in the home
- medical staff explaining and demonstrating the importance of personal hygiene
- interactive games
- hairdressers to provide free haircuts for children
- sports activities: swimming, soccer
- lunches

SKF employees volunteer as guides, actors and actresses in the theatrical play and coaches for different sports games.

SKF is recognized not only as a socially responsible company but also a role model in helping the community. This project was based on SKF's values and Code of Conduct and is receiving a great deal of positive feedback from both communities and customers.

Furthermore, SKF employees feel inspired and energized by spending a day playing with the children and helping them. It enhances teamwork between the employees and, not least, strengthens their working relationships with one another.

2006 Relay for Life (USA)

In 2006, the Relay for Life fund-raising campaign at SKF Hobart raised more than USD 35,000 for the American Cancer Society. The SKF Hobart Relay for Life team was formed in 1999 and there are currently 33 members in the team. Different activities were organized to raise money; they include car washes, garage sales, sales of antique cookie jars, NASCAR jackets and much more besides.

By setting up luminary lights during the night, the event is also to honour those who are still fighting the illness and in memory of those who have lost their battles.

The money that is collected is used for research, education and underlining the importance of early detection.

Meet the World/Gothia Cup (Global)

SKF was one of the three official Gothia Cup partners in 2006. Gothia Cup is the largest football tournament in the world for male and female players between the ages of 11 and 19. Since 1975, 730,000 young people from 123 countries have taken part in the Gothia Cup. Every year, 33,000 players in over 1,500 teams play more than 4,000 matches.

The main purpose of SKF Partnership is to support the Gothia Cup tournament in creating a meeting place for children all over the world to enjoy sports, regardless of their gender, culture, social background or nationality.

In addition, SKF has also extended the Gothia Cup concept by creating more meeting places called "Meet the World" in 20 countries such as Croatia, Zambia, China, India, Argentina, Chile and Mexico. These events were organized by SKF Group and local SKF companies, together with Gothia Cup, throughout September 2006 and early 2007. Thirty-two teams were invited to participate in the local tournaments. The winning team from each "Meet the World" country will then be sponsored by SKF to play at the 2007 Gothia Cup in Sweden, where SKF will be the main partner in conjunction with its 100th jubilee celebration.

Key performance indicators

The previous SKF Sustainability Report for 2005 was issued in March 2006, as an integral part of the SKF Annual Report 2005. The scope of this 2006 report has changed due to the following:

- Acquisitions of Jaeger Industrial Co. Ltd with factories in Taipei (Taiwan) and Pinghu (China) in 2005. Figures from these factories are consolidated into SKF Group for the first time in 2006

- Closure of SKF's US factories in Springfield and Aiken (USA) in 2006. Figures from these factories are included for part of 2006
- SKF operations in Hofors and Hällefors were divested in mid-2005 and are not included in the data for 2006

Table 1 Status of ISO 14001 implementation at recently acquired SKF units

Country	Company	Target date
Finland	Oy SKF Ab – Muurame	2007
Sweden	SKF Lubrication Competence Centre – Linköping	2007
Italy	SNFA – Pianezza	2007
France	SNFA – Valenciennes	2007
China	SKF Dalian Bearings and Precision Technologies – Dalian	2007
China	Jaeger – Pinghu	2007
Taiwan	Jaeger – Taipei	2007
USA	SKF Polyseal Inc. – Salt Lake City	2007
USA	SKF Polyseal Inc. – LaVerkin	2007

Table 2 Status of OHSAS 18001 implementation at recently acquired SKF units

Country	Company	Target date
Ukraine	SKF Ukraine – Lutsk	2007
Bulgaria	SKF Bearings Bulgaria EAD – Sopot	2007
Finland	Oy SKF Ab – Muurame	2007
Sweden	SKF Lubrication Competence Centre – Linköping	2007
Italy	SNFA – Pianezza	2007
France	SNFA – Valenciennes	2007
China	SKF Dalian Bearings and Precision Technologies – Dalian	2007
China	Jaeger – Pinghu	2007
Taiwan	Jaeger – Taipei	2007
USA	SKF Polyseal Inc. – Salt Lake City	2007
USA	SKF Polyseal Inc. – LaVerkin	2007

Table 3 Total consumption of electrical energy, fossil fuels and other hydrocarbons in 2002-2006 for the SKF Group

	Units	2006 ³⁾	2005	2004	2003	2002
Electrical energy	GWh	1,390	1,660	1,860	1,770	1,730
Fuel oil	tonnes ²⁾	3,590	9,190	13,310	15,000	13,250
Natural gas	1,000 m ³ (std)	39,100	41,760	39,460	42,350	45,150
Coal ¹⁾	tonnes	1,180	6,270	11,460	10,240	9,860
Liquefied petroleum gas	tonnes	1,390	11,080	18,220	17,670	17,430
Oils	tonnes	11,930	11,960	11,880	10,600	10,800
Grease	tonnes	1,800	1,780	1,750	1,450	1,420
Synthetic rubber	tonnes	4,790	4,710	4,530	4,530	4,760
Solvents	tonnes	1,890	2,010	2,030	2,040	2,260
Production volume change	%	+5	+1	+8	+3	

¹⁾ Coal (carbon) was used by SKF as an alloying element in steel production, not as a fuel. ²⁾ Only metric tonnes are used in this report.

³⁾ Significant differences in 2006 data compared with 2005 are mainly due to the divestment of SKF operations in Hofors and Hällefors, Sweden.

Table 4 Carbon dioxide emissions associated with energy consumption by SKF

Energy source	CO ₂ equivalent, tonnes CO ₂				
	2006	2005	2004	2003	2002
Emissions generated by energy suppliers to SKF					
Electricity	278,430	285,600	291,040	313,990	313,800
Heating energy	47,400	61,070	66,850	67,420	64,790
Total	325,830	346,670	357,890	381,410	378,590
Emissions generated directly by SKF units					
LPG	4,160	33,250	54,660	53,020	52,310
Fuel oil	11,500	29,410	42,580	47,990	42,400
Natural gas	78,210	83,530	78,930	84,700	90,310
Total	93,870	146,190	176,170	185,710	185,020
Total emissions generated by SKF and energy suppliers	419,700¹⁾	492,860	534,040	567,120	563,610
Production volume change %	+5	+1	+8	+3	

¹⁾ Significant differences in 2006 data compared with 2005 are mainly due to the divestment of SKF operations in Hofors and Hällefors, Sweden. After discounting the divestment of the operations in Hofors and Hällefors and adding the emissions from the acquired operations, the emission reduction was around 5.5%.

Table 5 Main residual products and recycling¹⁾ percentages

Material	Total quantity 2006	Recycling % 2006	Recycling % 2005	Recycling % 2004	Recycling % 2003	Recycling % 2002
Turning chips	90,710	100	100	100	100	100
Other scrap metal	73,520	100	100	100	100	100
Grinding swarf	23,430	65	64	62	66	58
Used oil	6,390	76	93	75	73	69
Paper and cardboard ²⁾	3,950	98	98	92	92	90

¹⁾ Incineration is regarded as recycling if it includes energy recovery.

²⁾ The quantity is probably somewhat underestimated, because some paper is discarded together with miscellaneous waste. All quantities in Table 3 to 5 are calculated accurately by computer and then rounded down/up.

Table 6 Environmental indicators reported by SKF

Material	Indicator	Material	Indicator	Material	Indicator
Raw material –metal	Quantity consumed	Water	Quantity consumed	Solvents	Quantity consumed
– rubber	Quantity consumed	Heating energy		Oils	Quantity consumed
Turning chips	Quantity generated	Heating energy – CO ₂	Quantity consumed	Grease	Quantity consumed
	% recycled	equivalent	Quantity	PCB on site	Present on site: yes/no
Other scrap metal	Quantity generated	Electricity	Quantity consumed	Ozone depleters	
	% recycled	Electricity – CO ₂		– Class I	Quantity consumed
Grinding swarf	Quantity generated	equivalent	Quantity	Ozone depleters	
	% recycled	Fuel oil	Quantity consumed	– Class II	Quantity consumed
Used oil	Quantity generated	Natural gas	Quantity consumed	Waste to landfill	Quantity
	% recycled	Carbon	Quantity consumed		
Paper and cardboard	Quantity generated	LPG	Quantity consumed		
	% recycled	Alcohols	Quantity consumed		

Table 7 A summary of employee performance data for the SKF Group

SKF data	
Percentage of units with independent trade unions	68%
Percentage of units with joint health and safety committees	97%
Units with HIV/AIDS programmes	11%
Percentage of units with women in senior management positions	68%
Percentage of units with freedom of association policy allowing collective bargaining	100%
Non-compliance with child labour laws	0
Registered grievances for forced/compulsory labour	0

Table 8 Health and safety statistics for the SKF Group

Parameter	Result 2006	2005	2004	2003	2002	2001
Number of reporting units ¹⁾	197	192	171	162	151	143
Number of units with zero accidents for one year minimum	88	80	59	58	49	39
Number of units qualifying for "Zero Accidents Award" ²⁾	29	55	36	42	32	21
Number of "recordable" accidents in the Group	536	646	833	910	1,175	1,517
Accident rate ³⁾	1.72	2.06	2.69	3.0	3.98	4.96
Number of employees (registered) ⁴⁾	41,090	37,454	39,867	38,700	39,739	38,091

¹⁾ Monitoring of automotive, industrial and service units increased during 2003-2006.

²⁾ Requires minimum of 50,000 hours worked in accident-free year to qualify.

³⁾ The accident rate is the average for monitored units within the Group. Some sales and administration offices are not monitored by the Zero Accidents programme, as the safety risks are relatively low in these areas.

⁴⁾ Includes all sales and administration offices.

AccountAbility AA1000 Assurance Standard

AccountAbility AA1000 Assurance Standard and Statement Review

SKF has chosen to submit its Sustainability Report 2006 to a review, at a level of limited assurance, in accordance with AA1000 Assurance Standard, as part of the Group's aim for continual improvement in all areas of sustainability.

AA1000 Assurance Standard

AA1000 is an internationally recognized standard for assessing, verifying and strengthening an organization's sustainability reporting. The AA1000 Assurance Standard is designed to be consistent with, and to enhance, the GRI Sustainability Reporting Guidelines. The standard requires the independent auditors to assess a sustainability report against three main principles:

Principle 1: Materiality

This principle requires the independent auditors, as part of the review process, to evaluate the extent to which SKF has included all the information on its sustainability performance that is required by its major stakeholders in order for them to be able to make informed judgments, decisions and actions.

Principle 2: Completeness

This principle requires the independent auditors, as part of the review process, to evaluate the extent to which SKF can identify and understand material aspects of its sustainability performance.

Principle 3: Responsiveness

This principle requires the independent auditors, as part of the review process, to evaluate whether SKF responds to stakeholder concerns, policies and relevant standards, and communicates these responses adequately in the sustainability information.

Independent Assurance Report

To the readers of SKF's Sustainability Report:

At the request of AB SKF, we have performed a review of SKF's sustainability report 2006. The sustainability report is presented on pages 105-118 of the SKF Annual Report 2006 including Sustainability Report, and on SKF's website on the Internet in "Topics related to Annual Report 2006, including Sustainability Report", in the form of environmental performance data, Zero Accidents Award winners and compliance with GRI Guidelines (<http://investors.skf.com/ri6/>)

Our engagement consisted of performing a review of quantitative and qualitative information in the sustainability report. The purpose of our review is to express whether we have found any indications that the sustainability report is not, in all material respects, drawn up in accordance with the criteria stated below. The review has been performed in accordance with FAR SRS' (the institute for the accountancy profession in Sweden) draft standard RevR 6 Independent limited review of voluntary separate sustainability reports and AccountAbility's AA1000 Assurance Standard.

In accordance with the AA1000 Assurance Standard, we confirm that we are independent of AB SKF and impartial in relation to SKF's stakeholders.

SKF Group Management is responsible for managing activities regarding the environment, health, safety, quality, and sustainable development, as well as the sustainability report. SKF Group Management approved the sustainability report in January 2007. Our task is to express an opinion on the sustainability report based on our review.

The sustainability report has been prepared based on applicable parts of the 2002 version of the "Sustainability Reporting Guidelines" issued by the Global Reporting Initiative (GRI) and specific measurement and reporting principles developed and stated by the Group. Together these form the criteria used in the course of performing our review procedures.

The scope of our review included the following activities:

- Interview with the Presidents of the Divisions concerning the Group's sustainability activities with a special focus on business risks related to these issues.
- Discussions with management representatives on the compilation of sustainability data and information, and on the process of developing the sustainability report.
- Review of information on the scope and limitations of the content of the sustainability report.

- Sample-based testing of the reliability of the global web-based system implemented during the year, and routines for registration, accounting and reporting of sustainability performance data.
- Review of SKF's principles for reporting sustainability information.
- Pre-announced visits to five of SKF sites located in Villar Perosa (two sites), Katrineholm, Shanghai and Nankou. Interviews with local management and key sustainability personnel in order to ensure that sustainability performance data are reported, in all material respects, in a uniform manner and in accordance with the reporting principles.
- Review of underlying documentation, on a test basis, to assess whether the information in the sustainability report is based on that documentation.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Interviews with certain external and internal stakeholders to verify that SKF responds to important stakeholders' concerns in publicly available sustainability information.
- Overall assessment of the sustainability report to form an opinion as to whether the reported information, in all material respects, reflects stakeholder requirements regarding sustainability information.
- Review to ascertain that the contents of the sustainability report does not contradict other information in the SKF Annual Report 2006 including Sustainability Report.
- Discussion with management representatives regarding the results of our limited review.

Based on our review procedures, nothing has come to our attention that indicates that SKF's sustainability report 2006 has not, in all material respects, been prepared in accordance with the above stated criteria.

KPMG Bohlins AB
Göteborg 30 January 2007

Thomas Thiel
Authorized Public Accountant

Karin Sivertsson
Sustainability Assurance Specialist

Management as of 31 December 2006

* member of the Group Executive Committee



Tom Johnstone



Tore Bertilsson

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
Employed since 1977. Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions.

Board member: Husqvarna AB and the Association of Swedish Engineering Industries

Shareholding in SKF: 41,196 and 84,841 stock options

Tore Bertilsson*

Executive Vice President, AB SKF and Chief Financial Officer

Born 1951

Bachelor of Science in Economics, School of Business, Economics and Law, Göteborg University

Employed since 1989. Previous positions within SKF: Director, SKF Treasury

Board member: Trygg-stiftelsen, Ågrenska AB and Momentum Maintenance Supply AB

Shareholding in SKF: 8,000 and 69,841 stock options



Christer Gyberg



Henrik Lange

Christer Gyberg

Executive Vice President AB SKF, President SKF GmbH, Schweinfurt and Group IT

Born 1947

Master of Engineering, Chalmers Institute of Technology, Göteborg
Employed since 1972. Previous positions within SKF: President, Industrial Division and several other positions.

Board member: ZMek Holding AB, PIAB Group Holding AB, PIAB AB, PIAB Invest AB and Ekman&Co AB

Shareholding in SKF: 20,000

Henrik Lange*

President, Industrial Division

Born 1961

MBA in international Economics and Business Administration, School of Business, Economics and Law, Göteborg University

Employed since 2003 and 1988-2000. Previous positions within SKF: Senior Vice President, Group Business Development and several other positions.

Phil Knights*

President, Service Division

Born 1948

Bachelor of Arts in Economics, the University of Exeter, and IMD Senior Executive Programme

Employed since 1996 and 1987-1993. Previous positions within SKF: President of South East Asia Pacific operations.

Board member: Endorsia.com International AB and CoLinX, LLC

Shareholding in SKF: 12,000 and 84,841 stock options



Phil Knights



Trygve Sthen

Trygve Sthen*

President, Automotive Division

Born 1952

Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Linköping University

Employed since 2003

Carina Bergfelt*General Counsel*

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: 33,940 stock options

Lars G Malmer*Senior Vice President, Group Communication*

Born 1943

School of Journalism, Göteborg

Employed since 1974. Previous positions within SKF: Head of Corporate Communications and several other positions.

Board member: West Sweden Chamber of Commerce and Industry, International Council of Swedish Industries, Chalmers Teknikpark and IHM Business School

Shareholding in SKF: 10,268 and 51,355 stock options

Eva Hansdotter*Senior Vice President, Human Resources and Sustainability*

Born 1962

Bachelor of Science in Information Systems, Göteborg University

Employed since 1987. Previous positions within SKF: Human Resources Director, Industrial Division and several other positions. Member of SNS Board of Trustees

Shareholding in SKF: 8,710 stock options

Tommy G Klein*Senior Vice President, Group Business Development and Six Sigma*

Born 1947

Tele Technology, Electromechanical Technology, Malmö

Employed since 2005

Board member: Endorsia.com International AB and Pullmax AB

Shareholding in SKF: 680

Bo-Inge Stensson*Senior Vice President, Group Demand Chain*

Born 1961

Master of Science Industrial & Mechanical Engineering,

Linköping University

Employed since 2006

Giuseppe Donato*Senior Vice President*

Born 1944

Degree in Engineering in Electronics and Telecommunications, the Polytechnic University of Turin

Employed since 1979. Previous positions within SKF: President, Electrical Division and several other positions.

Council Member: Confindustria Rome (Proboviro), Unione Industriale Turin, FINSAA - MBA School of the University of Turin and General Council member of ASSONIME_Rome. On June 2nd 2004 appointed "Cavaliere del lavoro" by the President of the Italian Republic.

Shareholding in SKF: 5,000

**Carina Bergfelt****Lars G Malmer****Eva Hansdotter****Tommy G Klein****Bo-Inge Stensson****Giuseppe Donato**

SKF 100 years, 1907-2007

When Sven Wingquist patented the self-aligning ball bearing in 1907, his development grew out of the need to solve a very real engineering problem. Sven Wingquist came from the position as a maintenance supervisor at a textile factory in Göteborg, Sweden. The factory was built on ground composed of clay causing the building to move and the bearings that were used to transfer power to the textile machines to often overheat. Wingquist's self-aligning ball bearing solved the factory's power-transfer problem nicely. The management understood by then the wider industrial potential of his design and SKF was founded. Even today, Wingquist's technical achievement remains at the heart of the company's success. He realised that his self-aligning ball bearing could be used all over the world to save energy and lubrication, while offering greater precision, higher speeds and less maintenance.

Real engineering problems have driven major technical developments throughout SKF's history, the self-aligning ball bearing, the spherical roller bearing and the spherical roller thrust bearing, the compact aligning roller bearing (CARB bearing), the introduction of SKF Explorer performance to the whole range of different bearing types and now the most recent launch in early 2007, the energy-efficient bearing.

Within a year of the company's founding, SKF had branch offices in Germany and France and sales agents in Finland, Switzerland, Belgium, Denmark, Austria and Australia. By 1908, the SKF factory in Göteborg employed 100 workers and was producing 45,000 bearings annually. Production of the company's second bearing product, the thrust ball bearing, began before the end of that year. Within two years of its founding, the company had set up a subsidiary in New York – SKF Ball Bearing Co. – and was affiliated with a small workshop in Paris. Agents were appointed in Italy, Argentina and Japan. The Göteborg factory expanded and production doubled.

By 1910, SKF was exporting more than 80 per cent of its products. The following year, the company set up a research laboratory in Göteborg, primarily to ensure the quality of the steel used in the bearings. Three years later, SKF had risen to become the fourth largest company in Sweden and consulting was already part of its business.

By 1918, SKF had invented the spherical roller bearing and could boast 12 factories, sales representatives in 100 countries and 12,000 employees. A new wave of industrialization in the aftermath of World War I fuelled further growth in the bearing industry, particularly in Europe and the United States. The spherical roller bearing was an

excellent complement to the traditional ball bearing, particularly for railway applications. By 1930, spherical roller bearings accounted for some 15 per cent of SKF's total sales, with applications in other heavy-duty applications such as trams, rolling mills and papermaking machinery.

In 1926, SKF started to produce cars with the brand name Volvo. SKF had originally started the company Volvo for production of a single-row ball bearing especially developed for the automotive industry. In 1935, shareholders in SKF got one share in AB Volvo for five SKF shares. In that way, Volvo became an independent company.

Over the years, SKF has introduced many groundbreaking products, including bearing units for car wheels, first launched in 1938, and hub units, launched 30 years later, where the bearing itself was packaged in a modular system, factory lubricated and set up. The hub unit combined the material properties needed for long bearing life at very heavy loads with the toughness required in this safety-critical application. Several new generations of these units were introduced, offering greater reliability and more component integration, while meeting the general need to reduce friction and increase load-carrying capacity, life and reliability.

This highlights another important aspect of SKF's history. Throughout its existence, SKF



has focused as much on technology, manufacturing processes and bearing systems as it has on products. In the late 1940s, this focus led to the “life theory” – the world’s first tool to calculate the expected life of a bearing. Work on life calculation continued and, in the 1980s, a new life calculation model, also developed by SKF, was introduced. As of 2007, this model is accepted in the ISO 281 standard.

At the beginning of the 1970s, SKF adopted the Global Forecasting and Supply System (GFSS). This involved a sweeping reorganization with a view to rationalizing the manufacturing process and counteracting spiralling costs. The aim was that not one type and bearing size should be produced at more than one European site. At the same time, an office was opened in Brussels for forecasting sales and manufacture.

The creation of the Engineering Research Centre, the ERC, in the Netherlands in 1972 and the Manufacturing Development Centre, the MDC, in 2001 in Göteborg were also important in terms of building SKF’s core technologies. The ERC has also developed many of SKF’s bearing calculation programs, both for R&D and to help SKF application engineers. The ERC has played a leading role in developing testing methodologies and machines and has been an outstanding developer and source of knowledge in the field of bearing tribology. Keeping bearings operating longer and with little or no maintenance is becoming increasingly important for many of SKF’s customers. This has resulted in considerable growth in condition-monitoring products and services, as well as

developments in surface engineering solutions, and has created new SKF business units.

As with most companies, computers have had an impact throughout SKF’s recent history. The company established a working system to improve internal communications as early as 1973. To improve production planning and communication between different parts of SKF, the decision was taken in 1977 to create a database network. Two years later, the company’s Telenet was introduced. At the time, SKF was something of a pioneer, as no other industrial company in Europe had established such a network. It facilitated communications and improved the co-ordination of products to meet sales requirements. By 1993, SKF had developed a customer ordering system. It grew in sophistication, enabling distributors, agents and sales companies to place orders, control delivery times and make enquiries on line.

Today, the company has a range of sophisticated bearing calculation programs and related product selection systems and has exploited the potential of the internet for all internal and external communications, including the launch of Endorsia.com – an internet-based marketplace.

SKF products continue to push the boundaries of bearing performance. The CARB bearing, introduced in 1995, can handle heavier loads, misalignment and axial displacement within the bearing and provide scope for lighter designs and more compact, less costly machinery. Since the introduction of the CARB bearing, its applications have been growing steadily. In fact, the

CARB bearing has performed so well in the applications in which it has been tested that it has usually become the standard solution for drying cylinders in paper machines, fans, continuous casting machines, windmills, gearboxes and washing machines, to mention but a few.

Over the past 100 years, SKF has amassed immense knowledge, not only of bearings, their design and manufacturing but also of application engineering. For the next 100 years, it will be the intelligence that SKF brings to its products, as well as the intelligence inherent in the products themselves, that will keep SKF on top.

Chairman

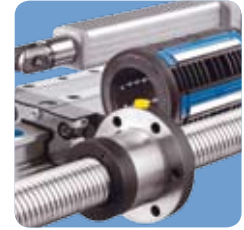
Axel Carlander	1907-1937
Björn Prytz	1937-1938
Sven Wingqvist	1938-1953
Harald Hamberg	1953-1954
Jacob Wallenberg	1954-1971
Folke Lindskog	1971-1980
Peter Wallenberg	1980-1985
Lennart Johansson	1985-1992
Anders Scharp	1992-

President

Sven Wingqvist	1907-1919
Björn Prytz	1919-1937
Uno Forsberg	1937-1941
Harald Hamberg	1941-1953
Joel Larsson	1953-1962
Inge Stenberg	1962-1964
Folke Lindskog	1964-1971
Lennart Johansson	1971-1985
Mauritz Sahlin	1985-1995
Peter Augustsson	1995-1998
Sune Carlsson	1998-2003
Tom Johnstone	2003-



Glossary



SKF's platforms

SKF has grouped its technologies in five platforms. These are brought to the customers through the three divisions.

Bearings & 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.

Lubrication system 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.

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

Services The service platform delivers value by addressing the entire life cycle of a particular asset. The initial stage, the design phase, is covered by different aspects of engineering consultancy and R&D services. The operations stage, which is the main part of the asset 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 spectrum 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 & roller screws, actuators, rail guides and sensor modules. A number of mechanical and electronic products are combined into modules and sub-systems addressing unique needs where SKF has specialist industrial-specific expertise.

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.

By-wire technology • In by-wire systems, the direct mechanical control of a machine 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.

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 unanticipated downtime.

Design for Six Sigma (DfSS) • A methodology which focus on developing new products and services to the market with optimal performance levels.

EHS • Environment, health and safety.

Elastomer • Synthetic rubber.

endorsia.com • An e-commerce network that connects industrial customers, distributors and suppliers via the internet. A dynamic electronic marketplace for branded industrial goods and services. Jointly owned by SKF, Sandvik, Rockwell Automation, INA and Timken.

Ferroalloy • Alloy containing iron and one or more other metals. Used as a raw material in steel mills for obtaining the desired composition of the steel.

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.

Global warming • Increase in the average temperature world-wide, believed to be due to the greenhouse effect.

Greenhouse effect • The effect of certain gases when reaching the atmosphere to cause a reduction of heat radiation from the earth, thereby probably causing global warming.

Grinding swarf • Debris from grinding operations. Contains particles from the ground component and the grinding wheel, and some of the coolant used.

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 services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

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 approximately 60-300 cm are considered as large. The bearings are available both in metric and inch dimensions.

Lean Six Sigma • A methodology which combines tools from both Lean Manufacturing and Six Sigma. Lean focuses on speed and waste, Six Sigma on variation and quality - the result is better quality faster.

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.

Lime • Calcium oxide. Produced from limestone (common mineral) and used extensively as a slag forming agent in the steel industry.

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.

Liquefied Petroleum Gas (LPG) • Propane, butane or similar hydrocarbon gas, compressed to liquid form.

Lubricant • Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g. in a bearing.

Machine tool bearings • Stringent demands are imposed on bearing arrangements in machine tools and the bearings must have a high level of running accuracy and stiffness, coupled with low friction, in order to obtain machining accuracy.

OHSAS 18001 • Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety (OH&S) risks as well as to improve performance in the area. It is compatible to ISO 9000 (Quality Management System) and ISO 14001 (Environmental Management System).

Original Equipment Manufacturer • Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

Remediation • Clean-up and restoration of a contaminated site.

Resetting • Re-adjusting the machines in a production channel for the manufacture of various bearing sizes. Reducing resetting time increases the availability of bearing sizes and thus improves customer service. A further benefit is that inventory can be kept at a lower level.

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 two-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.

Six Sigma for Growth • A customer focused approach and targets improvements in the growth areas such as marketing, sales and distribution.

SKF@ptitude • An online web-enabled source for asset management knowledge that provides access to the global expertise of SKF and its alliance partners. Subscribers gain instant access to a knowledge bank of documents including articles, technical handbooks, best practices and benchmarking information, as well as web-based interactive decision-support services.

SKF Marlin • The data collection and analysis system, Marlin, automates the machinery inspection and data collection processes. The system enables users easily to collect, store and trend plant machinery processes and vibration data to detect and identify an early stage problems that may otherwise lead to unexpected machine or factory downtime.

SKF Microlog • A portable instrument that collects data and performs standard analysis functions. It also incorporates on-board intelligence to facilitate the detection, analysis and correction of machine problems.

SKF Multilog • A system, that use permanently installed sensors to collect vibration and process data, and alert personnel to important changes in machine conditions that can result in unexpected downtime and reduced production output.

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.

Transactional Six Sigma • Focuses on people processes such as service, sales and HR.

Seven-year review of the SKF Group¹⁾

<i>Amounts in millions of Swedish kronor unless otherwise stated</i>	2000	2001	2002	2003	2004	2005	2006
Income statements							
Net sales	39,848	43,370	42,430	41,377	44,826	49,285	53,101
Operating expenses	-36,363	-39,852	-38,480	-38,189	-40,461	-44,215	-47,110
Other operating income and expenses, net	182	104	40	100	72	85	-22
Profit/loss from jointly controlled and associated companies	7	12	32	19	-3	172	738
Operating profit	3,674	3,634	4,022	3,307	4,434	5,327	6,707
Financial income and expense, net	-672	-514	-480	-506	-347	-74	-320
Profit before taxes	3,002	3,120	3,542	2,801	4,087	5,253	6,387
Taxes	-1,001	-909	-1,055	-703	-1,111	-1,646	-1,955
Net profit	2,001	2,211	2,487	2,098	2,976	3,607	4,432
<i>Attributable to:</i>							
Shareholders of AB SKF	1,962	2,167	2,466	2,042	2,926	3,521	4,317
Minority interest	39	44	21	56	50	86	115
Balance sheets							
Intangible assets	1,119	1,270	1,063	874	1,079	1,583	2,586
Deferred tax assets	714	540	604	940	718	862	948
Property, plant and equipment	13,089	13,599	12,418	11,138	11,012	11,119	11,388
Non-current financial and other assets	1,404	1,814	1,762	836	803	2,263	1,429
Inventories	9,262	9,113	8,987	8,429	8,985	9,931	9,939
Current financial assets	3,481	5,387	5,530	6,342	3,565	4,886	8,930
Other current assets	8,515	8,711	8,313	7,993	8,852	9,705	11,018
Total assets	37,584	40,434	38,677	36,552	35,014	40,349	46,238
Shareholders' equity	14,061	16,815	16,935	15,852	17,245	18,233	19,607
Provisions for pensions/post employment benefits	6,746	7,044	6,076	7,885	4,655	4,916	4,731
Deferred tax provisions	1,283	1,430	1,859	1,124	1,091	1,092	1,243
Other provisions	3,046	3,429	3,271	2,371	1,927	2,210	1,919
Loans	4,968	3,541	2,409	1,618	1,116	4,296	8,053
Other liabilities	7,480	8,175	8,127	7,702	8,980	9,602	10,685
Total equity and liabilities	37,584	40,434	38,677	36,552	35,014	40,349	46,238
Key figures²⁾ (in percentages unless otherwise stated)							
Return on total assets	10.9	9.9	11.0	9.5	12.7	14.5	16.8
Return on capital employed	16.2	14.9	17.1	13.9	19.0	21.8	24.7
Return on shareholders' equity	16.0	14.3	15.6	13.4	17.9	20.7	23.6
Operating margin	9.2	8.4	9.5	8.0	9.9	10.8	12.6
Turnover of total assets, times	1.09	1.08	1.07	1.10	1.24	1.28	1.27
Portion of risk-bearing capital	41.7	46.3	49.4	46.4	52.4	47.9	45.1
Gearing	45.4	38.6	33.4	37.4	24.9	33.2	39.1
Equity/assets ratio	37.4	41.6	43.8	43.4	49.3	45.2	42.4
Investments and employees							
Additions to property, plant and equipment	1,388	1,403	1,442	1,379	1,401	1,623	1,933
Research and development expenses	710	871	767	750	784	837	875
Patents - number of first filings	144	171	158	151	189	176	175
Average number of employees	39,557	37,636	38,609	37,632	38,502	37,454	39,780
Number of employees registered at 31 December	40,401	38,091	39,739	38,700	39,867	38,748	41,090

¹⁾ Years prior to 2003 are reported according to Swedish GAAP.

²⁾ See Note 1 for definitions of key figures.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 3.30 pm on Tuesday, 24 April 2007.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by VPC AB by Wednesday 18 April 2007; and must notify the company before 12 noon on Wednesday 18 April 2007 via the internet, www.skf.com, or by letter to

AB SKF

Group Legal

SE-415 50 Göteborg

Sweden

or by fax +46 31 337 16 91

or by tel +46 31 337 25 50

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 date of the 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 by Wednesday 18 April 2007. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee in plenty of time before that date. A re-registration fee will normally be payable to the trustee.

Payment of dividend

The Board of Directors proposes a dividend of SEK 4.50 per share for 2006. 27 April 2007, is proposed as the record date for shareholders to be entitled to receive dividends for 2006. Subject to acceptance by the Annual General Meeting, it is expected that VPC AB will send out notices of payment on 3 May 2007.

Financial information and reporting

AB SKF will publish the following financial reports in 2007

Year-end report 2006	30 January
Annual Report 2006	14 March
First-quarter report 2007	24 April
Half-year report 2007	17 July
Nine-month report 2007	16 October

The reports are available in Swedish and English. The financial reports are published on SKF's website on the internet, www.skf.com (Investors /Reports). A subscription service for press releases and interim reports is available on the website under News & Events/Subscribe.

Reports can also be ordered from SKF Investor Relations

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Bengt-Olof Hansson

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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 SKF's latest 20-F report on file with the SEC (US Securities and Exchange Commission) under "Forward-Looking Statements" and "Risk Factors".

SKF Annual Report 2006 including Sustainability Report

About SKF Annual Report 2006 including Sustainability Report

Since 2002, financial and sustainability performance data have been integrated in SKF Annual Reports. This is done to emphasize the fact that sustainability issues are so embedded in all SKF operations that an integrated report is a more logical presentation of the Group's activities.

The reporting period is January–December 2006. The financial section of the report encompasses all the units within the Group. The section on environmental performance covers the activities of the Group's manufacturing and distribution units and technical and research centres. Sales units are included when they are on the same site as a manufacturing or distribution unit. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control. The section on social performance relates to SKF manufacturing units, distribution centres, technical and engineering centres and those units providing installation and maintenance services to customers.

Transparency of information

The financial data in this report have been verified externally and subjected to a full external audit. The Auditor's Statement can be found on page 90. The sustainability data have been subject to a review by independent external auditors. The review has been performed in accordance with FAR SRS' (the institute for the accountancy profession in Sweden) draft standard Independent limited review of voluntary separate sustainability reports and AccountAbility's AA1000 Assurance Standard. Further information on AA1000 AS is given on page 118. The Independent Assurance Report is on page 119. The environmental, health and safety management system is subject to internal auditing by the Group and an external audit.

Choice of report formats

The SKF Annual Report 2006 is available in two formats: a printed report summarizing the Group's financial and sustainability performance and an internet version which provides links to further information, including the sustainability performance data for the individual units. The internet address for this further information is given on the inside back cover of the report.

The following topics related to the SKF Annual Report 2006 including Sustainability Report are to be found at www.skf.com, choose Investors and Reports.

- Articles of Association
- Code of Conduct
- Environmental policy
- Environmental performance data
- Zero accidents – award winners
- Production sites
- Compliance with GRI Guidelines



SKF 100 YEARS 2007